

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO.
KNOX COUNTY UTILITY COMMISSION) 2015-00142

ORDER

Knox County Utility Commission ("Knox County") has applied to adjust its water service rates. By this Order, the Commission approves water service rates that will produce water service revenues of \$233,341, a 21.04 percent increase to pro forma present rate revenues of \$1,108,979. A typical residential bill will increase from \$39.83 to \$48.20 per month, an increase of \$8.37, or 21.01 percent.¹

Knox County tendered its application pursuant to 807 KAR 5:076 on April 30, 2015. On May 20, 2015, the Commission issued a procedural order to ensure the orderly review of Knox County'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 Knox County's application. On July 28, 2015, Staff issued a report finding that Knox County's adjusted test-year operations support a \$233,341 increase to annual water sales revenue. Staff also found that Knox County should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

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.

On August 12, 2015, Knox County filed responses to Staff's report wherein it accepted Staff's findings and requested that no informal conference or hearing be held.

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

1. Knox County was organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 2,808 customers in Bell, Knox, and Whitley counties, Kentucky.²

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

3. Based upon pro forma test-year operations, Knox County's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable charges, are \$1,165,303 and \$1,185,587, respectively.³

² Staff Report at 1.

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

Water Sales Revenue	\$ 1,108,979
Other Operating Revenue	51,726
Interest Income	<u>4,598</u>
Total Revenue	<u>\$ 1,165,303</u>
Operation and Maintenance Expenses	\$ 937,539
Taxes Other Than Income	21,642
Depreciation	<u>226,406</u>
Total Expenses	<u>\$ 1,185,587</u>

4. Knox County currently has outstanding bond issues payable to the Kentucky Rural Water Finance Corporation (“KRWFC”). The three-year average principal and interest payments for the years 2016 through 2018 on the water bonds is \$177,548.⁴

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 Knox County’s pro forma operations results in an overall revenue requirement of \$1,398,644. Revenue of \$1,342,320 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 Knox County will produce \$1,369,395 in annual water sales revenues and should be denied.⁶

9. During the test year, Knox County used service lives for various water assets that are at variance with those found in a survey of the National Association of

⁴ *Id.* at 16.

⁵ *Id.*

⁶ In its report, Staff originally stated that the request by Knox County (as noted in its application), was for an increase of 24.41 percent over present rate water sales revenues. It was later discovered that the amount of increase requested, per the amended billing analysis filed by Knox County, was actually 23.4825 percent.

Pro Forma Present Rate Water Sales Revenue	\$ 1,108,979
Plus: Increase Requested by Knox County	
\$1,108,979 x 23.4825 percent	<u>260,416</u>
Water Sales Revenue from Requested Rates	<u>\$ 1,369,395</u>

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 Knox County uses for the assets listed in Appendix B should be at variance with the NARUC Survey.

12. Knox County’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. The water service rates requested by Knox County are denied.
2. The water service rates set forth in Appendix A to this Order are approved for services rendered by Knox County on and after the date of this Order.
3. Within 20 days of the date of this Order, Knox County shall file revised tariff sheets with the Commission, using the Commission’s electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.

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).

4. In all future reporting periods, Knox County 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 or retained earnings should be made to account for this change in accounting estimate.

By the Commission

ENTERED
SEP 16 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00142 DATED **SEP 16 2015**

The following water rates are prescribed for the customers in the area served by Knox County Utility Commission. 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 1,000 Gallons

\$18.68 Minimum Bill

Over 1,000 Gallons

7.38 Per 1,000 Gallons

1-Inch Meter

First 5,000 Gallons

\$48.20 Minimum Bill

Over 5,000 Gallons

7.38 Per 1,000 Gallons

2-Inch Meter

First 20,000 Gallons

\$158.90 Minimum Bill

Over 20,000 Gallons

7.38 Per 1,000 Gallons

3-Inch Meter

First 30,000 Gallons

\$232.70 Minimum Bill

Over 30,000 Gallons

7.38 Per 1,000 Gallons

4-Inch Meter

First 50,000 Gallons

\$380.30 Minimum Bill

Over 50,000 Gallons

7.38 Per 1,000 Gallons

APPENDIX B

**APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00142 DATED **SEP 16 2015****

**Proposed Modifications to the Service Lives
Of Certain Assets of Knox County Utility Commission**

Asset Classification	NARUC Range	Previous Assigned Service Life	PSC Approved Service Life
Group: 165-STRUCTURES & IMPR	35-40	10-25	37.5
Group: 172-OTHER EQUIPMENT*	15-20	5-10	17.5
Group: 175-PUMPING EQUIPMENT	20	7-10	20
Group: 180-METERS & INSTALLS: METERS	35-45	10-20	40
Group: 180-METERS & INSTALLS: INSTALLATIONS	40-50	20	45
Group: 181-TRANS & DIST MAINS	50-75	10-40	62.5
Group: 182-NEW SERVICES	30-50	20-40	40
Group: 183-HYDRANTS	40-60	15-20	50
Group: 184-TANKS	30-60	10-40	45
Group: 185-TRANSPORTATION EQUIP	7	5-10	7

*Tools, Shop & Garage Equipment, and Laboratory Equipment.

*Knox County Utility Commission
1905 Highway 930
Barbourville, KY 40906

*Carolyn Smith
Assistant Superintendent
Knox County Utility Commission
P. O. Box 1630
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