

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WESTERN FLEMING	)	
COUNTY WATER DISTRICT FOR RATE	)	CASE NO.
ADJUSTMENT FOR SMALL UTILITIES	)	2014-00048
PURSUANT TO 807 KAR 5:076	)	

ORDER

Western Fleming County Water District (“Western Fleming District”) has applied to adjust its wholesale water rate. By this Order, the Commission approves increases to the wholesale and the retail water rates that will generate \$290,074 in additional annual revenues, a 32.43 percent increase to pro forma present rate revenues of \$894,367. Based on the retail rate increase, a typical residential bill will increase from \$35.12 to \$49.97 per month, an increase of \$14.85, or 42.3 percent.<sup>1</sup>

On February 14, 2014, Western Fleming District tendered its Application to the Commission pursuant to 807 KAR 5:076. After Western Fleming District filed two supplements to its Application to correct deficiencies,<sup>2</sup> its Application was accepted for filing on April 28, 2014. On May 20, 2014, the Commission issued a procedural schedule to ensure the orderly review of Western Fleming District’s Application.

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

<sup>2</sup> Western Fleming District’s Response to the Kentucky Public Service Commission’s Letter of Filing Deficiencies (filed Apr. 3, 2014) and Western Fleming District’s Supplement to its Application for Rate Adjustment (filed Apr. 28, 2014).



Commission Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of Western Fleming District's pro forma financial statements, revenue requirement calculation, and requested wholesale water rate. On July 28, 2014, Commission Staff issued a report finding that Western Fleming District's adjusted test-year operations support a \$290,074 increase in annual revenues from water sales. Based on the cost-of-service study, the wholesale rate found reasonable by Commission Staff produces an annual increase of \$45,411, or 15.65 percent of the \$290,074 overall increase Commission Staff found reasonable.

If Western Fleming District decided to implement the increased retail water rates that would produce the remaining \$244,663 of the revenue requirement, Western Fleming had the option of amending its application or submitting a new rate application. If Western Fleming District chose to amend its application, Commission Staff indicated that Western Fleming District should be required to publish a customer notification of the increased retail water rates.

During its field review, Commission Staff discovered that Western Fleming District had completed a major construction project at its water treatment facilities that was funded with a \$2,518,000 loan for a term of 30 years from the Kentucky Infrastructure Authority ("KIA")<sup>3</sup> and a \$50,000 grant. A representative of HDR Engineering, Inc., Western Fleming District's consulting engineering firm, confirmed that Western Fleming District had not obtained a Certificate of Public Convenience and Necessity ("CPCN") for its construction and did not have Commission authority to enter into the KIA loan.

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<sup>3</sup> October 1, 2009, KIA Assistance Agreement, Fund F, Project Number F08-01, Western Fleming District, Exhibit A, Project Specifics.



Finally, Commission Staff found that Western Fleming District should change the depreciable lives assigned to certain assets when calculating depreciation expense for accounting and ratemaking purposes.

On August 12, 2014, Western Fleming District filed its response to Commission Staff's report accepting Commission Staff's findings regarding the revenue requirement and amending its Application to request Commission Staff's cost-of-service study rates. Pursuant to the Commission's August 18, 2014 Order, Western Fleming District published a customer notice of the revised rates. On September 30, 2014, Western Fleming District requested that the scheduled informal conference and hearing be cancelled and advised that it did not take exception to Commission Staff's changes to the depreciable lives of certain assets. Pursuant to its October 3, 2014 Order, the Commission submitted the case for a decision on the record.

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

1. Western Fleming District is a water district organized pursuant to KRS Chapter 74. It provides retail water service to approximately 1,446 customers in Fleming, Mason, Nicholas, and Robertson counties, Kentucky, and wholesale water service to Nicholas County Water District and Buffalo Trail Water Association.<sup>4</sup>

2. The calendar year ending December 31, 2013, should be used as the test period to determine the reasonableness of Western Fleming District's existing and proposed water rates.

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<sup>4</sup> *Annual Report of Western Fleming County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2013 ("2013 Annual Report")* at 5, 27, and 30.



3. Based upon pro forma test-year operations, after adjusting for known and measurable changes, Western Fleming District's pro forma present rate revenues and total operating expenses are \$921,218<sup>5</sup> and \$921,619,<sup>6</sup> respectively.

4. Western Fleming District has six outstanding long-term debt issuances consisting of four bond series payable to the United States Department of Agriculture Rural Development, a bond series payable to the Kentucky Rural Water Finance Corporation, and a KIA loan. The three-year average principal and interest payments for the years 2014 through 2016 on the long-term debt is \$241,394.<sup>7</sup>

5. The Commission has historically used a Debt Service Coverage ("DSC") method to calculate the revenue requirement for water districts or associations with outstanding long-term debt.

