

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH MCLEAN COUNTY	)	CASE NO.
WATER DISTRICT FOR ALTERNATIVE RATE	)	2018-00260
ADJUSTMENT	)	

ORDER

On July 31, 2018, North McLean County Water District (North McLean District) tendered an application (Application) to the Commission requesting to increase its water service rates pursuant to 807 KAR 5:076. By letter dated August 7, 2018, the Commission notified North McLean District that its application was rejected as deficient. On August 10, 2018, North McLean District filed its responses to the filing deficiencies, and its Application was accepted for filing on August 15, 2018. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated August 31, 2018. Finding in its November 6, 2018 Order that Commission Staff (Staff) requires additional time to complete its report on North McLean District's application, the Commission, on its own motion, extended the date the Staff Report would be issued from November 14, 2018, to November 30, 2018.

Commission Staff performed a limited financial review of North McLean District's operations, and on November 29, 2018, released its initial report containing Staff's findings. On December 3, 2018, North McLean District filed its response to Commission Staff's report accepting Staff's findings and requested to implement the rates calculated

by Staff. With its comments, North McLean District did not request that an informal conference be held.

Staff has found that the November 29, 2018 Staff Report contained a calculation error concerning operations and maintenance expenses that will alter the Overall Revenue Requirement and water service rates. The report attached hereto addresses the error on page 2 and contains amendments to Staff's original findings.

Finding that North McLean District should be afforded the opportunity to respond to Commission Staff's amendments to its original findings, the Commission HEREBY ORDERS that:

1. North McLean District shall have up to 14 days from the date of this Order to file written comments with the Commission, if any, on the findings and recommendations contained in the attached Amended Staff Report and to request a hearing or an informal conference with Commission in this matter.

2. North McLean District's failure to file with the Commission written objections to a finding contained in the Amended Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation, and a waiver of any right to object to that finding or recommendation.

3. If North McLean District requests a hearing in this matter, it shall specifically identify in its written request for hearing all objections to the findings and recommendations set forth in the Amended Staff Report and shall provide a brief summary of testimony that it expects to present at the hearing.

4. Within 14 days of the date of this Order, North McLean District shall file with the Commission in writing its position on adjusting its rates to the level shown in the Attachment to the Amended Staff Report.

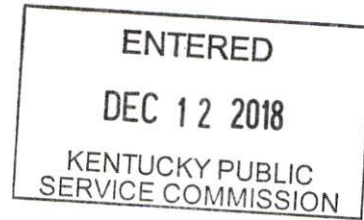
5. If North McLean District wishes to amend its application to request the rates shown in the Attachment to the Amended Staff Report, it should request such amendment in its response to the Amended Staff Report.

6. If North McLean District amends its application to request the rates shown in the Attachment to the Amended Staff Report, it should mail notice of its amended rate request, pursuant to 807 KAR 5:011, Section 8, and shall provide the Commission with proof of such notice.

7. If the Commission does not receive any written request for a hearing or for an informal conference within the 14 days of the date of this Order, this case shall stand submitted to the Commission for decision based upon the existing record.

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By the Commission



ATTEST:

  
Executive Director

Case No. 2018-00260

AMENDED  
STAFF REPORT

ON

NORTH MCLEAN COUNTY WATER DISTRICT

CASE NO. 2018-00260

On July 31, 2018, North McLean District tendered an application (Application) to the Commission requesting to increase its water service rates pursuant to 807 KAR 5:076. By letter dated August 7, 2018, the Commission notified North McLean District that its Application was rejected as deficient. On August 10, 2018, North McLean District filed its responses to the filing deficiencies, and its Application was accepted for filing on August 15, 2018. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated August 31, 2018. Finding in its November 6, 2018 Order that Commission Staff (Staff) requires additional time to complete its report on North McLean District's application, the Commission, on its own motion, extended the date the Staff Report would be issued from November 14, 2018, to November 30, 2018. In its Application, North McLean District requested rates that would increase the monthly bill of a typical residential customer purchasing 6,767 gallons of water by \$9.02, from \$46.00 to \$55.02, or approximately 19.61 percent.

In order to evaluate the reasonableness of North McLean District's pro forma financial statements, revenue requirement calculation, and requested water rates, Commission Staff performed a limited financial review of North McLean District's test-year operations for the calendar year 2017. On November 29, 2018, Staff issued a report (Report) summarizing its findings regarding North McLean's requested rate adjustment. In its Report, Staff found that North McLean District's adjusted test-year operations

support an Overall Revenue Requirement of \$838,372 and that an annual revenue increase of \$111,377, or 15.81 percent, is necessary to generate the Overall Revenue Requirement.<sup>1</sup> Staff determined that for North McLean District to achieve this level of revenue would require implementation of the rates included in the Attachment to the Report.

On December 3, 2018, North McLean District filed its response to Commission Staff's report accepting Staff's findings and requested to implement the rates calculated by Staff. With its comments, North McLean District did not request that an informal conference be held. Based on issues discovered by Staff subsequent to North McLean District filing its response, Commission Staff is amending its original findings.

