

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MAGOFFIN COUNTY)
WATER DISTRICT FOR RATE ADJUSTMENT) CASE NO.
PURSUANT TO 807 KAR 5:076) 2015-00022

ORDER

On April 8, 2015, Magoffin County Water District ("Magoffin County") tendered its application pursuant to 807 KAR 5:076 requesting to adjust its water rates through a phase-in plan. By this Order, the Commission approves a two-phase rate increase in retail water rates that will eventually generate \$294,895 in additional annual revenues, a 23.83 percent increase to pro forma present rate revenues of \$1,237,410.¹ Upon implementation of Phase I rates, the monthly water bill for a retail customer using 5,000 gallons of water will increase from \$34.85 to \$39.90, an increase of 14.5 percent. Upon implementation of Phase II rates, the monthly water bill for a retail customer using 5,000 gallons of water will increase from \$39.90 to \$43.14, an increase of 8.12 percent.

Commission Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of Magoffin County's pro forma financial statements, revenue requirement calculation, and requested retail water rates. On July 31, 2015, Commission Staff issued a report summarizing its findings. Commission Staff found that Magoffin County's proposed rates would generate additional revenues of

¹ Staff Report at 13.

\$143,510 over pro forma test-year revenues.² It further found that, using the approach that the Commission has historically employed to determine a water district's revenue requirements, Magoffin County's financial condition would support a revenue increase of \$294,895.³

On August 7, 2015, Magoffin County advised the Commission of its acceptance of Commission Staff's findings regarding the need for a higher revenue requirement and of the rates that Commission Staff found would generate the higher revenue requirement. Magoffin County further waived its right to a hearing on its application and requested that the matter be submitted for decision based upon the existing record.⁴

On September 2, 2015, the Commission directed Magoffin County to publish in a newspaper of general circulation in its territory notice of the Commission Staff's determined rates and Magoffin County's request that those rates be approved. Magoffin County caused this notice to be published on September 10, 2015.⁵ Accordingly, the Commission finds that good cause exists for the case to be submitted on the record.

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

² *Id.* at 2.

³ *Id.* at 4, 13.

⁴ Letter from Allen McCarty, superintendent, Magoffin County Water District, to Jeff Derouen, executive director, Public service Commission (Aug. 7, 2015).

⁵ Letter from Allen McCarty, superintendent, Magoffin County Water District to Jeff Derouen, executive director, Public Service Commission (Sept. 22, 2015).

1. Magoffin County is a water district organized pursuant to KRS Chapter 74, and owns and operates facilities that distribute water to approximately 3,473 customers that reside in the Kentucky counties of Floyd and Magoffin.⁶

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

3. Based upon pro forma test-year operations, after adjusting for known and measurable changes, Magoffin County's pro forma present rate revenues and total pro forma operating expenses are \$1,289,611⁷ and \$1,444,828,⁸ respectively.

4. Magoffin County has one outstanding bond issuance that is payable to the Kentucky Rural Water Finance Corporation ("KRWFC"). The three-year average of principle and interest payment on this bond issuance is \$116,398.⁹

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 Magoffin County's pro forma operations results in a total revenue requirement from all sources of

⁶ *Annual Report of Magoffin County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2013 ("2013 Annual Report")* at 12 and 53.

⁷ Staff Report at 5. \$1,237,410 (Revenue from Water Sales) + \$45,952 (Other Water Revenues) + \$3,214 (Interest and Dividend Income) + \$3,035 (Nonutility Income) = \$1,289,611.

⁸ *Id.*

⁹ Staff Report at 13.

\$1,584,506.¹⁰ A revenue increase of \$294,895 from water service rates is necessary to generate the overall revenue requirement.¹¹

7. Phase I rates calculated by Staff will not produce additional annual revenues of \$294,895; however, they will produce additional water revenues of \$179,424, which is sufficient to meet the DSC ratio requirements of Magoffin County's lenders.¹²

8. The record contains no evidence that permitting Magoffin County to assess Phase I rates will result in any degradation or reduction in the quality of service that Magoffin County currently provides.

