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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF MILBURN WATER)
DISTRICT FOR AN ALTERNATIVE) CASE NO. 2018-00314
RATE ADJUSTMENT)

ATTORNEY GENERAL'S COMMENTS ON STAFF REPORT

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“Attorney General”), and hereby tenders his Comments in the above-styled case.

STATEMENT OF THE CASE

Milburn Water District (the “District” or “Milburn”) is a water district organized pursuant to KRS Chapter 74, and which serves approximately 136 water customers in Carlisle County.¹ On September 17, 2018, the District tendered an application with the Kentucky Public Service Commission (the “Commission”), requesting \$28,558 in additional revenues, for an increase of 52.41 percent.² The requested rates would increase the bill of an average residential water customer, with 4,000 gallons of usage, by \$17.41—from \$33.20 to \$50.61—which equals 52.44 percent.³ After Milburn cured filing deficiencies in its initial application, the Commission deemed the application filed as of October 8, 2018.⁴

The Commission granted the Attorney General’s request for intervention on November

¹ Milburn Water District 2017 Annual Report, at 38 (Ky. Commission).

² *Application Of Milburn Water District For An Alternative Rate Adjustment*, Case No. 2018-00314, at 11 (Ky. Commission September 17, 2018).

³ Commission Staff Report, Case No. 2018-00314, at 1 (Ky. Commission January 15, 2019).

⁴ Commission Deficiency Cured Letter, Case No. 2018-00314 (Ky. Commission October 8, 2018).

8, 2018.⁵ Commission Staff filed its Staff Report on January 15, 2019.⁶ By letter dated January 25, 2019, Milburn accepted the findings of the Staff Report, and waived its right to a formal hearing.⁷

ARGUMENT

The Attorney General agrees with Staff's recommendation to allocate any approved increase evenly across the board in the absence of any cost-of-service study filed into the record.⁸ As a general matter, the Attorney General agrees with Staff's reduction in the revenue requirement from \$83,048 to \$61,693, and subsequent reduction of the required revenue increase—from \$28,559 to \$10,401.⁹ The recommended increase put forward by Staff, which is 20.28 percent as compared to the original request of 52.41 percent, is much more reasonable and in keeping with the Commission's commitment to gradualism in rate making.

The Attorney General agrees with Staff's removal of the cost or purchasing, pumping, and treating water loss above the 15 percent threshold for ratemaking purposes according to 807 KAR 5:066, Section 6(3).¹⁰ The Attorney General is somewhat concerned with the water loss reported by Milburn, which was 38.37 percent for the 2017 test year.¹¹ This is especially so since the 2016 water loss figure was reported as 17.4 percent, and 2015 as 20 percent.¹² Milburn's application also noted an increase in leaks as one of the reasons for it needing a rate increase.¹³ While the 2017 figure may simply be an anomaly, it is more than a doubling of the

⁵ Commission Order, Case No. 2018-00314 (Ky. Commission November 8, 2018).

⁶ Staff Report.

⁷ Milburn Water District Response to Staff Report, Case No. 2018-00314 (Ky. Commission January 25, 2019).

⁸ Staff Report, at 3.

⁹ Staff Report, at 7–8.

¹⁰ Staff Report, at 5.

¹¹ Staff Report, at 5.

¹² Milburn Water District 2016 Annual Report, at 45 (Ky. Commission).

¹³ Application at 7.

prior year's loss and may need to be addressed in the future if similar water loss continues.

The Attorney General agrees with Staff's reduction of depreciation expense.¹⁴ In the absence of any evidence put forward to support a specific life figure either within or without the NARUC range, the Attorney General agrees with Staff's use of the mid-point of the NARUC ranges to calculate depreciation in concert with the Commission's historical practice.¹⁵

The Attorney General agrees with Staff's use of the operating ratio methodology, as there is no basis for a rate-of-return determination in this instance, and Staff's finding that the operating ratio will sufficiently cover Milburn's operating expenses.¹⁶ The Attorney General also agrees with Staff's further finding that if the District wishes to extend its current note with a term of two years past the six-year limit it will be required to first get approval from the Commission.¹⁷

Finally, the Attorney General does not necessarily agree with Staff's recommendation regarding any issue present in the Staff Report that he did not address in the preceding Comments.

CONCLUSION

The Commission has previously acknowledged its long history of relying on the principle of gradualism in rate making in order to mitigate the financial impact of rate increases on customers and Kentucky families.¹⁸ The Commission should continue to rely on that principle here, and

¹⁴ Staff Report, at 6.

¹⁵ Staff Report, at 6.

¹⁶ Staff Report, at 7.

¹⁷ Staff Report, at 8.

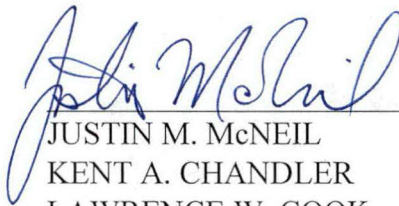
¹⁸ Case No. 2014-00396, *In the Matter of Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving its 2014 Environmental Compliance Plan; (3) An Order Approving its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief*, Order (Ky. Commission June 22, 2014) ("the Commission has long employed the principle of gradualism"); *See also*, Case No. 2000-080, *In the Matter of: The Application of Louisville Gas & Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, Order (Ky. Commission

should further consider affordability, especially with a system as small as Milburn where any increase is felt substantially by its ratepayers. If the Commission finds that a rate increase is necessary and so grants one, in the absence of a cost-of-service study, the Attorney General agrees with Commission Staff that any increase in rates should be applied evenly across the board.

WHEREFORE, the Attorney General requests that the Commission, based upon the evidentiary record, set a fair, just, and reasonable rate for the customers of Milburn Water District. The Attorney General submits that a hearing will not be necessary in this matter, and that the case should be submitted on the record.

Respectfully submitted,

ANDY BESHEAR
ATTORNEY GENERAL



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September 27, 2000) (“the Commission is adhering to the rate-making concepts of continuity and gradualism in order to lessen the impact of these increases on the customers that incur these charges.”).


Certificate of Service and Filing

Counsel certifies that an original and ten (10) photocopies of the foregoing were served and filed by hand delivery to Gwen R. Pinson, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail to:

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This 29th day of January, 2019.



Assistant Attorney General