

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LAUREL COUNTY WATER)	
DISTRICT NO. 2 FOR RATE ADJUSTMENT)	CASE NO.
PURSUANT TO 807 KAR 5:076)	2015-00341

ORDER

Laurel County Water District No. 2 ("Laurel No. 2") has applied to adjust its water service rates. By this Order, the Commission approves water service rates that will produce additional annual water service revenues in the amount of \$246,429, an 11.45 percent increase to pro forma present rate revenues of \$2,152,323. A typical residential bill will increase from \$25.00 to \$27.88 per month, an increase of \$2.88, or 11.52 percent.¹

Laurel No. 2 tendered its application pursuant to 807 KAR 5:076 on October 13, 2015. The application was considered filed on November 6, 2015, when Laurel No. 2 cured all filing deficiencies. As part of its application, Laurel No. 2 presented financial statements that demonstrated it could justify water service rates that would generate \$486,222 in additional annual revenues, a 22.95 percent increase; however, without explanation, Laurel No. 2 requested rates that would increase annual water sales revenues by only \$323,097, or 15 percent.

In order to generate the requested revenue increase, Laurel No. 2 requested to increase all water service rates evenly across the board by 15 percent. These rates include the water service rates shown on Sheet No. 22 of its tariff on file with the

¹ A typical residential customer is assumed to purchase 4,600 gallons of water per month through a 5/8- x 3/4-inch meter.

Commission as well as the rates included in special contracts pursuant to which Laurel No. 2 provides water service to six multifamily dwellings.² At the time Laurel No. 2 filed its application in this proceeding, the special contracts were not a part of Laurel No. 2's filed tariff; however, Laurel No. 2 filed copies of the contracts with the Commission on February 1, 2016, and February 16, 2016.

On December 1, 2015, the Commission issued a procedural Order to ensure the orderly review of Laurel No. 2's application. Pursuant to the procedural Order, Commission Staff ("Staff") issued a report on February 10, 2016, containing its findings regarding Laurel No. 2's requested rate adjustment. As summarized in its report, by applying methods and practices that are generally accepted by the Commission, Staff found that known and measurable adjustments to Laurel No. 2's test-year revenues and expenses were warranted and that Laurel No. 2's adjusted test-year operations support a \$246,429, or 11.45 percent, increase to Laurel No. 2's pro forma present rate revenues in the amount of \$2,152,323. Staff also found that Laurel No. 2 should change the depreciable lives assigned to certain of its assets when calculating depreciation for accounting and ratemaking purposes.

On March 2, 2016, Laurel No. 2 filed its response to Staff's report. While Laurel No. 2's response notes disagreements with Staff's adjustment to test-year revenues and with "most" of the depreciable lives assigned to its assets by Staff, it states that Laurel No. 2's Board of Commissioners approved accepting the 11.45 percent increase

² The six multifamily dwelling customers are Campground Heights Buildings 1-8; Campground Heights Building 9; Benelly Investments, LLC d/b/a Mt. Hill Apartments; Emma's Place Apartments; Pinegrove #2 Apartments; and Greater Corbin Manor.

calculated by Staff “rather than delay implementation” of those rates.³ Laurel No. 2 did not request that an informal conference or formal hearing be held in this matter. There being no conference or hearing scheduled, the case is ripe for the Commission’s decision.

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

1. Laurel No. 2 was organized pursuant to KRS Chapter 74. It owns and operates a water treatment and distribution system through which it provides water service to approximately 5,939 customers in Knox and Laurel counties, Kentucky.⁴

2. The calendar year ended December 31, 2014, should be used as the test year to determine the reasonableness of Laurel No. 2’s existing and proposed water rates.

3. In its application, Laurel No. 2 reported \$2,119,044 for test-year water sales revenues that were generated from water service rates that are currently in service. It also supplied a billing analysis⁵ demonstrating that application of the current rates to test-year billing determinants (minimum bills and gallons of water sold adjusted for meter misreads and customer leak allowances) results in pro forma present rate revenues on a billed basis in the amount of \$2,152,323, or \$33,279 more than the amount reported for the test year. The table below summarizes the results of Laurel No. 2’s billing analysis.

