

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO.
KIRKSVILLE WATER ASSOCIATION, INC.) 2015-00097

ORDER

Kirksville Water Association, Inc. ("Kirksville") has applied to adjust its water service rates. By this Order, the Commission approves water service rates that will generate \$79,035 in additional annual revenues, a 9.58 percent increase to pro forma present rate revenues of \$824,693. The approved rates will increase a typical residential customer's bill from \$43.44¹ to \$47.66 per month, an increase of \$4.22, or 9.71 percent.²

Kirksville tendered its application pursuant to 807 KAR 5:076 on March 30, 2015. The application was considered filed on April 27, 2015, when all filing deficiencies were cured. On May 13, 2015, the Commission issued a procedural order to ensure the orderly review of Kirksville's application. The Order required that Staff file into the record on or before July 27, 2015, a report summarizing the findings of its review of Kirksville's application and supporting documentation.

¹ Based on the rates approved in Case No. 2015-00225, *Purchased Water Adjustment Filing of Kirksville Water Association* (Ky. PSC Aug. 3, 2015).

² 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.

Staff did not issue its report on July 27, 2015. At that time, Staff awaited information from Kirksville to properly support the amount of test-year water sales revenue reported in its application. On July 27, 2015, the Commission issued an amended procedural order that allowed until August 24, 2015, for Staff to submit its report.

The amended procedural order allowed 14 days after Staff submitted its report for Kirksville to file written comments or objections to Staff's findings or to file a written request for a conference or a hearing. The Order stated that Kirksville's failure to respond to the report would be deemed as a waiver of its right to comment or object to Staff's findings and a waiver of its rights to a conference or a hearing.

As summarized in its report, Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of the rates and charges requested in Kirksville's application. On August 24, 2015, Staff issued a report finding that Kirksville's adjusted test-year operations support a \$79,035 increase to annual water sales revenue. Staff also found that Kirksville should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

Kirksville has not filed a written response to Staff's report or a request for conference or hearing. Pursuant to the terms of the procedural schedule, Kirksville has waived its rights to file comment or request a conference or a hearing. The case now stands submitted to the Commission for a decision.

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

1. Kirksville was organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 1,789 customers in Garrard and Madison counties, Kentucky.³

2. The calendar year ended December 31, 2014, should be used as the test year to determine the reasonableness of Kirksville's existing and proposed water rates.

3. Based upon pro forma test-year operations, Kirksville's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable charges, are \$855,867 and \$842,666, respectively.⁴

4. Kirksville currently has outstanding loans payable to the United States Department of Agriculture Rural Development ("RD") that were assumed to finance the cost of water system improvement projects. The five-year average principal and interest payments for the years 2015 through 2019 on the water bonds is \$76,863.⁵

³ Staff Report at 1.

⁴ *Id.* at 3. The revenues and expenses listed below include all regulated and non-regulated operations that should be accounted for when calculating Kirksville's income that is available to service its debt.

Water Sales Revenue	\$ 824,693
Other Operating Revenue	30,198
Interest Income	<u>976</u>
Total Revenue	<u>\$ 855,867</u>
Operation and Maintenance Expenses	\$ 702,747
Taxes Other Than Income	7,625
Depreciation	<u>132,294</u>
Total Expenses	<u>\$ 842,666</u>

⁵ *Id.* at 9.

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 Kirksville's pro forma operations results in an overall revenue requirement of \$934,902. Revenue of \$903,728 from water service rates is necessary to generate the overall requirement.⁶

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 Kirksville will produce \$938,501 in annual water sales revenues and should be denied.⁷

9. During the test year, Kirksville used service lives for the assets listed in Appendix B 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.”⁸

⁶ *Id.* at 8.

⁷

Pro Forma Present Rate Water Sales Revenue	\$ 824,693
Plus: Increase Requested by Kirksville	
\$824,693 x 13.8 percent	<u>113,808</u>
Water Sales Revenue from Requested Rates	<u>\$ 938,501</u>

⁸ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

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.⁹

11. The record contains no evidence that the service lives that Kirksville uses for the assets listed in Appendix B should be at variance with the NARUC Survey.

12. Kirksville's assignment of service lives for these assets 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. The water service rates requested by Kirksville are denied.
2. The water service rates set forth in Appendix A to this Order are approved for services rendered by Kirksville on and after the date of this Order.
3. Within 20 days of the date of this Order, Kirksville 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.
4. In all future reporting periods, Kirksville 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 adjustment to accumulated depreciation and retained earnings should be made to account for the effect of this change in accounting estimate.

⁹ 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).

By the Commission

ENTERED
SEP 25 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00097 DATED **SEP 25 2015**

The following water rates are prescribed for the customers in the area served by Kirksville 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

First	2,000 gallons	\$19.49 Minimum bill
Next	3,000 gallons	9.39 per 1,000 gallons
Next	5,000 gallons	7.92 per 1,000 gallons
All Over	10,000 gallons	6.70 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00097 DATED **SEP 25 2015**

Modifications to the Service Lives of the
Assets of Kirksville Water Association

Asset Classification	NARUC Range	Previous Assigned Service Life	PSC Approved Service Life
Distribution and Transmission Mains: 102, 103, 104, 105, 108, 109, 113, and 114	50-75	40-50	50
Meter Sets	40-50	7-25	45
Office Equipment: 87, EIC Systems Telemetry	10	20	10
Phase V	50-75	25	50
Pumping Equipment: 24, Booster Pump Station	35-40	30	35
Pumping Equipment: 38, 45, and 46	50-75	30-35	50
Pumping Equipment: 50, Pumping Equipment	20	30	20
Telemetry	10	25	10

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