

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING APPLICATION)	CASE NO.
OF EAST DAVIESS COUNTY WATER)	2013-00366
ASSOCIATION, INC.)	

ORDER

On October 7, 2013, East Daviess County Water Association, Inc. ("East Daviess") tendered an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. By this Order, the Commission approves rates that will increase the monthly bill of a customer who purchases 5,000 gallons of water through a 5/8-inch x 3/4-inch meter from \$27.95 to \$29.99, an increase of \$2.04, or 7.3 percent.

After reviewing the application and East Daviess's records, Commission Staff ("Staff") submitted a report on January 31, 2014. In the Report, Staff found that the Commission should approve the rates requested by East Daviess. On February 18, 2014, East Daviess agreed with Staff's findings and requested that the case be submitted to the Commission for a decision based on the record.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. East Daviess is a water association incorporated in 1970 pursuant to KRS Chapter 273. It owns and operates facilities that distribute water to approximately 4,400

customers in Daviess, Hancock, and Ohio counties, Kentucky.¹

2. The calendar year ended December 31, 2012, should be used as the test year to determine the reasonableness of East Daviess's existing and proposed rates.

3. On January 31, 2014, Staff issued its Report and found that test-year revenues should be decreased by \$1,680 to remove revenues that were a result of the utility's assessment of fire-protection rates that were not included in East Daviess's tariff on file with the Commission.²

4. On February 4, 2014, the Commission accepted a revised tariff that included fire-protection rates.³

5. The additional revenues generated by the newly accepted fire-protection rates will not cause East Daviess to exceed the allowable revenue requirement calculated by staff of \$1,611,803.⁴

6. Based upon pro forma test-year operations, East Daviess's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known

¹ Annual report of East Daviess County Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2012 at 4, 5, and 27.

² Staff Report at 5.

³ East Daviess Tariff, Sheet No. 1.2.

⁴ Staff Report at 9.

and measurable charges, are \$1,505,472⁵ and \$1,338,873,⁶ respectively.

7. East Daviess currently has an outstanding note payable to the United States Department of Agriculture Rural Development ("RD") and a note payable to U.S. Bank. The average principal and interest payments for the test year on all instruments of debt are \$237,330.⁷

8. The Commission has historically used a Debt Service Coverage ("DSC") method to calculate the revenue requirements of water associations with long-term debt.

9. Application of the Commission's DSC Method to East Daviess's pro forma operations, using a 115 percent ratio, results in a total revenue requirement from all

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Revenues and Income	
From Staff Report, Page 4	
Pro Forma Present Rate Water Sales	\$ 1,418,140
Other Operating Income	80,923
Interest Income	<u>4,729</u>
Total in Staff Report	1,503,792
Add: Fire Protection Revenue	<u>1,680</u>
Total Revenues and Income	<u>\$ 1,505,472</u>

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Operating Expenses	
Operation and Maintenance	\$ 1,079,984
Depreciation	229,669
Taxes	<u>29,220</u>
Total Operating Expenses	<u>\$ 1,338,873</u>

⁷ Staff Report at 10.

revenue sources of \$1,611,803.⁸ A water revenue increase of \$106,331 is necessary to generate the total revenue requirement.⁹

10. East Daviess calculated the water service rates requested in its Application by increasing all water service rates that were included in its tariff at the time it filed its Application by approximately 7.3 percent.

11. An even distribution of the revenue increase results in an equitable spread of the revenue increase to East Daviess's water service rates that were tarified at the time it filed its Application.

12. The rates requested by East Daviess will produce approximately \$1,523,344 in annual water sales revenues, or 99.82 percent of the water sales

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Pro Forma Operating Expenses	\$1,338,873
Plus: Average Principal and Interest Payments	237,330
Additional Working Capital	<u>35,600</u>
Overall Revenue Requirement	<u>\$1,611,803</u>

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Overall Revenue Requirement	\$ 1,611,803
Less: Other Operating Income	(80,923)
Interest Income	<u>(4,729)</u>
Required Revenues from Rates	1,526,151
Less: Pro Forma Present Rate Revenues from Staff Report	(1,418,140)
Fire Protection Revenues	<u>(1,680)</u> (1,419,820)
Revenue Increase from Rates	<u>\$ 106,331</u>
Percent Increase	<u>7.49%</u>

revenues found appropriate by the Commission.¹⁰

13. The rates requested by East Daviess and which Staff agreed with, are shown in Appendix A. These rates are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

14. As shown in Appendix B, East Daviess presently uses service lives for six asset account groups that are at variance¹¹ with those found in a survey of the National Association of Regulatory Utility Commissioners (“NARUC Survey”) that contain “a range of average service lives currently being used by water utilities throughout the country for water facilities designed, installed, and maintained in accordance with good water works practice.”¹²

15. The Commission has previously used the NARUC Survey to establish the service lives of water assets.¹³

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Pro Forma Present Rate Revenues	\$ 1,418,140
Plus: 7.3 Percent Revenue Increase	103,524
Fire Protection Revenue	<u>1,680</u>
Total Revenue at Requested Rates	1,523,344
Divide by: Water Sales Revenue Warranted	<u>1,526,151</u>
Percentage	<u>99.82%</u>

¹¹ Staff Report, Attachment B.