³ Laurel No. 2’s Response to Staff Report at 1.

⁴ Staff Report at 1.

⁵ Application at 16–50 of 115 when downloaded from http://psc.ky.gov/PSC_WebNet/ViewCaseFilings.aspx?case=2015-00341.

Application Page Number	Customer Class	Pro Forma Water Sales at Present Rates
16	Residential	\$ 1,564,751
18	Commercial	78,464
20	1-Inch Meter	40,326
22	1 1/2-Inch Meter	10,593
24	2-Inch Meter	102,370
26	3-Inch Meter	4,450
30	1-Inch Campground 1-8	4,413
32	1-Inch Campground 9	320
34	2-Inch Emma's Apts.	10,579
36	4-Inch Brandeis	2,577
38	4-Inch Corbin Manor	12,701
40	2-Inch Pinegrove	9,826
42	2-Inch Mt. Hill Apts.	4,430
44	3/4-Inch Industrial	2,353
46	1-Inch Industrial	5,043
48	2-Inch Industrial	1,072
50	4-Inch Industrial	298,055
Total Pro Forma Present Rate Water Sales Revenue		2,152,323
Less: Amount Reported for the Test-Year		<u>(2,119,044)</u>
Increase to Test-Year Water Sales Revenues		<u>\$ 33,279</u>

4. During its review, Staff determined that the results of Laurel No. 2's billing analysis were reasonable and should be used for ratemaking purposes in this proceeding. Following the Commission's historical practice of adjusting water sales revenues reported for a test-year to match the results of a properly prepared billing analysis, Staff increased Laurel No. 2's test-year water sales revenues by \$33,279.

5. Laurel No. 2 stated that it did not agree with Staff's adjustment to test-year water sales revenues, but it did not explain the basis for its disagreement or provide additional evidence showing that the results of its billing analysis were inaccurate.

6. There being no additional evidence contradicting the results of Laurel No. 2's billing analysis, the Commission accepts Staff's increase to test-year revenues in the amount of \$33,279.

7. Based upon pro forma test-year operations, Laurel No. 2's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable changes, are \$2,367,051 and \$2,003,788, respectively.⁶

8. Laurel No. 2 currently has three outstanding bond issuances payable to the United States Department of Agriculture Rural Development; two loans payable to Kentucky Infrastructure Authority; a loan payable to GMAC Commercial Mortgage Corporation; and a loan payable to the First National Bank of London. The five-year average principal and interest payments for the years 2016 through 2020 on these evidences of indebtedness is \$508,077.⁷

⁶ Staff Report at 4. The revenues and expenses listed below include all regulated and non-regulated operations that should be accounted for when calculating Laurel No. 2's income that is available to service its debt.

Water Sales Revenue	\$ 2,152,323
Other Water Revenue	206,684
Nonutility Income	6,000
Interest Income	<u>2,044</u>
Total Revenues	<u>\$ 2,367,051</u>
Operation and Maintenance Expense	\$ 1,520,362
Depreciation	432,864
Taxes Other Than Income	<u>50,562</u>
Total Expenses	<u>\$ 2,003,788</u>

⁷ *Id.* at 12.

9. The Commission has historically used a Debt Service Coverage (“DSC”) method to calculate the revenue requirements of water districts with long-term debt.

10. Application of the Commission’s DSC method to Laurel No. 2’s pro forma operations results in an overall revenue requirement of \$2,613,480. Revenue of \$2,398,752 from water service rates is necessary to generate the overall requirement.⁸

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

12. The water service rates requested by Laurel No. 2 will produce \$2,442,141 in annual water service revenues and should be denied.

