

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF EASTERN) CASE NO.
ROCKCASTLE WATER ASSOCIATION, INC.) 2014-00385

ORDER

Eastern Rockcastle Water Association (“ERWA”) has applied to adjust its water service rates and to adjust certain nonrecurring charges. By this Order, the Commission approves water service rates that will generate \$51,288 in additional annual revenues, an 18.72 percent increase to pro forma present rate revenues of \$273,978. A typical residential bill will increase from \$52.95 to \$62.87 per month, an increase of \$9.92, or 18.73 percent.¹ The Commission also approves a change to ERWA’s meter read fee from \$5 to \$35, a 600 percent increase.

ERWA tendered its application pursuant to 807 KAR 5:076 on November 3, 2014. The application was considered filed on November 20, 2014, when all filing deficiencies were cured. On November 25, 2014, the Commission issued a procedural order to ensure the orderly review of ERWA’s application.

On November 17, 2014, Gary Mason (“Mr. Mason”) filed a motion to intervene. By Commission Order dated December 5, 2015, Mr. Mason’s request was granted.

Pursuant to the procedural schedule in this case, Staff issued a report on February 25, 2015, finding that ERWA’s adjusted test-year operations support a

¹ 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.

\$51,288 increase to annual water sales revenue. Staff also found that ERWA should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes. Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of the rates and charges requested in ERWA's application.

On March 10, 2015, Mr. Mason responded to Staff's report objecting to the amount of the increase calculated by Staff. In his response, Mr. Mason proposed a 10 percent increase to ERWA's current rates and further proposed that the Meter Read Fee be increased to \$25, rather than the \$35 calculated by ERWA. Mr. Mason based his proposal for a 10 percent increase to ERWA's current rates upon eliminating employer-paid health insurance for ERWA's two employees and upon the amount of water loss that should be considered in determining the revenue requirement. Mr. Mason based his proposal to increase the Meter Read Fee to \$25 upon using QuickBooks accounting software to generate reports, which he asserts would lower expenses by saving on labor and supply costs. Mr. Mason alleges that ERWA is receiving "free water" as a result of underreported water flow by ERWA's suppliers' master meters. Also in his response, Mr. Mason raises questions regarding service complaints.

On March 11, 2015, ERWA filed responses to Staff's report wherein it accepted Staff's findings and requested that the scheduled informal conference be cancelled.

The informal conference, in which all parties participated, was held on March 19, 2015. During the informal conference, ERWA confirmed that one of its suppliers'

master meters failed to accurately measure the waterflow. A memo summarizing the discussion of the conference was filed into the record on March 23, 2015.

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

1. ERWA was organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 604 customers in Rockcastle and Jackson counties, Kentucky.²

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

3. Based upon pro forma test-year operations, ERWA's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable changes, are \$296,454 and \$284,017, respectively.³

² Staff Report at 1.

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

Water Sales Revenue	\$ 273,978
Other Operating Revenue	19,971
Interest Income	1,030
Revenues from Merchandising, Jobbing and Contract Work	<u>1,475</u>
Total Revenue	<u>\$ 296,454</u>
Operation and Maintenance Expenses	\$ 222,280
Taxes Other Than Income	3,818
Depreciation	<u>57,919</u>
Total Expenses	<u>\$ 284,017</u>

4. ERWA 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 of the principal and interest payments for the years 2015 through 2017 on the water bonds is \$53,104.⁴

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 ERWA’s pro forma operations results in an overall revenue requirement of \$347,742. Revenue of \$325,266 from water service rates is necessary to generate the overall requirement.⁵

7. 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.

8. The water service rates requested by ERWA will produce \$355,980 in annual water sales revenues and should be denied.⁶

9. During the test year, ERWA used service lives for New Services and Water Lines/Transmission and Distribution Mains that are at variance with those found

⁴ *Id* at 14.

⁵ *Id* at 13.

⁶

Pro Forma Present Rate Water Sales Revenue	\$ 273,978
Plus: Increase Requested by ERWA	
\$273,978 x 29.93 percent	<u>82,002</u>
Water Sales Revenue from Requested Rates	<u>\$ 355,980</u>

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.”⁷

10. 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.⁸

11. The record contains no evidence that the service lives that ERWA uses for New Services and Water Lines/Transmission and Distribution Mains should be at variance with the NARUC Survey.

12. ERWA’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.

13. Mr. Mason did not cite to, or present, any financial information to support his recommendation that the water service rates be limited to a 10 percent increase. Mr. Mason did not dispute any figure or statement in the Staff Report. The water loss figure in the Staff Report is higher than the water loss figure Mr. Mason calculated. Furthermore, Staff removed purchased-water and purchased-power costs that were above the 15 percent regulatory limit for water loss set forth in 807 KAR 5:066, Section 6(3); Mr. Mason did not remove those costs from his calculation.