¹² National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10.

¹³ See, e.g., Case No. 2004-00336, *Joint Application of B & H, Inc. and Richmond Utilities, LLC for Approval of the Transfer of Wastewater Treatment Plant to Richmond Utilities, LLC* (Ky. PSC Dec. 22, 2004).

16. The record contains no evidence that the service lives that East Daviess uses for these six asset groups are based upon a depreciation study or its own historic plant records.

17. The Commission has previously used the NARUC Survey when establishing the appropriate depreciable lives for water associations and water districts when historic property records are not maintained in the manner necessary to perform a formal depreciation study¹⁴ or the utility does not have the financial resources to fund a formal study.¹⁵ Application of the NARUC Study is appropriate in this instance.

18. East Daviess's assignment of service lives for these six asset groups is not reasonable and should be revised for ratemaking and accounting purposes.

19. The service lives used to depreciate these six asset groups should be amended to conform with the NARUC Survey for ratemaking and accounting purposes in all future reporting periods.

IT IS THEREFORE ORDERED that:

1. The rates requested by East Daviess, as shown in Appendix A, are approved for water service rendered on and after the date of this Order.

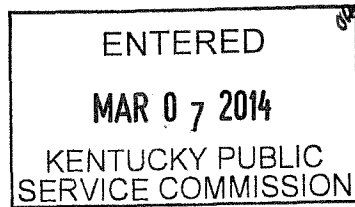
2. Within 20 days of the date of this Order, East Daviess shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.

¹⁴ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007).

¹⁵ Case No. 2012-00278, *Application of Graves County Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Sept. 5, 2012).

3. East Daviess shall, for accounting and ratemaking purposes, use the "PSC Approved" service lives set forth in Appendix B for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order, but shall make no retroactive adjustments to its books to account for the cumulative effect of this change in accounting estimates.

By the Commission



ATTEST:

A handwritten signature in black ink, appearing to be "M. R. ...", written over a horizontal line. Below the line is the text "Executive Director".

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00366 DATED **MAR 07 2014**

The following rates and charges are prescribed for the customers in the area served by East Daviess County Water Association, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8-inch Meter

First 2,000 Gallons
Next 4,000 Gallons
Next 44,000 Gallons
All Over 50,000 Gallons

Proposed Rates

\$14.99 Minimum Bill
5.00 per 1,000 Gallons
3.98 per 1,000 Gallons
3.23 per 1,000 Gallons

3/4-inch Meter

First 3,000 Gallons
Next 3,000 Gallons
Next 44,000 Gallons
All Over 50,000 Gallons

\$19.99 Minimum Bill
5.00 per 1,000 Gallons
3.98 per 1,000 Gallons
3.23 per 1,000 Gallons

1-inch Meter

First 6,000 Gallons
Next 44,000 Gallons
All Over 50,000 Gallons

\$34.99 Minimum Bill
3.98 per 1,000 Gallons
3.23 per 1,000 Gallons

1 1/2-inch Meter

First 10,000 Gallons
Next 40,000 Gallons
All Over 50,000 Gallons

\$50.91 Minimum Bill
3.98 per 1,000 Gallons
3.23 per 1,000 Gallons

2-inch Meter

First 20,000 Gallons
Next 30,000 Gallons
All Over 50,000 Gallons

\$90.72 Minimum Bill
3.98 per 1,000 Gallons
3.23 per 1,000 Gallons

Wholesale Water Rates:

Southeast Daviess Water District

\$1.55 per 1,000 Gallons

Leak Adjustment Rate:

\$2.20 per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00366 DATED

MAR 07 2014

Proposed Modifications to the Service Lives of
Certain Assets of East Daviess County Water Association, Inc.

Asset Classification	Used by Association in Test Year	PSC Approved	NARUC Study
Equipment-Pumping, 311	10-50	20	20
Meters, 331	20-50	40	35-45
Office furniture and equipment, 340	5-10	22.5	20-25
Structures-General Plant, 319- 339	20-30	37.5	35-40
Transportation equipment, 341	5	7	7
Transmission and Distribution Mains	50	62.5	50-75

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