

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF ) CASE NO.  
FARMDALE WATER DISTRICT ) 2013-00485

O R D E R

Farmdale Water District ("Farmdale District") has applied to adjust its water service rates and certain non-recurring charges. By this Order, the Commission approves water service rates that will generate \$239,847 in additional annual revenues, a 32.57 percent increase to pro forma present rate revenues of \$736,363. A typical residential bill will increase from \$24.22 to \$31.75 per month, an increase of \$7.53, or 31.09 percent.<sup>1</sup> The Commission also approves the following changes to Farmdale District's existing nonrecurring charges.

	Approved	Existing	Increase	Percent Increase
Reconnection Charge	\$ 60	\$ 15	\$ 45	300%
Meter Tap-on Charge:				
5/8-Inch x 3/4-Inch	1,132	590	542	92%
1-Inch	Actual Cost	675	-	-

Farmdale District tendered its application pursuant to 807 KAR 5:076 on December 30, 2013. The application was considered filed on February 10, 2013, when all filing deficiencies were cured. On March 17, 2014, the Commission issued a procedural order to ensure the orderly review of Farmdale District's application. The

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<sup>1</sup> A typical residential customer is assumed to purchase 5,000 gallons of water per month through a 5/8- x 3/4-inch meter.

Commission amended that order on April 15, 2014. The Amended Order required that Commission Staff (“Staff”) review the application and publish a report summarizing its findings no later than June 30, 2014.

Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of the rates and charges requested in Farmdale District’s application. On June 30, 2014, Staff issued a report finding that Farmdale District’s adjusted test-year operations support a \$239,847 increase to annual water sales revenue and that Farmdale District’s current rate design should be adjusted to generate the additional revenue. Staff also found that adjustments are warranted to Farmdale District’s non-recurring charges. Finally, Staff found that Farmdale District should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

On July 14, 2014, Farmdale District filed responses to Staff’s report wherein it accepted Staff’s findings and requested that the scheduled informal conference be cancelled. In its July 18, 2014 Order, the Commission found good cause for the case to be submitted on the record.

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

1. Farmdale District was organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 2,600 customers in Anderson, Franklin, and Shelby counties, Kentucky.<sup>2</sup>

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<sup>2</sup> *Annual Report of Farmdale Water District to the Public Service Commission for the Calendar Year Ended December 31, 2012* at 5 and 27.

2. The calendar year ending December 31, 2012, should be used as the test year to determine the reasonableness of Farmdale District's existing and proposed water rates.

3. Based upon pro forma test-year operations, after adjusting for known and measurable charges, Farmdale District's total pro forma present rate revenues are \$877,847 and its total pro forma expenses are \$1,001,396.<sup>3</sup>

4. Farmdale District currently has outstanding bond issues payable to the United States Department of Agriculture Rural Development ("RD") that were assumed to finance the cost of a water system improvement project. The three-year average principal and interest payments for the years 2015 through 2017 on the water bonds is \$96,915.<sup>4</sup>

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<sup>3</sup> Staff Report at 7. The revenues and expenses listed below include all regulated and non-regulated operations that should be accounted for when calculating Farmdale District's income that is available to service its debt.

Water Sales Revenue	\$	736,363
Other Operating Revenue		48,466
Interest Income		3,333
Revenues from Contract Work		88,015
Nonutility Income		<u>1,670</u>
Total Revenue	\$	<u>877,847</u>
Operation and Maintenance Expenses	\$	747,380
Taxes Other Than Income		9,497
Depreciation		181,368
Expenses of Contract Work		<u>63,151</u>
Total Expenses	\$	<u>1,001,396</u>

<sup>4</sup> *Id.* at 33.

5. The Commission has historically used a Debt Service Coverage (“DSC”) method to calculate the revenue requirements of water districts with long-term debt.

6. Application of the Commission’s DSC method to Farmdale District’s pro forma operations results in an overall revenue requirement of \$1,054,543. Revenue of \$976,210 from water service rates is necessary to generate the overall requirement.<sup>5</sup>

7. Farmdale District measures water sold to retail customers using 5/8- x 3/4-inch meters, 1-inch meters, and 4-inch meters. Farmdale District’s current tariff includes a four-step declining volumetric rate structure for each meter size. The first two steps for the 1-inch and 4-inch meters should be revised, as shown below, to conform to industry standards and the Commission’s general practices. All other steps included in Farmdale District’s declining block rate structure are acceptable.

	1-Inch		4-Inch	
	Current Gallons	Revised Gallons	Current Gallons	Revised Gallons
First	7,000	5,000	7,000	50,000
Next	3,000	5,000	3,000	50,000

8. Farmdale District’s customers’ water-consumption characteristics indicate that the \$976,210 revenue required from water service rates should be collected through Farmdale District’s revised rate structure as follows:

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<sup>5</sup> *Id.* at 32.

5/8- x 3/4-Inch Meters	
First 2,000 Gallons	\$ 486,950
Next 3,000 Gallons	230,663
Next 5,000 Gallons	89,718
Over 10,000 Gallons	47,951
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Total for 5/8- x 3/4-Inch	855,282
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1-Inch Meters	
First 5,000 Gallons	25,269
Next 5,000 Gallons	8,214
Next 140,000 Gallons	25,443
Over 150,000 Gallons	1,529
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Total for 1-Inch Meters	60,455
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4-Inch Meters	
First 50,000 Gallons	5,365
Next 50,000 Gallons	6,179
Next 50,000 Gallons	5,627
Over 150,000 Gallons	43,302
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Total for 4-Inch Meters	60,473
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Total for All Meters	<u>\$ 976,210</u>

9. The water service rates appended hereto will produce the revenues assigned to each rate block shown above and are, therefore, appropriate and should be approved for water service rendered by Farmdale District on and after the date of this Order.

