

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ESTILL)	CASE NO.
COUNTY WATER DISTRICT NO. 1 FOR RATE)	2017-00176
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On May 10, 2017, Estill County Water District No. 1 (“Estill 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 May 12, 2017, the Commission notified Estill County that the Application was deemed filed. In its Application, Estill County requested rates that would increase annual water sales revenues by \$345,009, a 22.50 percent increase to pro forma present-rate water sales revenues. By Order dated June 12, 2017, the Commission established a procedural schedule through which Estill County’s Application would be reviewed. There are no interveners in this case.

Pursuant to the Procedural Order of June 12, 2017, Staff issued a report (“Report”) on August 9, 2017, summarizing its findings regarding Estill County’s requested rate adjustment. In its Report, Staff found that Estill County’s adjusted test-year operations support an overall revenue requirement of \$1,947,095 and that an annual revenue increase of \$360,445, or 23.91 percent, is necessary to generate the overall revenue requirement. Additionally, Staff found that Estill County should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

By Order of August 18, 2017, the Commission found that a hearing should be held to take evidence on Estill County's Application and that Estill County should be prepared to discuss 1) line loss; 2) indebtedness incurred without adhering to the procedures in KRS 278.300(1), specifically three loans payable to Citizens Guaranty Bank, originating on October 31, 2013, January 29, 2015, and January 24, 2017, respectively; and 3) reasons for obtaining loans to pay operating expenses and debt payments that should be paid through the process of collecting operating revenue. On November 1, 2017, a hearing was held in this matter.

Estill County did not respond within 14 days of the issuance of the Report. Per the procedural schedule of June 12, 2017, failure to file a written objection to a finding contained in the Report within 14 days after the filing of the Report shall be deemed a waiver of all objections to the findings within that report and a request that the case stand submitted for decision. Subsequent to the issuance of the Report and prior to the hearing, Estill 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. 2017-00377, which approved a purchased water adjustment factor of \$0.89 per 1,000 gallons for services rendered on or after September 18, 2017.¹

On October 12, 2017, Estill County moved to immediately authorize the rates that were set forth in the Report. In support of its motion, Estill County stated that, "each month that passes without the Commission Staff-recommended rates taking effect deprives Estill District of approximately \$14,000 in additional revenues." In additional

¹ Case No. 2017-00377, *Purchased Water Adjustment Filing of Estill County Water District No. 1* (Ky. PSC Oct. 13, 2017).

support, Estill County attached two exhibits meant to represent a snapshot of the utility's financial condition as of August 31, 2017. At the hearing held on November 1, 2017, the Commission granted Estill County's motion. On November 6, 2017, an interim Order was issued authorizing interim water service rates that were adjusted to reflect the PWA rates granted by the Commission in Case No. 2017-00377.

WATER LOSS

The Commission notes that Estill County reported test-year unaccounted-for water loss to be 32.70 percent. Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Reduction of Estill County's unaccounted-for water loss to 15 percent would result in an approximate \$134,422² decrease to its cost of water.

²

Purchased Water	\$ 685,219
Purchased Power for Pumping	<u>74,229</u>
Cost of Water	759,448
Times: Line Loss Above 15 Percent	<u>17.70%</u>
Expense Reduction to Cost of Water	<u><u>\$ 134,422</u></u>

Potentially, Estill County ratepayers are paying \$0.79 per 1,000 gallons purchased³ for expenses associated with unaccounted-for water loss greater than 15 percent. The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Estill County to pursue reasonable actions to reduce its unaccounted-for water loss. Estill County’s current financial difficulties could be eliminated by reducing unaccounted-for water loss to 15 percent. Failure by Estill County to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

BACKGROUND

Estill 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 3,777 customers that reside in Estill County, Kentucky.⁴ Estill County does not produce water; rather, it purchases water from Irvine Municipal Utilities and Jackson County Water Association. This is Estill County’s first rate adjustment pursuant to 807 KAR 5:076 or through a general increase in rates since it began operations.

³

Expense Reduction to Cost of Water	\$ 134,422
Divide by: 2015 Gallons Sold (in 000s)	<u>169,946</u>
Cost per Gallon Sold	<u><u>\$ 0.79</u></u>

⁴ *Annual Report of Estill County Water District No. 1 to the Public Service Commission for the Calendar Year Ended December 31, 2015 (“Annual Report”)* at 12 and 53.

TEST PERIOD

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

STAFF'S FINDINGS

Estill County proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In its Report, Staff modified some of the proposed adjustments and proposed additional adjustments. The Commission accepts the findings contained in the Report.

