

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO. 2011-00455
CUNNINGHAM WATER DISTRICT)

ORDER

Pursuant to 807 KAR 5:076, Cunningham Water District ("Cunningham District"), applied for an adjustment of rates for water service. By this Order, the Commission establishes rates that will produce additional annual revenues of \$9,637, or a 25.91 percent increase over normalized test-period revenues from water sales of \$37,198. For a residential customer who consumes 5,000 gallons of water monthly, his or her monthly bill will increase from \$23.13 to \$29.13, or approximately 25.94 percent.

Cunningham District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 161 customers in Carlisle County, Kentucky.¹ Its last general rate adjustment occurred in July 2009.²

On November 23, 2011, Cunningham District filed with the Commission its application for an adjustment of its rates for water service. Using its historical operations for the calendar year ending December 31, 2010, and adjusting for known and measureable changes, Cunningham District proposed rates that would produce additional revenues from water sales of \$14,973, an increase of 40.03 percent over normalized revenues from water sales of \$37,403.

¹ *Annual Report of Cunningham Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* at 5, 21.

² Case No. 2008-00505, *Application of Cunningham Water District for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 6, 2009).

On April 16, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate adjustment and Cunningham District's operations during the test period. It found that, based upon Cunningham District's test-period operations, Cunningham District required total revenues of \$51,650 to meet its reasonable operating expenses and provide for equity growth. It further found that, to reach this level of revenue, Cunningham District required a rate adjustment to generate additional annual revenue from water sales of \$9,637 over normalized revenue from rates of \$37,198 or total revenue from water sales of \$46,835. Commission Staff recommended that Cunningham District's proposed rates be denied and that rates that would produce the revenues of \$46,835 from water sales be approved instead.

On April 23, 2012, Cunningham District advised the Commission in writing that it would not object to the report's findings and recommendations and that this matter should be submitted to the Commission for decision based upon the existing record.

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

1. Except where they conflict with the findings contained in this Order, the findings contained in Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2010 should be used as the test period to determine the reasonableness of Cunningham District's existing and proposed rates.

3. Based upon pro forma test-period operations, Cunningham District's pro forma annual revenue is \$42,013.³ Approximately \$37,198 of this revenue results from water sales.

4. Based upon pro forma test-period operations, Cunningham District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$45,452.

5. Given that Cunningham District has no outstanding long-term debt, the use of an operating ratio⁴ to determine Cunningham District's revenue requirement is appropriate.⁵

6. An operating ratio of 0.88 will permit Cunningham District to meet its reasonable operating expenses and provide for fair and reasonable equity growth and should be used to determine Cunningham District's total revenue requirement.

7. Applying an operating ratio of 0.88 to Cunningham District's pro forma operating expenses of \$45,452, produces a total revenue requirement of \$51,650,⁶ or \$9,637 more than Cunningham District's pro forma annual revenues of \$42,013.

8. Cunningham District's proposed rates will produce a level of revenue that is greater than the level determined reasonable herein.

³ \$37,198 (Revenue from Metered Water Sales) + \$4,815 (Interest Income) = \$42,013.

⁴ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operation \& Maintenance Expense} + \text{Depreciation} + \text{Taxes Other than Income Tax}}{\text{Gross Revenues}}$$

⁵ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC June 25, 1982); 1 A.J.G Priest, *Principals of Public Utility Regulation* (Michie 1969) 220-224.

⁶ \$45,452 (Pro Forma Operating Expenses) ÷ 0.88 = \$51,650.

9. The rates set forth in the Appendix to this Order will produce total annual revenues of \$46,835,⁷ will allow Cunningham District to meet its reasonable operating expenses, and will provide for reasonable equity growth.

10. Cunningham District is currently paying one of its commissioners a monthly salary of \$100. Carlisle County Fiscal Court has not authorized this salary as required by KRS 74.020.

11. Cunningham District intends to request authorization from Carlisle County Fiscal Court to pay the members of its Board of Commissioners a monthly salary of \$100.

12. Every 90 days from the date of this Order, Cunningham District should file a written report with the Commission on its efforts to obtain Carlisle County Fiscal Court authorization for a monthly salary for the members of its Board of Commissioners. This report should include a copy of the minutes of any meeting of Carlisle County Fiscal Court in which Cunningham District's request is discussed or acted upon.

IT IS THEREFORE ORDERED that:

1. Except where they contradict or conflict with the findings contained in this Order, the findings contained in Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

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

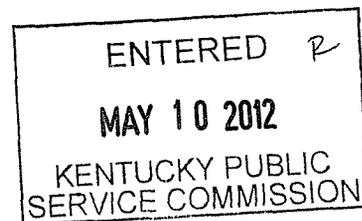
⁷ \$51,650 (Total Revenue requirement) - \$4,815 (Interest Income) = \$46,835.

3. Every 90 days from the date of this Order until final action by Carlisle County Fiscal Court, Cunningham District shall file with the Commission a written report on its efforts to obtain the Carlisle County Fiscal Court's authorization for a monthly salary for the members of its Board of Commissioners. This report shall include a copy of the minutes of any meeting of Carlisle County Fiscal Court in which Cunningham District's request is discussed or acted upon.

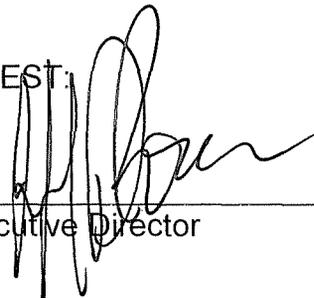
4. Within 20 days of the date of this Order, Cunningham District shall file revised tariff sheets with the Commission setting forth the rates approved in this Order.

5. Any documents filed in the future pursuant to ordering paragraph 3 of this Order shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00455 DATED **MAY 10 2012**

The following rates and charges are prescribed for the customers in the area served by Cunningham 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

| <u>Usage Brackets</u> | | <u>Rates</u> | |
|-----------------------|-------|--------------|---------------|
| First | 2,000 | \$ 15.72 | Min. Bill |
| Next | 3,000 | \$ 4.47 | Per 1,000 Gal |
| Over | 5,000 | \$ 3.12 | Per 1,000 Gal |

Dan Bowles
Chairman
Cunningham Water District
P. O. Box 644
Cunningham, KY 42035