

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ELKHORN WATER)	
DISTRICT FOR RATE ADJUSTMENT)	CASE NO.
PURSUANT TO 807 KAR 5:076)	2018-00145

ORDER

On April 30, 2018, Elkhorn Water District (Elkhorn District) tendered an application (Application) to the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. By its letter of May 8, 2018, the Commission notified Elkhorn District of deficiencies in its Application. On August 20, 2018, Elkhorn District filed all of the information necessary to cure its deficiencies, and its Application was accepted for filing on that date. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated September 12, 2018, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding Elkhorn District's Application.

In its Application, Elkhorn District provided a revenue requirement schedule showing that its water division pro forma operating revenues and expenses support a revenue increase of \$10,881, or 3.56 percent.¹ The rates requested by Elkhorn District would increase the monthly bill of a typical residential customer using 5,000 gallons per month by \$1.22, from \$34.39 to \$35.61, or approximately 3.56 percent. On December 3,

¹ Application, Attachment 4, Schedule of Adjusted Operations, Elkhorn Water District, Revenue Requirements at 1.

2018, Staff issued a report (Staff Report) summarizing its findings regarding Elkhorn District's requested rate adjustment. In its Report, Staff applied an 88 percent operating ratio to Elkhorn District's pro forma operating expenses and calculated an Overall Revenue Requirement of \$334,547. A revenue increase of \$22,862, or 7.34 percent, would be necessary to generate the Overall Revenue Requirement Staff determined that Elkhorn District could justify. Staff informed Elkhorn District that if it wanted the Commission to approve a revenue increase of this amount, then Elkhorn District should submit its request in its written response to the Staff Report.

On December 17, 2018, Elkhorn District submitted its written comments to the December 3, 2018 Staff Report. In its comments, Elkhorn District asserted that Staff failed to include, in its revenue requirement calculation, the amortization of costs incurred by Elkhorn District to submit previous purchased water applications. After an informal conference was conducted to discuss this concern, Elkhorn District submitted subsequent comments on February 15, 2019, that accepted the findings and recommendations contained in the Staff Report. Elkhorn District also requested to amend its application to request the revenue requirement and rates set forth in the Staff Report.

In its February 20, 2019 Order, the Commission ordered Elkhorn District to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended rates, and to submit proof of publication of the notice with the Commission no later than March 8, 2019. On March 13, 2019, Elkhorn District submitted the requested proof that the customer notice was first published on February 22, 2019, in the Frankfort State Journal newspaper.

BACKGROUND

Elkhorn District is a water district organized pursuant to KRS Chapter 74, provides water service to approximately 588 residential customers residing in Franklin County, Kentucky.² Elkhorn District's last general rate adjustment occurred in 2012.³

WATER LOSS

Pursuant to 807 KAR 5:066, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. As noted in the Staff Report, Elkhorn District's test-year water loss was 16.03 percent, or 1.03 percent above the allowable limit. Accordingly, Staff reduced test-year expenses by \$1,897.⁴

The Commission places greater emphasis on monitoring utilities that consistently exceed the fifteen 15 percent unaccounted-for water loss threshold and strongly encourages Elkhorn District to pursue reasonable actions to reduce its unaccounted-for water loss.⁵

TEST PERIOD

The calendar year ended December 31, 2017, was used as the test year to determine the reasonableness of Elkhorn District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

² *Annual Report of Elkhorn Water District to the Public Service Commission for the Calendar Year Ended December 31, 2017* (2017 Annual Report) at 11, 12, and 48.

³ Case No. 2012-00517, *Application of Symsonia Water District for Approval of a Certificate of Public Convenience and Necessity for Construction of Water Facilities, Financing and Increased Rates for Water and Sewer Service* (Ky. PSC Sept. 3, 2013).

⁴ Staff Report, page 7.

⁵ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Mar. 12, 2019) (investigating jurisdictional water utilities that report over 35 percent water loss in their annual reports on file with the Commission).

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Elkhorn District's pro forma income statement as follows:

	2017 Annual Report	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Revenues from Water Sales:	\$ 305,513	\$ 6,017	\$ 311,530
Other Water Revenues:	155	0	155
Total Operating Revenues	305,668	6,017	311,685
Operating Expenses:			
Operation & Maintenance:	280,806	271	281,077
Depreciation	27,804	(15,479)	12,325
Amortization	0	1,000	1,000
Utility Operating Expenses	308,610	(14,209)	294,402
Net Utility Operating Income	\$ (2,942)	\$ 20,226	\$ 17,284

REVENUE REQUIREMENTS

In its report, Staff determined that Elkhorn District's pro forma operating revenues and expenses for its water division support an increase in revenues of \$22,862 or 7.34 percent above normalized operating revenues from water sales, as shown below:

Pro Forma Operating Expenses	\$ 294,402
Divide by: Operating Ratio	88%
Total Revenue Requirement	334,547
Less: Other Operating Revenue	(155)
Revenue Required from Rates	334,392
Less: Normalized Revenues from Water Sales	(311,530)
Required Revenue Increase/(Decrease)	\$ 22,862
Percentage Increase	7.34%

RATE DESIGN

The Commission finds that in the absence of a cost-of-service study the across-the-board method proposed by Elkhorn District is an appropriate and equitable method to allocate the increased cost to Elkhorn District's customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$334,392, the revenue requirement from water sales determined to be reasonable by the Commission herein. The monthly bill of a typical residential customer using 5,000 gallons will increase from \$34.94 to \$37.52, an increase of \$2.58, or approximately 7.38 percent.

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

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The water service rates proposed by Elkhorn District should be denied.
3. 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 findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water rates proposed by Elkhorn District are denied.
3. The water rates set forth in the Appendix to this Order are approved for services rendered by Elkhorn District on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, Elkhorn District 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.

5. This case is hereby closed and will be removed from the Commission's docket.

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By the Commission

ENTERED
APR 02 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2018-00145

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00145 DATED **APR 02 2019**

The following rates and charges are prescribed for the customers in the area served by Elkhorn Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8 x 3/4-Inch Meter			<u>Monthly Rates</u>	
First	2,000	Gallons	\$ 17.12	Minimum Bill
Next	3,000	Gallons	6.80	per 1,000 Gallons
Next	5,000	Gallons	6.17	per 1,000 Gallons
All Over	10,000	Gallons	4.85	per 1,000 Gallons
1-Inch Meter				
First	5,000	Gallons	\$ 37.52	Minimum Bill
Next	5,000	Gallons	6.17	per 1,000 Gallons
All Over	10,000	Gallons	4.85	per 1,000 Gallons
1 1/2-Inch Meter				
First	10,000	Gallons	\$ 68.36	Minimum Bill
All Over	10,000	Gallons	4.85	per 1,000 Gallons
Mobile Home Parks			<u>Monthly Minimum Bills</u>	
South Creek	15,000	Gallons	\$	128.40
Elkhorn	76,000	Gallons	\$	650.59
Capital	125,000	Gallons	\$	1,070.05
Emergency Wholesale Rate			\$ 4.85	per 1,000 Gallons

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