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

⁸ 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).

14. Mr. Mason did not cite to, or present, any financial information to support his recommendation that the meter read fee be limited to \$25. A meter read fee is charged when an ERWA customer fails to read the customer's meter for two consecutive months and a utility employee must then read the meter. Mr. Mason did not dispute any figure or statement in the Staff Report. Instead, he asserts that using computer software would save labor and supply costs. Mr. Mason proposed that ERWA use the software to generate a report of unpaid bills. However, the meter read fee is not the result of unpaid bills, but from a customer's failure to read the meter and notify ERWA of the results. While the failure to read one's meter can result in an unpaid bill, ERWA would have to expend additional time and resources to review all unpaid bills to determine which accounts were unpaid due to failure to read the meter and which were not paid for other reasons. As a result, Mr. Mason's proposal could result in greater costs to ERWA than the system currently in place.

15. ERWA should notify its water supplier, City of Livingston (KY) Water Works ("Livingston Water") to repair or replace the master meters that are not accurately measuring waterflow pursuant to 807 KAR 5:066, Section 15.⁹ While the water loss from the underreported and underbilled amounts, in addition to the known amount of water loss,¹⁰ would not change the rates recommended in the Staff Report,¹¹

⁹ 807 KAR 5:066, Section 15, requires that all meters used for measuring the quantity of water delivered to a customer shall be in good mechanical condition and shall be tested for accuracy as specified in 807 KAR 5:066, Section 15(2)(a).

¹⁰ Staff Report at 9.

¹¹ Because ERWA has a water loss greater than 15 percent, the costs for any additional water purchases and costs incurred for purchased power as a result of the additional water purchased would be disallowed for ratemaking purposes pursuant to 807 KAR 5:066, Section 6(3).

the inaccurate meter should be either repaired or replaced pursuant to the water purchase agreement between ERWA and Livingston Water.

16. Mr. Mason raised service complaints in his response to the Staff Report. The Commission takes service complaints seriously but recognizes that the adjustment of rates and service complaints are separate issues.¹²

17. ERWA's tariff on file with the commission includes the Meter Read Fee at the current rate, but does not state that certain customers are required to read their own water meter. ERWA should amend its tariff to indicate which customers are required to read their own water meter and the criteria used to determine this requirement.

IT IS THEREFORE ORDERED that:

1. The water service rates requested by ERWA are denied.
2. The water service rates and nonrecurring charges requested by Mr. Mason are denied.
3. The water service rates and nonrecurring charges set forth in Appendix A to this Order are approved for services rendered by ERWA on and after the date of this Order.
4. Within 20 days of the date of this Order, ERWA 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.

¹² See *South Central Bell Telephone Co. v. Util. Reg. Comm'n.*, 637 S.W.2d 649 (Ky. 1982). (Because the ratemaking process addresses only financial matters and separate procedures specifically provide for investigation of service-oriented problems, the question of rates should be kept separate from the question of quality of service.)

5. In all future reporting periods, ERWA 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.

6. Within 30 days from entry of this Order, ERWA shall amend its tariff to indicate the terms and conditions for the Meter Read Fee, including which customers are required to read their own water meter and the criteria used to determine this requirement.

By the Commission

ENTERED
MAY 15 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00385 DATED **MAY 15 2015**

The following water rates are prescribed for the customers in the area served by Eastern Rockcastle Water Association. 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

3/4-Inch Meters

First 2,000 Gallons	\$ 28.28 Minimum Bill
Over 2,000 Gallons	11.53 Per 1,000 Gallons

1-Inch Meters

First 5,000 Gallons	\$ 62.87 Minimum Bill
Over 5,000 Gallons	11.53 Per 1,000 Gallons

2-Inch Meters

First 15,000 Gallons	\$ 178.17 Minimum Bill
Over 15,000 Gallons	11.53 Per 1,000 Gallons

Leak Adjustment Rate

Customers' Average Monthly Bill Plus	\$ 3.86 Per 1,000 Gallons
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Meter Read Fee

	\$ 35.00
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
 COMMISSION IN CASE NO. 2014-00385 DATED **MAY 15 2015**

Proposed Modifications to the Service Lives
 Of Certain Assets of Eastern Rockcastle Water Association

Asset Classification	NARUC Range	Previous Assigned Service Life	PSC Approved Service Life
2013 New Service, 99 New Service, New Services, New Lines & Services, 02 & 03 New Services, 2011 & 2012 New Services/Services	30-50	15, 25, 39	40
Water Lines & Meters, 96 & 97 Additions, 99 & 2000 Line Extension, 05 Water Improvements, Hwy 1152 Line Relocation and 09 Line Extension/Transmission and Distribution Mains	50-75	25, 39, 50	62.5

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