

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF U.S. 60)	
WATER DISTRICT OF SHELBY AND)	CASE NO.
FRANKLIN COUNTIES FOR AN ALTERNATIVE)	2017-00338
RATE ADJUSTMENT)	

ORDER

On September 7, 2017, U.S. 60 Water District of Shelby and Franklin counties (“U.S. 60”) tendered an application (“Application”) with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. By letter dated September 15, 2017, the Commission notified U.S. 60 that the application was deemed filed. On November 2, 2017, U.S. 60 filed an amendment to its Application which incorporated recent changes to its Operation Contract with North Shelby Water Company. In its Application, U.S. 60 requested rates that would increase annual water sales revenues by \$312,625, a 28.77 percent increase to pro forma present rate water sales revenues. By Order dated October 6, 2017, the Commission established a procedural schedule through which U.S. 60’s application would be reviewed. Finding that the procedural schedule should be amended to incorporate the changes included in the amended Application, the Commission, on its own motion, ordered that the procedural schedule be amended. On November 21, 2017, the Commission issued an amended procedural schedule extending the time for Staff’s review of U.S. 60’s application. There are no intervenors in this case.

Pursuant to the amended procedural Order, on February 8, 2018, Staff issued a report ("Report") summarizing its findings regarding U.S. 60's requested rate adjustment. In its Report, Staff found that U.S. 60's adjusted test-year operations support an overall revenue requirement in the amount of \$1,411,583 and that an annual revenue increase in the amount of \$217,834, or 18.90 percent, is necessary to generate the overall revenue requirement. Staff further found that U.S. 60 should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

On February 14, 2018, U.S. 60 filed with the Commission its comments on Staff's report wherein it did not object to any of the Staff's findings. With its comments, U.S. 60 did not request that a conference or hearing be held.¹

BACKGROUND

U.S. 60 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 2,419 customers that reside in Anderson, Franklin, Shelby, and Spencer counties, Kentucky.² U.S. 60 does not produce any of its own water; rather, it purchases its water from the Electric and Water Plant Board of the city of Frankfort, Kentucky and Shelbyville Municipal Water and Sewer Commission. This is U.S. 60's first general rate adjustment.

¹ Letter from Nathan T. Riggs, Council for Applicant, U.S. 60 Water District, to Gwen R. Pinson Executive Director, Public Service Commission (Feb. 14, 2017).

² *Annual Report of U.S. 60 Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* ("Annual Report") at 12 and 48.

TEST PERIOD

The calendar year ended December 31, 2016, was used as the test year to determine the reasonableness of U.S. 60's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Based on the findings of the Staff Report, U.S. 60's pro forma operations should be as follows:

	<u>2016 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 1,122,897	\$ 65,637	\$ 1,188,534
Operating Expenses	<u>1,151,229</u>	<u>586</u>	<u>1,151,815</u>
Net Operating Income	<u>\$ (28,332)</u>	<u>\$ 65,051</u>	<u>\$ 36,719</u>

MODIFICATIONS TO STAFF'S FINDINGS

U.S. 60 proposed 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.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, U.S. 60 requires an increase in revenues of \$217,834, or 18.90 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 1,151,815
Plus: Average Annual Principal and Interest Payments	216,473
Additional Working Capital	<u>43,295</u>
Overall Revenue Requirement	1,411,583
Less: Other Operating Revenue	(36,080)
Interest Income	<u>(5,215)</u>
Revenue Required from Rates	1,370,288
Less: Pro Forma Present Rate Service Revenues	<u>(1,152,454)</u>
Required Revenue Increase	<u>\$ 217,834</u>
Percentage Increase	<u>18.90%</u>

RATE DESIGN

U.S. 60 requested to increase its current water service rates by an even, across-the-board percentage increase. 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 U.S. 60's customers.

The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$1,370,288. 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 \$43.08 to \$51.22, an increase of \$8.14, or 18.90 percent. The \$217,834 Revenue Requirement increase of 18.90 percent will produce sufficient revenues for U.S. 60 to meet the DSC ratio requirement of United States Department of Agriculture Rural Development and Kentucky Infrastructure Authority, U.S. 60's lenders.

SUMMARY

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 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 U.S. 60's pro forma operations results in an Overall Revenue Requirement in the amount of \$1,411,583. A revenue increase of \$217,834 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by U.S. 60 should be denied.

4. 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 rates proposed by U.S. 60 are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by U.S. 60 on and after the date of this Order.

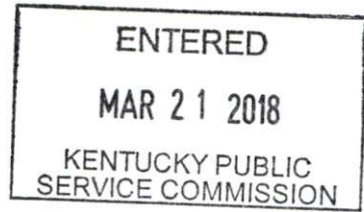
4. Within 20 days of the date of this Order, U.S. 60 shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets

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. U.S. 60 shall use the mid-point of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00338 DATED **MAR 21 2018**

The following rates and charges are prescribed for the customers in the area served by U.S. 60 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 meter

First	1,000 Gallons	\$16.98 Minimum Bill
Next	2,000 Gallons	9.31 per 1,000 Gallons
Next	2,000 Gallons	7.81 per 1,000 Gallons
Over	5,000 Gallons	7.09 per 1,000 Gallons

1-Inch meter

First	5,000 Gallons	\$51.22 Minimum Bill
Over	5,000 Gallons	7.09 per 1,000 Gallons

2-Inch meter

First	25,000 Gallons	\$193.02 Minimum Bill
Over	25,000 Gallons	7.09 per 1,000 Gallons

*David W Bullock
Riggs, Prather, Ratliff & Bullock, PSC
500 Main Street, Suite 5
Shelbyville,

*Nathan T Riggs
Riggs, Prather, Ratliff & Bullock, PSC
500 Main Street, Suite 5
Shelbyville,

*U. S. 60 Water District of Shelby and Franklin
4596 Bagdad Road
P. O. Box 97
Bagdad, KY 40003

*Paula McClain
500 Main Street, Suite 5
Shelbyville, KENTUCKY 40065