

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                      |   |            |
|--------------------------------------|---|------------|
| APPLICATION OF EAST DAVIESS COUNTY   | ) |            |
| WATER ASSOCIATION, INC. FOR RATE     | ) | CASE NO.   |
| ADJUSTMENT PURSUANT TO 807 KAR 5:076 | ) | 2016-00177 |

ORDER

By this Order, the Commission approves an increase to East Daviess County Water Association, Inc.'s ("East Daviess") monthly water service rates, except for its fire protection rates. The approved water rates will generate \$104,875 in additional annual revenues, a 6.88 percent increase to pro forma present water rate revenues in the amount of \$1,524,347. The monthly water bill of a typical residential customer<sup>1</sup> will increase from \$30.49 to \$32.59, an increase of \$2.10, or 6.89 percent.

Pursuant to 807 KAR 5:076, on May 26, 2016, East Daviess tendered an application ("Application") requesting to increase its monthly water service rates, except for contracted fire protection rates, by 7.8 percent. It did not request to increase the contracted fire protection rates. The Commission accepted the Application for filing on June 2, 2016.

To ensure the orderly review of the Application, the Commission issued a procedural Order on June 14, 2016, requiring that Commission Staff ("Staff") prepare and file a report containing its findings regarding the rates requested by East Daviess. The Order required that all parties file comments or objections to Staff's findings.

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<sup>1</sup> A typical residential customer purchases 5,000 gallons of water per month through a 5/8-inch x 3/4-inch meter.

On September 1, 2016, Staff issued a report summarizing its findings. In its report, Staff found that East Daviess's adjusted test-year operations support an overall revenue requirement in the amount of \$1,746,610 and that an annual revenue increase in the amount of \$104,999, or 6.88 percent, is necessary to generate the overall revenue requirement. Staff further found that the revenue increase should be distributed evenly to East Daviess's current water service rates, including fire protection rates.

Staff did not, however, adjust the fire protection rates because East Daviess, in its Application, requested that the fire protection rates remain unchanged. Because fire protection rates were not increased, the rates calculated by Staff will not produce \$104,999 in additional annual revenues; they will instead produce only \$104,875 in additional annual revenues.

On September 7, 2016, East Daviess filed with the Commission its comments on Staff's report wherein it agreed with Staff's findings and requested that the case stand submitted to the Commission for a decision without holding an informal conference or a formal hearing.<sup>2</sup>

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

1. East Daviess is a water association incorporated in 1970 pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it

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<sup>2</sup> Letter from William E. Hayes, Board President, East Daviess County Water Association, to Talina R. Mathews, Executive Director, Public Service Commission (Sept. 7, 2016).

provides retail water service to approximately 4,492 customers in Daviess, Hancock, and Ohio counties, Kentucky.<sup>3</sup>

2. The calendar year ended December 31, 2015, should be used as the test period to determine the reasonableness of East Daviess's water service rates.

3. Based upon pro forma test-year operations, and after adjusting for known and measurable changes, East Daviess's pro forma present rate revenues and total pro forma operating expenses are \$1,641,611<sup>4</sup> and \$1,473,680,<sup>5</sup> respectively.

4. East Daviess currently has an outstanding note payable to the United States Department of Agriculture Rural Development ("RD") and a note payable to U.S. Bank ("Bank"). The annual principle and interest payments on these notes total \$237,330.<sup>6</sup>

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 East Daviess's pro forma operations, using a 115 percent ratio, results in an overall revenue requirement in the amount of \$1,746,610. A revenue increase of \$104,999 from water service rates is

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<sup>3</sup> *Annual Report of East Daviess Water Association, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2015* ("Annual Report") at 9, 12, and 53.

<sup>4</sup> Staff Report at 5. \$1,525,907 (Revenue from Water Sales) + \$111,705 (Other Water Revenues) + \$3,999 (Interest and Dividend Income) = \$1,641,611.

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

<sup>6</sup> *Id.* at 8.

necessary to generate the overall revenue requirement.<sup>7</sup> A \$104,999 revenue increase would result in total annual water sales revenues in the amount of \$1,630,906.

7. The water service rates calculated by Staff in its report that were agreed to by East Daviess in its September 7, 2016 response to Staff's report will not produce \$1,630,906. They will produce \$1,630,782 in annual revenues, or 99.99 percent of the amount of water sales revenues found appropriate by the Commission.<sup>8</sup>

8. The \$124<sup>9</sup> difference between the amount of the water sales revenue found appropriate by the Commission and the amount of water sales revenue that will be produced by the rates calculated by Staff and agreed to by East Daviess is not material to East Daviess's operations.

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<sup>7</sup> *Id.* at 8.

