

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BREATHITT)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2017-00140
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On March 31, 2017, Breathitt County Water District (“Breathitt County”) tendered an application (“Application”) with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. By letter dated April 4, 2017, the Commission notified Breathitt County that its application was deemed filed. In its application, Breathitt County requested rates that would increase annual water sales revenues by \$147,990, a 17.92 percent increase to pro forma present-rate water sales revenues. By Order dated April 18, 2017, the Commission established a procedural schedule through which Breathitt County’s application would be reviewed. Finding that the procedural schedule should be amended to permit Commission Staff (“Staff”) additional time to complete its report, the Commission, on its own motion, ordered that the procedural schedule be amended. On July 6, 2017, the Commission issued an amended procedural schedule extending the time for Staff’s review of Breathitt County’s application. There are no interveners in this case.

Pursuant to the amended procedural Order, on July 21, 2017, Staff issued a report (“Report”) summarizing its findings regarding Breathitt County’s requested rate adjustment. In its Report, Staff found that Breathitt County’s adjusted test-year

operations support an overall revenue requirement in the amount of \$1,563,745 and that an annual revenue increase in the amount of \$716,811, or 86.25 percent, is necessary to generate the overall revenue requirement. Staff further found that Breathitt County should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

On August 7, 2017, Breathitt County filed with the Commission its comments on Staff's Report wherein it did not object to any of the Staff's findings, but did request that the Commission authorize an 18.00 percent across-the-board water rate increase as originally requested in the Application. With its comments, Breathitt County did not request that a conference or hearing be held.¹ Subsequent to the issuance of the Staff Report, Breathitt County tendered an application seeking a purchased water adjustment ("PWA") pursuant to KAR 5:068 in response to a wholesale rate increase by its supplier. The proposed PWA was granted by Commission Order in Case No. 2017-00272, which approved a purchased water adjustment factor of \$0.12 per 1,000 gallons for services rendered on or after July 1, 2017.²

BACKGROUND

Breathitt County is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 1,694 customers that reside in Breathitt County, Kentucky.³ Breathitt

¹ Letter from Bobby Thorpe, Chairman, Breathitt County Water District, to John S. Lyons, Acting Executive Director, Public Service Commission (Aug. 7, 2017).

² Case No. 2017-00272, *Purchased Water Adjustment Filing of Breathitt County Water District* (Ky. PSC Aug. 7, 2017)

³ *Annual Report of Breathitt County District to the Public Service Commission for the Calendar Year Ended December 31, 2015* ("Annual Report") at 12 and 53.

County does not produce any of its own water; rather, it purchases its water from the city of Jackson and the city of Campton. This is Breathitt County's first general rate adjustment since its initial operations began in 2003.

TEST PERIOD

The calendar year ended December 31, 2015, was used as the test year to determine the reasonableness of Breathitt County's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

MODIFICATIONS TO STAFF'S FINDINGS

Breathitt County proposed no adjustments to revenues and expenses to reflect current and expected operating conditions. In its Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

SUMMARY OF REVENUE AND EXPENSES

Due to the PWA adjustment in Case No. 2017-00272, the Commission finds Breathitt County's pro forma operations should be adjusted as follows:

	<u>Staff Pro Forma Operations</u>		<u>PWA Adjustments</u>		<u>PWA Pro Forma Operations</u>
Water Revenues	\$ 831,042		\$ 8,441		\$ 839,483
Other Water Revenue	<u>15,539</u>				<u>15,539</u>
Total:	846,581	#	8,441	#	855,022
Operating Expenses	<u>1,424,675</u>		<u>8,325</u>		<u>1,433,000</u>
Net Operating Income	(578,094)		116		(577,978)
Interest Income	<u>353</u>				<u>353</u>
Income Available for Debt Service	<u><u>\$(577,741)</u></u>		<u><u>\$ 116</u></u>		<u><u>\$(577,625)</u></u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Breathitt County requires an increase in revenues of \$716,695, or 85.37 percent above pro forma present rate revenues adjusted for the PWA, as shown below:

Pro Forma Operating Expenses	\$1,433,000
Plus: Average Annual Debt Payments	115,891
Additional Working Capital	<u>23,178</u>
Overall Revenue Requirement	1,572,070
Less: Other Operating Revenue	(15,539)
Interest Income	<u>(353)</u>
Revenue Required From Rates	1,556,178
Less: Pro Forma Present Rate Water Revenues	<u>(839,483)</u>
Required Revenue Increase	<u>\$ 716,695</u>
Percent Increase	<u>85.37%</u>

