

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE MONROE COUNTY )  
WATER DISTRICT FOR THE APPROVAL OF THE ) CASE NO. 2011-00272  
PROPOSED INCREASE IN RATES FOR WATER )  
SERVICE )

ORDER

Monroe County Water District ("Monroe District") has applied for authority to increase its water rates. By this Order, we establish rates that will produce annual revenues from water sales of \$1,504,411, an increase of \$314,606, or 26.4 percent, over normalized revenue from rates of \$1,189,805. The approved rates will increase the average monthly residential bill for 5,000 gallons of water from \$29.42 to \$37.85, an increase of \$8.43, or 28.65 percent. This increase will be implemented in two phases over a one-year period.

Monroe District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute and furnish water to approximately 3,341 customers in Monroe County, Kentucky.<sup>1</sup> It is a utility subject to Commission jurisdiction.<sup>2</sup> This proceeding represents Monroe District's first application for a general

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<sup>1</sup> *Annual Report of Monroe County Water District to the Public Service Commission For the Calendar Year Ended December 31, 2010* at 5 and 27.

<sup>2</sup> KRS 278.010(3)(d); KRS 278.015.

rate adjustment since 1998.<sup>3</sup> Its most recent rate adjustment occurred in January 2011 pursuant to the purchased water adjustment procedures.<sup>4</sup>

Monroe District filed its application for a general rate adjustment with the Commission on August 15, 2011. Its proposed rates would increase the average monthly residential bill of 5,000 gallons from \$29.42 to \$37.85, an increase of \$8.43, or 28.65 percent, and would generate annual revenues from water sales of \$1,504,411. Seeking a gradual increase in rates to meet its proposed revenue requirements, Monroe District proposed to adjust its rates approximately 11.69 percent immediately to generate additional revenues of \$157,541 and to adjust its rates again one year later to generate additional revenues of \$158,143. Finding that further investigation of the proposed rates was necessary, we initiated this proceeding and directed Commission Staff to perform a limited financial review of Monroe District's test-period operations.

On November 3, 2011, Commission Staff issued a report containing its findings and recommendations in which it found that Monroe District's pro forma operations supported the proposed revenue requirement and that the proposed rates would generate sufficient revenues to cover its reasonable expenses and its existing debt service obligations. Commission Staff recommended that the Commission approve the proposed rates.

Pursuant to the provisions of the Commission's Order of October 28, 2011, Monroe District was required to submit its objections to Commission Staff's findings and

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<sup>3</sup> Case No. 98-258, *The Application of Monroe County Water District of Monroe County, Kentucky, For a Certificate of Public Convenience and Necessity To Construct, Finance and Increase Rates Pursuant To KRS 278.023* (Ky. PSC May 27, 1998).

<sup>4</sup> Case No. 2010-00480, *Purchased Water Adjustment Filing of Monroe County Water District* (Ky. PSC Jan. 3, 2011).

recommendations no later than November 17, 2011 or be deemed as accepting those findings and recommendations. Monroe District did not submit any objections to those findings and recommendations. On November 14, 2011, it wrote to advise the Commission that this matter should be submitted for decision based upon the existing record.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings and recommendations contained in the Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2009 should be used as the test period to determine the reasonableness of Monroe District's existing and proposed rates.<sup>5</sup>

3. Based upon pro forma test-period operations, Monroe District's pro forma annual revenues are \$1,249,498. Approximately \$1,189,805 of these revenues resulted from water sales.

4. Based upon pro forma test-period operations, Monroe District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$1,320,839.

5. Given that Monroe District is a water district, the use of debt service coverage methodology to determine its total revenue requirement is appropriate.

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<sup>5</sup> At page 1 of its report, Commission Staff states that it performed a limited review of Monroe District's test period operations for the calendar year ending December 31, 2010. This statement appears to be in error. Commission Staff's extensive work papers and Monroe District's application clearly indicate that the test period used was the calendar year ending December 31, 2009.

6. The debt service coverage provisions in Monroe District's long-term debt agreements with Rural Development ("RD") should be used to determine Monroe District's total revenue requirement.

7. Applying the debt service coverage of 1.2x, Monroe District's average debt service requirement with required coverage for the period from 2012 to 2014 is \$215,446.<sup>6</sup>

8. Based upon adjusted test-period operations, Monroe District requires revenues of \$1,504,411 from water sales, or \$314,606 more than its current rates produce, to meet its reasonable operating expenses and meet the debt service coverage provisions of its bonded debt.

