

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WESTERN LEWIS-	)	
RECTORVILLE WATER & GAS DISTRICT FOR	)	CASE NO.
RATE ADJUSTMENT FOR SMALL UTILITIES	)	2014-00266
PURSUANT TO 807 KAR 5:076	)	

ORDER

Western Lewis-Rectorville Water & Gas District ("WLWD") has applied to adjust its water service rates. By this Order, the Commission approves water service rates that will generate \$106,885 in additional annual revenues, a 14.46 percent increase to pro forma present rate revenues of \$738,969. A typical residential bill will increase from \$34.75 to \$39.85 per month, an increase of \$5.10, or 14.67 percent.<sup>1</sup>

WLWD tendered its application pursuant to 807 KAR 5:076 on July 25, 2014. The application was considered filed on August 12, 2014, when all filing deficiencies were cured. On September 3, 2014, the Commission issued a procedural order to ensure the orderly review of WLWD's application.

Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of the rates and charges requested in WLWD's application. On November 7, 2014, Staff issued a report finding that WLWD's adjusted test-year operations support a \$106,885 increase to annual water sales revenue. Staff also found that WLWD should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

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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-inch x 3/4-inch meter.

On November 18, 2014, WLWD filed responses to Staff's report wherein it accepted Staff's findings and requested that the scheduled informal conference be cancelled. On November 25, 2014, the Commission entered an Order cancelling the informal conference that has been scheduled for December 1, 2014.

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

1. Except where they conflict with the findings contained in this Order, the findings contained in the Staff Report are supported by the evidence of record, are reasonable, and should be adopted.

2. WLWD was organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 2,255 customers in Lewis and Mason counties, Kentucky.<sup>2</sup>

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

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<sup>2</sup> Staff Report at 1.

4. Based upon pro forma test-year operations, WLWD's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable charges, are \$788,549 and \$694,104, respectively.<sup>3</sup>

5. WLWD 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 2013 through 2015 on the water bonds is \$167,775.<sup>4</sup>

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

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<sup>3</sup> *Id.* at 5. The revenues and expenses listed below include all regulated and non-regulated operations that should be accounted for when calculating WLWD's income that is available to service its debt.

Water Sales Revenue	\$ 738,969
Other Operating Revenue	38,674
Interest Income	547
Non-Operating Revenue	<u>10,359</u>
Total Revenue	<u>\$ 788,549</u>
Operation and Maintenance Expenses	\$ 482,835
Taxes Other Than Income	11,263
Depreciation	<u>200,006</u>
Total Expenses	<u>\$ 694,104</u>

<sup>4</sup> *Id.* at 19.

7. Application of the Commission's DSC method to WLWD's pro forma operations results in an overall revenue requirement of \$895,434. Revenue of \$845,854 from water service rates is necessary to generate the overall requirement.<sup>5</sup>

8. The rates set forth in Appendix A to this Order will produce the required total revenue requirement, are fair, just, and reasonable, and should be approved for service rendered on and after the date of this Order.

9. The water service rates requested by WLWD will produce \$916,026 in annual water sales revenues and should be denied.<sup>6</sup>

10. During the test year, WLWD used service lives for Structures and Improvements, Transmission and Distribution Mains, Transportation Equipment, and Meter Installations that are at variance 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 and installed and maintained in accordance with good water works practice."<sup>7</sup>

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<sup>5</sup> *Id.* at 19.

<sup>6</sup>

Pro Forma Present Rate Water Sales Revenue	\$ 738,969
Plus: Increase Requested by WLWD	
\$738,969 x 23.96 percent	<u>177,057</u>
Water Sales Revenue from Requested Rates	<u>\$ 916,026</u>

<sup>7</sup> National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

11. The Commission has previously used the NARUC Survey to establish the services lives of water assets when there is no evidence in the record that supports alternative lives.<sup>8</sup>

12. The record contains no evidence that the service lives that WLWD uses for Structures and Improvements, Transmission and Distribution Mains, Transportation Equipment, and Meter Installations should be at variance with the NARUC Survey.

13. WLWD'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.

IT IS THEREFORE ORDERED that:

1. Except where they contradict or conflict with the findings contained in this Order, the findings contained in the Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The water service rates requested by WLWD are denied.

3. The water service rates set forth in Appendix A to this Order are approved for services rendered by WLWD on and after the date of this Order.

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

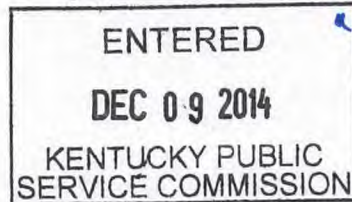
5. In all future reporting periods, WLWD shall use the "PSC Approved Service Life" set forth in Appendix B to this Order for the listed asset groups when

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<sup>8</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).

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.

By the Commission



ATTEST:

*Stephan Bell for TD*

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2014-00266 DATED **DEC 09 2014**

The following water rates are prescribed for the customers in the area served by Western Lewis-Rectorville Water & Gas 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	\$ 16.65 Minimum bill
Next	4,000 gallons	5.80 per 1,000 gallons
All Over	5,000 gallons	4.36 per 1,000 gallons
Bulk Water Sales		3.00 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2014-00266 DATED **DEC 09 2014**

<u>Asset Classification</u>	<u>PSC Approved Service Lives</u>
Structures and Improvements: New Building	
Office Building	37.5
Transmission and Distribution Mains	62.5
Transportation Equipment	7
Meter Installations	45



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