#### Summary of Findings

Based on Staff review, it was determined that although two adjustments were shown on the pro forma income statement, they were not correctly reflected in the calculation of Net Utility Operating Income. In the prior report, Staff's calculation of total Pro Forma Adjustments to Utility Operating Expenses included only Depreciation and Taxes Other Than Income for a total adjustment of (\$2,072),<sup>2</sup> which excluded the Pro Forma Adjustments to Operation & Maintenance total of (\$46,347). After recalculation, Staff determined the correct total Pro Forma Adjustments to Utility Operating Expenses are (\$48,419).<sup>3</sup>

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<sup>1</sup> Staff Report at 2.

<sup>2</sup> 757 (Depreciation Adjustment) + (2,829) (Taxes Other Than Income) = (2,072) (Total Utility Operating Expenses Adjustment).

<sup>3</sup> 757 (Depreciation Adjustment) + (\$2,289) (Taxes Other Than Income) + (\$46,347) (Total Operation & Maintenance Adjustment) = (\$48,419) (Total Utility Operating Expenses Adjustment).

Amended Pro Forma Operating Statement

The Amended Pro Forma Operating Statement for the test year ended December 31, 2017, as determined by Commission Staff, appears below.

	2017 Annual Report	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Metered Water Sales	\$ 634,744	83,236	(A)	\$ 704,507
		(13,473)	(A)	
Misc Service Revenues	20,983			20,983
Total Operating Revenues	<u>655,727</u>	<u>69,763</u>		<u>725,490</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages - Employees	197,015	(10,735)	(B)	186,280
Salaries & Wages - Commissioners	15,600			15,600
Purchased Water	340,812	(35,612)	(C)	305,200
Purchased Power	6,367			6,367
Materials and Supplies	33,324			33,324
Contractual Services - Acct	6,060			6,060
Contractual Services - Water Testing	3,789			3,789
Contractual Services - Other	22,081			22,081
Rents	2,040			2,040
Transportation	13,795			13,795
Insurance - Worker's Com	3,756			3,756
Insurance - Other	8,741			8,741
Advertising	884			884
Miscellaneous	1,361			1,361
Total Operation & Maintenance	655,625	(46,347)		609,278
Depreciation	66,085	757	(D)	66,842
Taxes Other Than Income	18,130	(2,829)	(E)	15,301
Utility Operating Expenses	<u>739,840</u>	<u>(48,419)</u>		<u>691,421</u>
Net Utility Operating Income	<u>\$ (84,113)</u>	<u>\$ 118,182</u>		<u>\$ 34,069</u>

Calculation of Overall Revenue Requirement  
and Required Revenue Increase

Commission Staff originally determined that North McLean District required an Overall Revenue Requirement of \$838,372, which required a \$111,377 revenue increase,

or an increase of 15.81 percent. Commission Staff has determined that with the amendment to Net Utility Income, North McLean District requires an Overall Revenue Requirement of \$785,705, which requires a \$58,710 revenue increase, or an increase of 8.33 percent. A comparison of the calculations is shown below.


	<u>Report</u>	<u>Amended</u>
Operating Expenses	\$ 737,768	\$691,421
Divided by: Operating Ratio	<u>88%</u>	<u>88%</u>
Overall Revenue Requirement	838,373	785,705
Add: Interest Expense	2,520	2,520
Less: Other Operating Revenue	(20,983)	(20,983)
Interest Income	<u>(4,025)</u>	<u>(4,025)</u>
Revenue Requirement - Water Rates	815,885	763,217
Less: Normalized Revenue from Water Service	<u>(704,507)</u>	<u>(704,507)</u>
Required Revenue Increase	<u>\$ 111,378</u>	<u>\$ 58,710</u>
Percentage Increase	<u>15.81%</u>	<u>8.33%</u>

Rate Calculated by Commission Staff

Commission Staff originally determined that North McLean District could justify rates that would increase a typical residential customer's bill from \$46.00 to \$53.30, an increase of \$7.30, or approximately 15.87 percent. Using its revised revenue requirement of \$763,217, Commission Staff calculates current rates that will result in an increase of the typical residential customer's bill from \$46.00 to \$49.84, an increase of \$3.84, or approximately 8.35 percent. Shown in the Attachment to this amended report are the monthly water service rates as calculated by Staff.



Signatures:



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Prepared by: Travis Leach  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis



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Prepared by: Jason Green  
Rate Analyst, Water and Sewer  
Rate Design Branch  
Division of Financial Analysis

ATTACHMENT

ATTACHMENT TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00260 DATED **DEC 12 2018**

Monthly Water Rates

First	2,000	Gallons	\$18.28	Minimum bill
Next	8,000	Gallons	6.62	per 1,000 Gallons
Next	30,000	Gallons	6.00	per 1,000 Gallons
Over	40,000	Gallons	5.41	per 1,000 Gallons

\*North McLean County Water District  
217 Hill Street  
P. O. Box 68  
Livermore, KY 42352

\*Tiffany Sallee  
North McLean County Water District  
217 Hill Street  
P. O. Box 68  
Livermore, KY 42352