9. A utility may assess rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as insufficient or inadequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of

¹⁰ *Id.* at 13.

¹¹ *Id.*

¹²

Gross Water Revenue and Income at Present Rates	\$ 1,289,611
Plus: Water Revenue Increase from Phase I Rates	<u>179,424</u>
Gross Water Revenue After Implementation of Phase I Rates	1,469,035
Less: Water Operation and Maintenance Expenses	(1,194,615)
Taxes	<u>(26,298)</u>
Net Water Revenues for DSC Ratio Calculation	248,122
Divide by: Average Annual Payments on KRWFC Bonds	<u>116,398</u>
DSC Ratio	<u>213%</u>

this level of revenue, the rate phase-in plan proposed by Staff and agreed to by Magoffin County should be accepted.¹³

10. Phase II rates calculated by Staff will increase pro forma present rate water revenues by \$115,470.

11. Staff's phase-in plan evenly distributes the revenue increase to all Magoffin County's retail customers. An even distribution of the revenue increase to existing retail rates results in an equitable spread of the revenue increase to Magoffin County's customers and is appropriate, absent any evidence to the contrary.

IT IS THEREFORE ORDERED that:

1. The water rates requested by Magoffin County are denied.
2. Staff's water rate phase-in plan, accepted by Magoffin County, is approved.
3. Magoffin County shall charge the rates that are set forth in Appendix A for service rendered on and after the date of this Order.
4. Magoffin County shall charge the rates that are set forth in Appendix B for service rendered effective the day after the first anniversary of the date of this Order.

¹³ *Utilities Operating Co. v. King*, 143 So.2d 854, 45 PUR3d 439, 443 (Fla. 1962) (“[I]n the absence of some showing that the service to the public will suffer by allowing . . . [a] utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission.”). See also Case No. 2006-00410, *The Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective on and after December 2, 2006* (Ky. PSC Aug. 2, 2007); and Case No. 98-398, *Adjustment of the Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

5. No earlier than 30 days, but no later than 20 days prior to the first anniversary of the date of this Order, Magoffin County shall publish notice of the Phase II rates at least once in a newspaper of general circulation in its territory or place an insert in bills rendered to its customers. Notice shall be in the form set forth in Appendix C to this Order. Magoffin County shall file with the Commission proof of publication no later than ten days after publication of the notice.

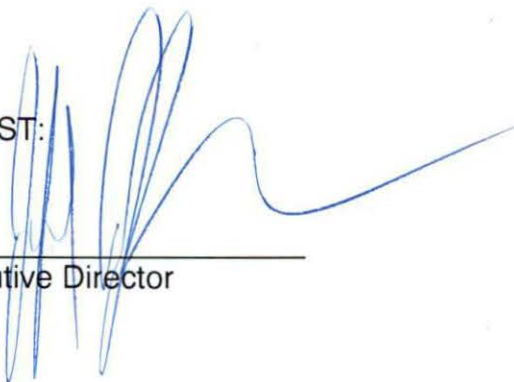
6. Within 20 days of the date of this Order, Magoffin County shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the rates approved herein.

7. Any documents filed pursuant to ordering paragraph 5 shall reference this case number and shall be retained in the utility's general correspondence file.

8. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon Magoffin County's showing of good cause for such extension.

By the Commission

ENTERED
OCT 15 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST: 

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00022 DATED **OCT 15 2015**

The following rates and charges are prescribed for the customers in the area served by Magoffin 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.