13. During the test year, Laurel No. 2 used service lives for various water assets that are at variance with those found in a survey of the National Association of Regulatory Utility Commissioners (“NARUC Survey”) 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.”⁹

14. The Commission has previously used the NARUC Survey to establish the services lives of water assets when there is no evidence in the record that supports alternative lives.¹⁰

⁸ *Id.*

⁹ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

¹⁰ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21 2007); and Case No. 2012-00278, *Application of Graves County Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Sept. 5, 2012).

15. In its report, Staff found that Laurel No. 2 applied services lives to certain asset account groups to calculate test-year depreciation expense that were at variance with those shown in the NARUC Survey. Following the Commission's historical practice, Staff made adjustments to those lives to conform to the NARUC Study finding that there was no evidence in the record to support the alternative lives assigned by Laurel No. 2.

16. In its response to Staff's report, Laurel No. 2 stated that it did not agree with "most" of the depreciable lives assigned by Staff, but it did not identify the specific lives with which it disagreed, it did not provide an explanation for its disagreement, and it did not provide evidence demonstrating that lives assigned to any of its asset groups should be at variance with the NARUC Survey.

17. There being no evidence showing that Laurel No. 2's assignment of service lives for the asset groups listed in Appendix B to this Order should be at variance with those found reasonable by the NARUC survey, the Commission agrees with Staff's finding that the lives assign to these asset groups should be revised to conform to the NARUC Survey for ratemaking and accounting purposes in all future reporting periods.

18. In its report, Staff found that the rates charged to several apartment complexes were by special contract, and Staff was unable to locate these contracts in the files of the Commission. Laurel No. 2 filed amended contracts in this case to show the current rates and the rate schedules charged these various apartment complexes.

19. KRS 278.160(1) requires, among other things, that "each utility shall file with the commission. . . schedules showing all rates and conditions for service

established by it and collected or enforced.” 807 KAR 5:011, Section 13, requires each utility to “file a copy of each special contract that establishes rates, charges, or conditions of service not contained in its tariffs.” Laurel No. 2 is required to file all special contracts and any amendments reflecting the rates authorized by the Commission to be included with Laurel No. 2’s tariff on file with the Commission.

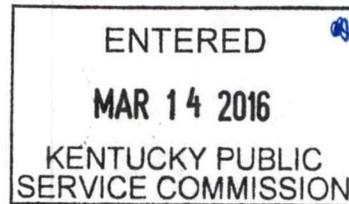
20. Pursuant to KRS 74.020(1), “[a] water district shall be administered by a board of commissioners which shall control and manage the affairs of the district.” Pursuant to KRS 74.020(7)(c), the Public Service Commission “shall encourage and promote the offering of high quality water district management training programs that enhance a water district commissioner’s understanding of his or her responsibilities and duties.” The Commission encourages the Board of Commissioners of Laurel No. 2 to attend the annual water district management training offered by the Commission.

IT IS THEREFORE ORDERED that:

1. The water service rates requested by Laurel No. 2 are denied.
2. The water service rates set forth in Appendix A to this Order are approved for services rendered by Laurel No. 2 on and after the date of this Order.
3. Within 20 days of the date of this Order, Laurel No. 2 shall file revised tariff sheets and special contracts with the Commission, using the Commission’s electronic Tariff Filing System, containing the rates set forth in Appendix A of this Order.
4. In all future reporting periods, Laurel No. 2 shall use the “PSC Approved Service Life” set forth in Appendix B to this Order for the listed asset groups when calculating and reporting depreciation for all reporting periods after the date of this

Order. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in accounting estimate.