10. The water service rates requested by Farmdale District will produce \$1,067,726 in annual water sales revenues and should be denied.<sup>6</sup>

11. Pursuant to 807 KAR 5.006 Section 9, Farmdale District may assess special nonrecurring charges to recover customer-specific costs that would otherwise result in monetary loss to the utility or increased rates to other customer that receive no benefit from the service. Farmdale District's request to adjust its 1-inch meter tap-on fee from \$675 to actual costs and to increase its reconnection fee from \$15 to \$60 will allow Farmdale District to recover the cost of these customer-specific services from the customer receiving the benefits of those services and should, therefore, be approved.<sup>7</sup>

12. Farmdale District's average cost to install a new 5/8- x 3/4-inch meter connection is \$1,132.<sup>8</sup> Farmdale District should be allowed to collect a tap-on fee that is equal to the average installation cost. Farmdale District's requested tap-on fee of \$1,655 exceeds its average cost by \$523, a material amount, and should be denied.

13. During the test year, Farmdale District used service lives for Transportation Equipment, Fire Hydrants, Meter Installations and Meters that are at variance<sup>9</sup> with those found in a survey of the National Association of Regulatory Utility

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Pro Forma Present Rate Water Sales Revenue	\$ 736,363
Plus: Increase Requested by Farmdale District, \$736,363 x 45 Percent	<u>331,363</u>
Water Sales Revenue from Requested Rates	<u>\$ 1,067,726</u>

<sup>7</sup> Staff Report at 5.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*, Attachment B.

Commissioners ("NARUC Survey") that contain "a range of average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice."<sup>10</sup>

14. The Commission has previously used the NARUC Survey to establish the service lives of water assets when there is no evidence in the record that supports alternative lives.<sup>11</sup>

15. The record contains no evidence that the service lives that Farmdale District uses for Transportation Equipment, Fire Hydrants, and Meter Installations should be at variance with the NARUC Survey.

16. Farmdale District's assignment of service lives for these three asset groups is not reasonable and should be revised to conform to the NARUC Survey for ratemaking and accounting purposes in all future reporting periods.

17. The NARUC Survey suggests that the depreciable life for meters should be between 35 and 45 years. During the test year, Farmdale District depreciated all meters using a 10-year life. The \$3,492,012 water improvement project Farmdale District completed in March 2013 included the replacement of all of these touch-read meters with radio-read meters. At the time of Staff's field work, Farmdale District had not assigned a depreciable life to the radio-read meters, but it provided evidence from the meter's manufacturer that supports a 15-year life.<sup>12</sup> Based on this information,

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<sup>10</sup> National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

<sup>11</sup> Case No. 2006-00398, Application of Northern Kentucky Water District for Approval of Depreciation Study (Ky. PSC Nov. 21, 2007); and 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).

<sup>12</sup> Staff Report, Attachment B.

Farmdale District should depreciate the new radio-read meters over 15 years for accounting and ratemaking purposes in all future reporting periods.

IT IS THEREFORE ORDERED that:

1. The water service rates and the 5/8- x 3/4-inch meter tap-on fee requested by Farmdale District are denied.

2. The water service rates and nonrecurring charges set forth in Appendix A to this Order are approved for services rendered by Farmdale District on and after the date of this Order.

3. Within 20 days of the date of this Order, Farmdale District shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the rates approved herein.

4. In all future reporting periods, Farmdale District shall use the "PSC Approved Service Life" set forth in Appendix B to this Order for the listed asset groups when calculating and reporting depreciation for all reporting periods after the date of this Order. No retroactive adjustment to accumulated depreciation or retained earnings to account for this change in accounting estimate shall be made.

5. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon Farmdale District's showing of good cause for such extension.



By the Commission

ENTERED  
JUL 23 2014  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00485 DATED **JUL 23 2014**

The following water rates and charges are prescribed for the customers in the area served by Farmdale Water District. 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- x 3/4-Inch Meter

First	2,000 gallons	\$16.30	Minimum Bill
Next	3,000 gallons	5.15	per 1000 gallons
Next	5,000 gallons	4.69	per 1000 gallons
Over	10,000 gallons	4.21	per 1000 gallons

1-Inch Meter

First	5,000 gallons	\$31.75	Minimum Bill
Next	5,000 gallons	5.15	per 1000 gallons
Next	140,000 gallons	4.69	per 1000 gallons
Over	150,000 gallons	4.21	per 1000 gallons

4-Inch Meter

First	50,000 gallons	\$223.60	Minimum Bill
Next	50,000 gallons	5.15	per 1000 gallons
Next	50,000 gallons	4.69	per 1000 gallons
Over	150,000 gallons	4.21	per 1000 gallons

Nonrecurring Charges

Cutoff & Reconnection Fee	60.00
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Meter Connection/Tap-on Charges:

5/8- x 3/4-Inch	\$1,132.00
1-Inch Meter	Actual Cost

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00485 DATED **JUL 23 2014**

Proposed Modifications to the Service Lives  
of Certain Assets of Farmdale Water District

Asset Classification	NARUC Range	Previous Assigned Service Life	PSC Approved Service Life
Transportation Equipment	7	5	7
Fire Hydrants	40-60	20	50
Meter Installations	40-50	20	45
Meters	35-45	10	15

Clifford Toles  
Chairman  
Farmdale Water District  
100 Highwood Drive  
Frankfort, KENTUCKY 40601