9. Monroe District proposes to place into effect immediately the rates set forth in Appendix A and to place into effect one year later the rates set forth in Appendix B.

10. Based upon test-period normalized sales, the rates set forth in Appendix A will produce revenues from water sales of \$1,347,346.

11. Based upon test-period normalized sales, the rates set forth in Appendix B will produce revenues from water sales of \$1,504,411.

12. Monroe District's proposed rates that are set forth in Appendix A will generate sufficient revenues for Monroe District to meet its adjusted test-period expenses and the debt service requirements of its bonded debt.

13. "[I]n the absence of some showing that the service to the public will suffer by allowing . . . [a] utility to charge rates which will not produce a fair return, the utility

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<sup>6</sup> Staff Report at 2; *But see* Campbell, Myers & Rutledge, PLLC, *Independent Auditor's Report on Monroe County Water District* (Mar. 16, 2011) at 16 (reporting average debt for same period as \$219,676).

and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission.”<sup>7</sup>

14. Permitting Monroe District to charge the rates set forth in Appendix A will not result in a degradation of the quality of Monroe District’s service.

IT IS THEREFORE ORDERED that:

1. The findings and recommendations contained in the Commission Staff’s report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The informal conference scheduled in this matter for November 28, 2011 is cancelled.

3. The hearing scheduled in this matter for December 8, 2011 is cancelled.

4. The rates set forth in Appendix A to this Order are approved for water service that Monroe District renders on and after the date of this Order.

5. The rates set forth in Appendix B to this Order are approved for water service that Monroe District renders on and after one year from the date of this Order.

6. Within 20 days of the date of this Order, Monroe District shall file revised tariff sheets with the Commission setting forth the rates approved in this Order.

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<sup>7</sup> *Utilities Operating Co. v. King*, 143 So.2d 854, 858, 45 PUR3d 439, 443 (Fla. 1962); see also Case No. 2006-00410, Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective on and after December 2, 2006 (Ky. PSC Aug. 2, 2007); Case No. 98-398, Adjustment of Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee (Ky. PSC June 30, 1999).

By the Commission

ENTERED <sup>PA</sup>  
DEC 01 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

Stephane Bell for Jeff Duvall  
Executive Director

Case No. 2011-00272

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00272 DATED DEC 01 2011

The following rates are prescribed for the customers in the area served by Monroe County 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.

5/8-Inch x 3/4-Inch

First 2,000 gallons	\$ 15.96 Minimum bill
Next 3,000 gallons	\$ 5.85 per 1,000 gallons
Next 5,000 gallons	\$ 4.97 per 1,000 gallons
Over 10,000 gallons	\$ 4.21 per 1,000 gallons

1-Inch Meter

First 5,000 gallons	\$ 33.51 Minimum bill
Next 5,000 gallons	\$ 4.97 per 1,000 gallons
Over 10,000 gallons	\$ 4.21 per 1,000 gallons

2-Inch Meter

First 20,000 gallons	\$100.46 Minimum bill
Over 20,000 gallons	\$ 4.21 per 1,000 gallons

Wholesale Water Rate	\$ 2.11 per 1,000 gallons
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00272 DATED DEC 01 2011

The following rates are prescribed for the customers in the area served by Monroe County Water District, beginning one year after the date of this Order. 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-Inch x 3/4-Inch

First 2,000 gallons	\$ 17.15 Minimum bill
Next 3,000 gallons	\$ 6.90 per 1,000 gallons
Next 5,000 gallons	\$ 5.70 per 1,000 gallons
Over 10,000 gallons	\$ 4.80 per 1,000 gallons

1-Inch Meter

First 5,000 gallons	\$ 37.85 Minimum bill
Next 5,000 gallons	\$ 5.70 per 1,000 gallons
Over 10,000 gallons	\$ 4.80 per 1,000 gallons

2-Inch Meter

First 20,000 gallons	\$114.35 Minimum bill
Over 20,000 gallons	\$ 4.80 per 1,000 gallons

Wholesale Water Rate

	\$ 2.11 per 1,000 gallons
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Richard O Ross  
General Manager  
Monroe County Water District  
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