SUMMARY OF REVENUE AND EXPENSES

Due to the PWA adjustment in Case No. 2017-00377, the Commission finds Estill County's pro forma operations should be adjusted as follows:⁵

	<u>Staff Pro Forma Operations</u>	<u>PWA Adjustments</u>	<u>PWA Pro Forma Operations</u>
Operating Revenues	\$ 1,586,415	\$ 166,299	\$ 1,752,714
Operating Expenses	<u>1,640,711</u>	<u> </u>	<u>1,640,711</u>
Net Operating Income	(54,296)	166,299	112,003
Interest Income	<u>234</u>	<u> </u>	<u>234</u>
Income Available for Debt Service	<u>\$ (54,062)</u>	<u>\$ 166,299</u>	<u>\$ 112,237</u>

⁵ No adjustment to operating expenses was made, as this adjustment was already in Staff's Report.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Estill County requires an increase in revenues of \$194,147, or 11.60 percent above pro forma present-rate revenues adjusted for the PWA, as shown below:

Pro Forma Operating Expenses	\$ 1,640,711
Plus: Average Annual Principal and Interest Payments	255,320
Additional Working Capital	<u>51,064</u>
Overall Revenue Requirement	1,947,095
Less: Other Operating Revenue	(78,862)
Interest Income	<u>(234)</u>
Revenue Required from Rates	1,867,999
Less: Pro Forma Present Rate Service Revenues	<u>(1,673,852)</u>
Required Revenue Increase	<u>\$ 194,147</u>
Percentage Increase	<u>11.60%</u>

RATE DESIGN

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 Estill County's customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$1,867,999. The revenue requirement is determined herein to be reasonable by the Commission. The monthly bill of a typical residential customer using 4,000 gallons will increase from \$37.50 to \$41.84, an increase of \$4.34, or 11.57 percent.

UNAUTHORIZED DEBT

Estill County currently has three loans outstanding that are payable to Citizens Guaranty Bank for which Estill County did not obtain Commission approval as required

by KRS 278.300. Estill County has the responsibility to ensure that it follows the Commission's statutes and regulations and that all statutory and regulatory approvals are obtained. Estill County should be aware that the Commission may initiate a separate proceeding to more thoroughly investigate the possible violations of Commission statutes and regulations. If a determination is made that there has been a willful violation of any provision of KRS Chapter 278 and 807 KAR Chapter 5, the members of the Board of Commissioners may be held accountable.⁶

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

1. On September 18, 2017, Estill County filed an application with the Commission, pursuant to 807 KAR 5:068, requesting authority to increase its water service rates in order to pass through to its customers the wholesale water rate increase from its supplier.

2. After reviewing the PWA application, the Commission entered a final Order in Case No. 2017-00377 authorizing Estill County to increase its rates for services rendered on and after September 18, 2017, for recovering the additional cost of wholesale water.

3. Estill County's pro forma operational revenue, as presented in this Order is 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. 2017-00377.

⁶ KRS 278.990(1). Any officers, agent, or employee of a utility, as defined in KRS 278.010, and any other person who willfully violates any of the provisions of this chapter or any regulation promulgated pursuant to this chapter, or fails to obey any order of the commission from which all rights of appeal have been exhausted or who procures, aids, or abets a violation by any utility, shall be subject to either a civil penalty to be assessed by the commission not to exceed two thousand five hundred dollars (\$2,500) for each offense or a criminal penalty of imprisonment for not more than six (6) months, or both.

4. 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. Application of the Commission’s DSC method to Estill County’s pro forma operations results in an Overall Revenue Requirement of \$1,947,095. A revenue increase of \$194,147 from water service rates is necessary to generate the overall revenue requirement.

5. The water service rates proposed by Estill County should be denied.

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

IT IS THEREFORE ORDERED that:

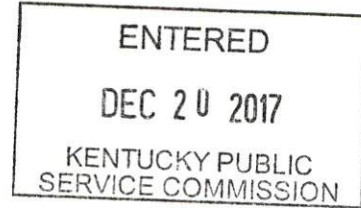
1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates proposed by Estill County are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by Estill County on and after November 1, 2017.

4. Estill County shall adopt the depreciable lives, 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 retained earnings should be made to account for this change in the accounting estimate.

By the Commission



ATTEST:

A handwritten signature in blue ink, appearing to read "Steve R. Purdie". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

Case No. 2017-00176

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00176 DATED **DEC 20 2017**

The following rates and charges are prescribed for the customers in the area served by Estill County Water District No. 1. 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.

5/8- x 3/4-Inch Meter

First	2,000	Gallons	\$21.18	Minimum bill
Next	3,000	Gallons	10.33	per 1,000 Gallons
Next	5,000	Gallons	10.11	per 1,000 Gallons
Over	10,000	Gallons	8.00	per 1,000 Gallons

1-Inch Meter

First	5,000	Gallons	\$52.18	Minimum bill
Next	5,000	Gallons	10.11	per 1,000 Gallons
Over	10,000	Gallons	8.00	per 1,000 Gallons

2-Inch Meter

First	16,000	Gallons	\$150.75	Minimum bill
Over	16,000	Gallons	8.00	per 1,000 Gallons

Bulk Loading Stations			7.09	per 1,000 Gallons
-----------------------	--	--	------	-------------------

*Estill County Water District #1
76 Cedar Grove Road
Irvine, KY 40336

*Audrea Miller
Office Manager
Estill County Water District #1
76 Cedar Grove Road
Irvine, KY 40336

*Gerald E Wuetcher
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801