<sup>8</sup>

|  |                  |
|--|------------------|
| Pro Forma Present Rate Revenue                                     | \$1,525,907      |
| Plus: Revenue Increase Resulting from Rates<br>Calculated by Staff | <u>104,875</u>   |
| Total Water Sales Revenue from Rates<br>Calculated by Staff        | 1,630,782        |
| Divide by: Water Sales Revenue Warranted                           | <u>1,630,906</u> |
| Percentage   | <u>99.99%</u>    |

<sup>9</sup>

|  |                    |
|--|--------------------|
| Water Sales Revenue Found Appropriate<br>by the Commission         | \$1,630,906        |
| Less: Water Sales Revenue Produced by<br>Rates Calculated by Staff | <u>(1,630,782)</u> |
| Difference   | <u>\$ 124</u>      |

9. The monthly water service rates calculated by Staff and agreed to by East Daviess are appropriate and should be approved.

10. In Case No. 2013-00366,<sup>10</sup> the Commission Ordered that East Daviess make changes to the depreciable lives assigned to certain asset account groups for accounting purposes. During the course of this proceeding, it was discovered that East Daviess has not made those changes.

11. East Daviess did not propose an increase to fire protection rates. In its next rate application, East Daviess should propose to increase fire protection rates or provide a detailed explanation supporting the reasons to hold fire protection rates at their current levels.

IT IS THEREFORE ORDERED that:

1. The monthly water service rates requested by East Daviess in the Application are denied.

2. The monthly water service rates appended hereto as the Appendix are approved for water service rendered on and after the date of this Order.

3. Within 20 days of the date of this Order, East Daviess shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the water service rates approved herein.

4. East Daviess shall use the Commission-approved service lives set forth in the table below to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment shall be made to accumulated depreciation or retained earnings to account for this change in accounting estimate.

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<sup>10</sup> Case No. 2013-00366, *Alternative Rate Filing Application of East Daviess County Water Association, Inc.* (Ky. PSC Mar. 7, 2014).

| <u>Asset Group</u>                  | <u>Used by<br/>East Daviess</u> | <u>Commission<br/>Ordered</u> |
|-------------------------------------|---------------------------------|-------------------------------|
| Pumping Equipment                   | 10-50 years                     | 20 years                      |
| Meters                              | 20-50 years                     | 40 years                      |
| Office Furniture and Equipment      | 5-10 years                      | 22.5 years                    |
| Structures                          | 20-30 years                     | 37.5 years                    |
| Transportation Equipment            | 5 years                         | 7 years                       |
| Transmission and Distribution Mains | 50 years                        | 62.5 years                    |

5. In its next rate application, East Daviess shall request an increase in fire protection rates or provide a detailed explanation supporting the reasons to hold fire protection rates at their current levels.

By the Commission



ATTEST:

*Jalina R. Mathews*

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2016-00177 DATED

**OCT 11 2016**

The following water service rates and charges are prescribed for the customers in the area served by East Daviess County Water Association, Inc. 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-Inch x 3/4-Inch Meter

|                     |                        |
|---------------------|------------------------|
| First 2,000 Gallons | \$16.24 Minimum Bill   |
| Next 4,000 Gallons  | 5.45 Per 1,000 Gallons |
| Next 44,000 Gallons | 4.36 Per 1,000 Gallons |
| Over 50,000 Gallons | 3.56 Per 1,000 Gallons |

3/4-Inch Meter

|                     |                        |
|---------------------|------------------------|
| First 3,000 Gallons | \$21.69 Minimum Bill   |
| Next 3,000 Gallons  | 5.45 Per 1,000 Gallons |
| Next 44,000 Gallons | 4.36 Per 1,000 Gallons |
| Over 50,000 Gallons | 3.56 Per 1,000 Gallons |

1-Inch Meter

|                     |                        |
|---------------------|------------------------|
| First 6,000 Gallons | \$38.04 Minimum Bill   |
| Next 44,000 Gallons | 4.36 Per 1,000 Gallons |
| Over 50,000 Gallons | 3.56 Per 1,000 Gallons |

1 1/2-Inch Meter

|                      |                        |
|----------------------|------------------------|
| First 10,000 Gallons | \$55.48 Minimum Bill   |
| Next 40,000 Gallons  | 4.36 Per 1,000 Gallons |
| Over 50,000 Gallons  | 3.56 Per 1,000 Gallons |

2-Inch Meter

|                      |                        |
|----------------------|------------------------|
| First 20,000 Gallons | \$99.08 Minimum Bill   |
| Next 30,000 Gallons  | 4.36 Per 1,000 Gallons |
| Over 50,000 Gallons  | 3.56 Per 1,000 Gallons |

LEAK ADJUSTMENT RATE: \$2.46 Per 1,000 Gallons

WHOLESALE WATER RATES \$1.76 Per 1,000 Gallons

\*East Daviess County Water Association, Inc.  
9210 Highway Route 144  
Knottsville, KY 42366

\*Agnes Johnson  
East Daviess County Water Association, Inc.  
9210 Highway Route 144  
Knottsville, KY 42366

\*Kasey Emmick  
East Daviess County Water Association, Inc.  
9210 Highway Route 144  
Knottsville, KY 42366