Phase 1

Monthly Water Rates

Residential

5/8-Inch Meter

First	2,000 gallons	\$16.68	Minimum bill
Next	3,000 gallons	7.74	per 1,000 gallons
Next	5,000 gallons	6.89	per 1,000 gallons
Over	10,000 gallons	6.33	per 1,000 gallons

1-Inch Meter

First	5,000 gallons	\$39.00	Minimum bill
Next	5,000 gallons	6.89	per 1,000 gallons
Over	10,000 gallons	6.33	per 1,000 gallons

Commercial

3/4-Inch Meter

First	3,000 gallons	\$29.88	Minimum bill
Next	2,000 gallons	9.57	per 1,000 gallons
Next	5,000 gallons	8.84	per 1,000 gallons
Next	5,000 gallons	8.12	per 1,000 gallons
Over	15,000 gallons	7.78	per 1,000 gallons

1-Inch Meter

First	5,000 gallons	\$49.02	Minimum bill
Next	5,000 gallons	8.84	per 1,000 gallons
Next	5,000 gallons	8.12	per 1,000 gallons
Over	15,000 gallons	7.78	per 1,000 gallons

2-Inch Meter

First	15,000 gallons	\$133.82	Minimum bill
Over	15,000 gallons	7.78	per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00022 DATED **OCT 15 2015**

The following rates and charges are prescribed for the customers in the area served by Magoffin 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.

Phase 2

Residential

5/8-Inch Meter

First	2,000 gallons	\$18.45	Minimum bill
Next	3,000 gallons	8.23	per 1,000 gallons
Next	5,000 gallons	7.62	per 1,000 gallons
Over	10,000 gallons	7.00	per 1,000 gallons

1-Inch Meter

First	5,000 gallons	\$43.14	Minimum bill
Next	5,000 gallons	7.62	per 1,000 gallons
Over	10,000 gallons	7.00	per 1,000 gallons

Commercial

3/4-Inch Meter

First	3,000 gallons	\$33.06	Minimum bill
Next	2,000 gallons	10.59	per 1,000 gallons
Next	5,000 gallons	9.78	per 1,000 gallons
Next	5,000 gallons	8.98	per 1,000 gallons
Over	15,000 gallons	8.61	per 1,000 gallons

1-Inch Meter

First	5,000 gallons	\$54.24	Minimum bill
Next	5,000 gallons	9.78	per 1,000 gallons
Next	5,000 gallons	8.98	per 1,000 gallons
Over	15,000 gallons	8.61	per 1,000 gallons

2-Inch Meter

First	15,000 gallons	\$148.04	Minimum bill
Over	15,000 gallons	8.61	per 1,000 gallons

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00022 DATED **OCT 15 2015**

NOTICE TO THE CUSTOMERS OF MAGOFFIN COUNTY WATER DISTRICT

On April 8, 2015, Magoffin County Water District ("Magoffin District") applied to the Kentucky Public Service Commission ("PSC") for authority to adjust its rates for water service. The initial proposed effective date of the requested rate adjustment was made pursuant to the date of an Order granting an increase by the PSC. After performing a review of Magoffin District's application and records, the PSC Staff has recommended to the PSC that Magoffin District adjust its rates to their retail customers that are different from those proposed by Magoffin District. The tables below reflect the present retail rates and the retail rates proposed by the PSC Staff:

Monthly Water Rates

Retail Customers

<u>5/8" X 3/4" Meter</u>	<u>Present Rates</u>	<u>PSC Staff Proposed Rates Phase 2</u>	<u>\$ change</u>	<u>% Change</u>
First 2,000 Gallons	\$16.68 Minimum Bill	\$18.45 Minimum Bill	\$1.77	10.61%
Next 3,000 Gallons	\$ 7.74 per 1,000 Gallons	\$ 8.23 per 1,000 Gallons	\$0.49	6.33%
Next 5,000 Gallons	\$ 6.89 per 1,000 Gallons	\$ 7.62 per 1,000 Gallons	\$0.73	10.60%
All over 10,000 Gallons	\$ 6.33 per 1,000 Gallons	\$ 7.00 per 1,000 Gallons	\$0.67	10.58%