RATE DESIGN

Although Staff determined that an 85.37 percent increase is warranted, Breathitt County requests to increase its current water service rates by an even, across-the-board 18.00 percent increase. The requested 18.00 percent increase will produce \$151,167 in additional revenues, which is sufficient for Breathitt County to meet the debt

service coverage (“DSC”) ratio requirement of the United States Department of Agriculture Rural Development (“RD”) and the Kentucky Infrastructure Authority (“KIA”), Breathitt County’s lenders.⁴

The Commission finds that in the absence of a cost-of-service study the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to Breathitt County’s customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$994,924. The revenue requirement is determined to be reasonable by the Commission herein. The monthly bill of a typical residential customer using 3,000 gallons will increase from \$36.60 to \$43.19, an increase of \$6.59, or 18.01 percent.

⁴ RD and KIA require Breathitt County to assess water service rates that will generate net revenues that are equal to at least 120 percent of Breathitt County’s average annual bond payments. As shown below, the rates requested by Breathitt County will generate net revenues that produce a DSC Ratio of 185.01 percent, which is above their lenders minimum requirement.

Pro Forma Present Rate Revenues	\$ 831,042
Plus: Additional Annual Revenues from Requested Rates	147,990
Other Operating Revenues	15,539
Interest Income	<u>353</u>
 Total Revenue	 994,924
Less: ProForma Operation and Maintenance Expenses	(767,744)
Taxes Other Than Income	<u>(12,766)</u>
 Net Revenues Upon which DSC Ratio is Calculated	 214,413
Divide by: Average Annual Debt Payments	<u>115,891</u>
 DSC Ratio	 <u><u>185.01%</u></u>

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. On July 11, 2017, the Commission established Case No. 2017-00272, following Breathitt County's application with the Commission requesting authority to increase its water service rates in order to pass through to its customers the wholesale water rate increase from its supplier.⁵

2. After reviewing the PWA application, the Commission entered a final Order in Case No. 2017-00272 authorizing Breathitt County to increase its rates for services rendered on and after July 1, 2017, for recovering the additional cost of wholesale water.

3. Breathitt County's pro forma revenue and expenses, as presented in this Order, are adjusted to account for the additional water service revenue that will be generated by the rates approved by the PWA Order entered in Case No. 2017-00272.

4. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to Breathitt County's pro forma revenue and expenses results in an Overall Revenue Requirement in the amount of \$1,572,070. A revenue increase of \$716,695 from water service rates is necessary to generate the overall revenue requirement.

5. The record contains no evidence that permitting Breathitt County to assess water service rates at a level lower than could be supported will result in any degradation or reduction in the quality of water service currently provided by Breathitt County. A utility may assess rates that fail to produce a level of revenues that accepted

⁵ Filed Pursuant to 807 KAR 5:068, PWA for water districts and water associations.

ratemaking methodologies would regard as sufficient or adequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of this level of revenue, the 18.00 percent increase in water service rates requested by Breathitt County should be approved by the Commission.⁶

6. The water service rates proposed by Breathitt County should be denied.

7. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Breathitt County are denied.

2. The rates set forth in the Appendix to this Order are approved for services rendered by Breathitt County on and after the date of this Order.

3. Within 20 days of the date of this Order, Breathitt County shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

4. Breathitt County shall use the mid-point of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation, or

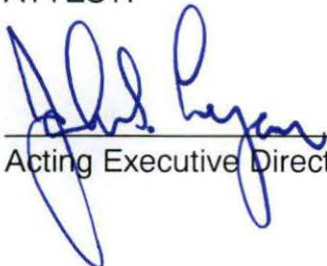
⁶ *Utilities Operating Co. v King*, 143 So2d 854, 45 PUR3d 439,443 (Fla. 1962) ("[I]n the absence of some showing that the service to the public will suffer by allowing the utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to 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 Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

retained earnings should be made to account for this change in the accounting estimate.

By the Commission

ENTERED
SEP 15 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Acting Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00140 DATED **SEP 15 2017**

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

Monthly Water Rates

5/8-inch x 3/4-inch Meter

First 2,000 gallons	\$28.79 Minimum Bill Over
2,000 gallons	14.40 per 1,000 gallons

<u>Leak Adjustment rate</u>	8.50 per 1,000 gallons
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Wholesale Rate

Village of Buckhorn	5.60 per 1,000 gallons
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Kentucky Mountain Bible College

First 10,000 gallons	\$143.96 Minimum Bill
Next 190,000 gallons	8.53 per 1,000 gallons
Over 200,000 gallons	7.14 per 1,000 gallons

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