6. Application of the Commission's DSC method to Western Fleming District's pro forma operations results in an overall revenue requirement of \$1,211,292. Revenue of \$1,184,441 from water service rates is necessary to generate the overall revenue requirement.<sup>8</sup>

7. Western Fleming District's revised water rates, appended hereto as Appendix A, will produce the revenue from water service rates that is necessary to

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<sup>5</sup> Staff Report at 9. \$894,367 (Revenue from Water Sales) + \$13,511 (Miscellaneous Service Revenues) + \$10,612 (Late Charges) + \$2,728 (Interest Income) = \$921,218.

<sup>6</sup> *Id.*, \$621,190 (Operation and Maintenance Expenses) + \$288,396 (Depreciation Expense) + \$12,033 (Taxes Other Than Income) = \$921,619.

<sup>7</sup> *Id.* at 18.

<sup>8</sup> *Id.* at 17.



generate the overall revenue requirement and will produce cash working capital of approximately \$336,675.<sup>9</sup>

8. During the test year, Western Fleming District used service lives for meter installations, lagoons, raw water intake, water treatment plant, storage, meters, transportation equipment, pumps, fire hydrants, fencing, and structures that are at variance<sup>10</sup> with those found in a survey of the National Association of Regulatory Utility Commissioners (“NARUC Survey”) that contain “a range of average service lives being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice.”<sup>11</sup>

9. 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>12</sup>

10. The record contains no evidence that the service lives that Western Fleming District uses for meter installations, lagoons, raw water intake, water treatment plant, storage, transportation equipment, pumps, fire hydrants, fencing, and structures should be at variance with the NARUC Study.

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<sup>9</sup> *Id.* at 19. \$1,211,292 (Overall Revenue Requirement) – \$621,190 (Pro Forma Operation and Maintenance Expenses) - \$12,033 (Payroll Taxes) - \$241,394 (Average Debt Service) = \$336,675.

<sup>10</sup> *Id.*, Attachment A.

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

<sup>12</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).



11. Western Fleming District's assignment of service lives for these 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.

12. The NARUC Survey suggests that the depreciable life for meters should be between 35 and 45 years. During the test year, Western Fleming District depreciated all of its meters over a 20-year life. Commission Staff requested Western Fleming District to submit evidence to support that depreciation life.<sup>13</sup>

13. Western Fleming District submitted documentation to show that it is currently on a ten-year meter replacement program to ensure that it remains in compliance with the meter-testing requirements of 807 KAR 5:066, Section 16(1). Based on this documentation, Commission Staff found that the Commission should allow Western Fleming District to depreciate its meters over 10 years for accounting and ratemaking purposes in all future reporting periods.<sup>14</sup>

14. In the near future, the Commission will initiate a new proceeding to more thoroughly investigate Western Fleming District's possible violations of Kentucky statutes.<sup>15</sup>

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<sup>13</sup> Staff Report, Attachment A.

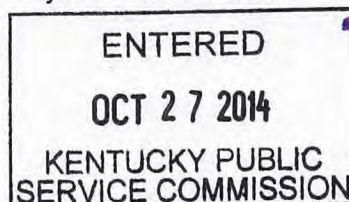
<sup>14</sup> *Id.*

<sup>15</sup> KRS 278.020(1) requires a utility to obtain from the Commission a CPCN prior to beginning the construction of any facilities that are not an ordinary extension constructed in the usual course of business. KRS 278.300 states that no utility shall issue any form of indebtedness unless it has been authorized to do so by an Order of the Commission. This requirement does not apply to notes or loans with a two-year term, and renewals thereof not exceeding two years, for a combined term that does not exceed six years.

IT IS THEREFORE ORDERED that:

1. The wholesale water rate originally requested by Western Fleming District in its original application in this case is denied.
2. The rates requested by Western Fleming District by letter filed September 30, 2014, and as set forth in Appendix A to this Order are approved for water service rendered by Western Fleming District on and after the date of this Order.
3. Within 20 days of the date of this Order, Western Fleming 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, Western Fleming 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 filling of any documents required by this Order upon Western Fleming District's showing of good cause for such extension.

By the Commission



ATTEST:

  
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Executive Director



## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00048 DATED **OCT 27 2014**

The following rates and charges are prescribed for the customers in the area served by Western Fleming County 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

First	1,000 Gallons	\$15.01 Minimum Bill
Next	6,000 Gallons	8.74 per 1,000 Gallons
Next	3,000 Gallons	7.16 per 1,000 Gallons
All Over	10,000 Gallons	5.69 per 1,000 Gallons
Wholesale Water Customers		\$1.63 per 1,000 Gallons



APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2014-00048 DATED **OCT 27 2014**

<u>Asset Classification</u>	<u>PSC Approved Service Lives</u>
Meter Installations	40
Lagoons	37.5
Raw water intake	40
Water treatment plant	37.5
True Up PYS/Standpipe	40
Meters	10
2007 Chevy Truck	7
Pumps	20
Fire Hydrants	50
Fencing, Fencing at Water Plant	37.5
Office	37.5
Building Improvement	37.5

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