

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF REID)	CASE NO.
VILLAGE WATER DISTRICT)	2014-00379

ORDER

On October 27, 2014, Reid Village Water District ("Reid Village") filed an application with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. By this Order, the Commission approves rates that will produce annual water sales revenues of \$559,604, an increase of \$126,659, or 29.26 percent, over pro forma present rate revenues from water sales of \$432,945.¹ A residential bill for 4,000 gallons per month will increase from \$31.59 to \$40.84, an increase of \$9.25 or 29.28 percent. The Commission also approves the following changes to Reid Village's existing nonrecurring charges.

	<u>Existing</u>	<u>Approved</u>	<u>\$ Increase</u>	<u>Percent Increase</u>
Connect Fee	\$20.00	\$27.00	\$7.00	35%
Reconnect Fee	25.00	35.00	10.00	40
Deposit	65.00	81.00	16.00	25

By Order dated December 12, 2014, the Commission established a procedural schedule through which Reid Village's application would be reviewed. The schedule

¹ Refer to the calculations of the overall revenue requirement and required revenue increase using Debt Service Coverage ("DSC") Method in Staff Report at 14.

required Commission Staff (“Staff”) to file a report on or before February 24, 2015, summarizing its findings and recommendations regarding the rates requested by Reid Village. The schedule required that all comments to the report be filed within 14 days of the date of the report. Unless all parties agreed that the case would stand submitted to the Commission for a decision based upon the record after commenting on the report, an informal conference would be held on March 17, 2015.

On February 20, 2015, Staff submitted a report wherein it calculated Reid Village’s revenue requirement using the DSC Method. On March 4, 2015, after reviewing the report, Reid Village requested to adopt the rates calculated by Staff using the DSC method, as shown in Appendix A of the report, and that the case stand submitted for a Commission decision without a hearing. Pursuant to the terms of the procedural schedule, the informal conference was canceled, and the case stood submitted for decision based upon the existing record without a hearing.

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 the Staff Report are supported by the evidence of record, are reasonable, and should be adopted.

2. Reid Village was organized pursuant to KRS Chapter 74. It owns and operates facilities that distribute water to approximately 1,130 customers in Clark and Montgomery counties, Kentucky.²

² *Annual report of Reid Village Water District to the Public Service Commission for the Calendar Year Ending December 31, 2013 (“Annual Report”)* at 12 and 53.

3. The calendar year ended December 31, 2013, should be used as the test year to determine the reasonableness of Reid Village's existing and proposed rates.

4. Based upon pro forma test-year operations, Reid Village's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable changes, are \$447,255 and \$519,596, respectively.³

5. Reid Village currently has two outstanding bond series payable to the United States Department of Agriculture Rural Development ("RD"). The three-year average principal and interest payments for the years 2014 through 2016 on all RD bonds is \$45,265.⁴

6. The Commission has historically used a DSC Methodology to calculate the revenue requirements of water districts with long-term debt.

³ Staff Report at 5.

Revenues and Income		
Pro Forma Present Rate Water Sales	\$	432,945
Other Operating Income		13,797
Interest Income		513
		<hr/>
Total	\$	<u>447,255</u>
Operating Expenses		
Operation and Maintenance Expenses	\$	467,121
Depreciation Expense		40,834
Taxes Other Than Income		11,641
		<hr/>
Total	\$	<u>519,596</u>

⁴ Staff Report at 14.

7. Reid Village's pro forma operations, as calculated by Staff using the DSC Methodology, support a total revenue requirement of \$573,914 and an increase to water sales revenue of \$126,659, or 29.26 percent.⁵

8. Reid Village presently uses service lives for three classes of assets that are at variance with those found in a survey of the National Association of Regulatory Utility Commissioners ("NARUC") that contained a "range of average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice."⁶

9. The record contains no evidence that the service lives that Reid Village used are based upon a depreciation study or its own historic plant records.

⁵ Staff Report at 14.

Pro Forma Operating Expenses	\$ 519,596
Plus: Average Annual Principal and Interest Payments on Current Debts	45,265
Additional Working Capital	<u>9,053</u>
Overall Revenue Requirement	573,914
Less: Other Operating Revenue	(13,797)
Interest Income	<u>(513)</u>
Revenue Required From Rates	559,604
Less: Pro Forma Present Rate Service Revenues	<u>(432,945)</u>
Required Revenue Increase	<u>\$ 126,659</u>
Percent Increase	<u>29.26%</u>

⁶ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10.

10. Reid Village's assignment of service lives for these three classes of assets is not reasonable for ratemaking purposes and revisions in these assignments should be made for ratemaking and accounting purposes.⁷

11. Appendix B to this Order sets forth the classes of assets whose service lives should be adjusted, the previously assigned service life of each class, the service life range that the NARUC survey suggests for each class, and the Public Service Commission approved service life assigned for all future reporting periods.

12. An even distribution of the revenue increase to existing rates results in an equitable distribution of the revenue increase to Reid Village's customers.

13. The rates set forth in Appendix A to this Order are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

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

2. The water service rates proposed in Reid Village's Application are denied.

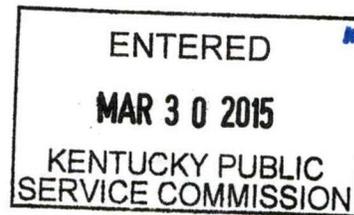
3. The water service rates and nonrecurring charges shown in Appendix A to this Order are approved for services rendered on and after the date of this Order.

4. Within 20 days of the date of this Order, Reid Village shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.

⁷ Based upon these reassignments, we find that Reid Village's test-period depreciation expense should be reduced by \$4,053.

5. Reid Village shall, for accounting and ratemaking purposes, use the "PSC Approved Service Lives" set forth in Appendix B to this Order for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order. No retroactive adjustment to accumulated depreciation or retained earnings to account for this change in the accounting estimate shall be made.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00379 DATED **MAR 30 2015**

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

First	2,000 gallons	\$ 24.91	Minimum bill
Next	1,000 gallons	8.26	per 1,000 gallons
Next	2,000 gallons	7.67	per 1,000 gallons
Next	5,000 gallons	7.06	per 1,000 gallons
Over	10,000 gallons	6.44	per 1,000 gallons

Non-Recurring Charges

Connect Fee	\$ 27.00
Reconnect Fee	35.00
Deposit Fee	81.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00379 DATED **MAR 30 2015**

Proposed Modifications to the Service Lives
of Certain Assets of Reid Village Water District

Asset Classification	NARUC Range	Previous Assigned Service Life	PSC Approved Service Life
2000 Chevy and 2011 Chevy Colorado/Transportation equipment	7	5	7
Trailer and enclosed trailer/Tools, Shop and Garage Equipment	15-20	5	17.5
Kubota Excavator and Air Compressor with tamp/Power Operated Equipment	10-15	5	12.5

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