<u>1" Meter</u>	<u>Present Rates</u>	<u>PSC Staff Proposed Rates Phase 2</u>	<u>\$ change</u>	<u>% Change</u>
First 5,000 Gallons	\$39.00 Minimum Bill	\$43.14 Minimum Bill	\$4.15	11.9%
Next 5,000 Gallons	\$ 6.89 per 1,000 Gallons	\$ 7.62 per 1,000 Gallons	\$0.74	12.03%
All over 10,000 Gallons	\$ 6.33 per 1,000 Gallons	\$ 7.00 per 1,000 Gallons	\$0.68	12.03%

Commercial Customers

<u>3/4" Meter</u>	<u>Present Rates</u>	<u>PSC Staff Proposed Rates Phase 2</u>	<u>\$ change</u>	<u>% Change</u>
First 3,000 Gallons	\$29.88 Minimum Bill	\$33.06 Minimum Bill	\$3.18	10.64%
Next 2,000 Gallons	\$ 9.57 per 1,000 Gallons	\$ 10.59 per 1,000 Gallons	\$1.02	10.66%
Next 5,000 Gallons	\$ 8.84 per 1,000 Gallons	\$ 9.78 per 1,000 Gallons	\$0.94	10.63%
Next 5,000 Gallons	\$ 8.12 per 1,000 Gallons	\$ 8.98 per 1,000 Gallons	\$0.86	10.59%
All over 15,000 Gallons	\$ 7.78 per 1,000 Gallons	\$ 8.61 per 1,000 Gallons	\$0.83	10.67%

<u>1" Meter</u>	<u>Present Rates</u>	<u>PSC Staff Proposed Rates Phase 2</u>	<u>\$ change</u>	<u>% Change</u>
First 5,000 Gallons	\$49.02 Minimum Bill	\$54.24 Minimum Bill	\$5.22	10.65%
Next 5,000 Gallons	\$ 8.84 per 1,000 Gallons	\$ 9.78 per 1,000 Gallons	\$0.94	10.63%
Next 5,000 Gallons	\$ 8.12 per 1,000 Gallons	\$ 8.98 per 1,000 Gallons	\$0.86	10.59%
All over 15,000 Gallons	\$ 7.78 per 1,000 Gallons	\$ 8.61 per 1,000 Gallons	\$0.83	10.67%
<u>2" Meter</u>	<u>Present Rates</u>	<u>PSC Staff Proposed Rates Phase 2</u>	<u>\$ change</u>	<u>% Change</u>
First 15,000 Gallons	\$133.82 Minimum Bill	\$148.04 Minimum Bill	\$14.22	10.62%
All over 15,000 Gallons	\$ 7.78 per 1,000 Gallons	\$ 8.61 per 1,000 Gallons	\$0.83	10.67%

The monthly water bill for the average retail customer using 5,000 gallons of water monthly will increase from \$39.90 to \$43.14, or 8.12%.

A person may examine the rate application at the offices of the Magoffin District located at 749 Parkway Drive, Salyersville, Kentucky 41465.

A person may examine the application at the PSC's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the Commission's Web site at <http://psc.ky.gov>.

A copy of the PSC Staff report can be found at:
http://psc.ky.gov/pscscf/2015%20Cases/2015-00022/20150731_PSC_Staff%20Report.pdf

Pursuant to the PSC's Order of May 18, 2015, in Case No. 2015-00022, Magoffin District has requested that the PSC approve the PSC Staff proposed rates.

Any person may submit comments on the proposed rates. Comments shall be in writing and shall be submitted to the Executive Director, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602. Comments may also be submitted by electronic mail to psc.info@ky.gov. If the Commission does not receive any objections or requests for intervention establishing the grounds for the request including the status and interest of the party or requests for hearing in this matter within thirty (30) days of initial publication or mailing of the notice, the Commission may take final action on the application and shall proceed to render a decision in the matter.

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