By the Commission



ATTEST:


Acting Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00341 DATED **MAR 14 2016**

The following water rates are prescribed for the customers in the area served by Laurel County Water District No. 2. 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	\$11.10	Minimum bill
Next	99,000	gallons	4.66	per 1,000 gallons
Over	100,000	gallons	4.03	per 1,000 gallons

1-Inch Meter

First	5,000	gallons	\$29.72	Minimum bill
Next	95,000	gallons	4.66	per 1,000 gallons
Over	100,000	gallons	4.03	per 1,000 gallons

1 1/2-Inch Meter

First	10,000	gallons	\$53.02	Minimum bill
Next	90,000	gallons	4.66	per 1,000 gallons
Over	100,000	gallons	4.03	per 1,000 gallons

2-Inch Meter

First	20,000	gallons	\$99.60	Minimum bill
Next	80,000	gallons	4.66	per 1,000 gallons
Over	100,000	gallons	4.03	per 1,000 gallons

3-Inch Meter

First	30,000	gallons	\$146.19	Minimum bill
Next	70,000	gallons	4.66	per 1,000 gallons
Over	100,000	gallons	4.03	per 1,000 gallons

4-Inch Meter

First	50,000	gallons	\$239.36	Minimum bill
Next	50,000	gallons	4.66	per 1,000 gallons
Over	100,000	gallons	4.03	per 1,000 gallons

Campground Heights Buildings 1-8

1-Inch Meter

First	4,000 gallons	\$44.36	Minimum bill
Next	96,000 gallons	4.66	per 1,000 gallons
Over	100,000 gallons	4.03	per 1,000 gallons

Campground Heights Building 9

1-Inch Meter

First	5,000 gallons	\$29.72	Minimum bill
Next	95,000 gallons	4.66	per 1,000 gallons
Over	100,000 gallons	4.03	per 1,000 gallons

Benelly Investments, LLC (d/b/a Mt. Hill Apartments)

2-Inch Meter

First	22,000 gallons	\$243.97	Minimum bill
Next	78,000 gallons	4.66	per 1,000 gallons
Over	100,000 gallons	4.03	per 1,000 gallons

Emma's Place Apartments

2-Inch Meter

First	49,000 gallons	\$543.38	Minimum bill
Next	51,000 gallons	4.66	per 1,000 gallons
Over	100,000 gallons	4.03	per 1,000 gallons

Pinegrove #2 Apartments

2-Inch Meter

First	26,000 gallons	\$288.33	Minimum bill
Next	74,000 gallons	4.66	per 1,000 gallons
Over	100,000 gallons	4.03	per 1,000 gallons

Greater Corbin Manor

4-Inch Meter

First	200,000 gallons	\$875.74	Minimum bill
Over	200,000 gallons	4.03	per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00341 DATED **MAR 14 2016**

Authorized Service Lives of Certain
Assets of Laurel County Water District No. 2

NARUC Account Number	Type of Asset	NARUC Average Service Life (Years)	Submitted Service Life/Lives (Months)	Authorized Service Life/Lives	
				(Months)	(Years)
311	Structures and Improvements	35-40	300	420	35
			480	480	40
			180	420	35
317	Other Source of Water Supply Plant	30-40	180	360	30
321	Structures and Improvements	35-40	300	420	35
			240	420	35
324-7	Pumping Equipment	20	60	240	20
331	Structures and Improvements	35-40	300	420	35
332	Water Treatment Equipment	20-35	300	300	25
			120	240	20
341	Structures and Improvements	35-40	240	420	35
			480	480	40
			120	420	35
342	Reservoirs and Tanks	30-60	480	480	40
			120	360	30
343	Transmission and Distribution Mains	50-75	120	600	50
			480	600	50
			360	600	50
			240	600	50
345	Services	30-50	240	360	30
346	Meters	35-45	240	420	35
			60	420	35
347	Meter Installations	40-50	240	480	40
348	Hydrants	40-60	240	480	40
390	Structures and Improvements	35-40	180	420	35
			240	420	35
			120	420	35
			480	480	40
			300	420	35
391	Office Furniture and Equipment	20-25	120	240	20
			60	240	20
			240	240	20

NARUC Account Number	Type of Asset	NARUC Average Service Life (Years)	Submitted Service Life/Lives (Months)	Recommended Staff Report Service Life/Lives	
				(Months)	(Years)
392	Transportation Equipment	7	60	84	7
394	Tools, Shop & Garage Equipment	15-20	60	180	15
			120	180	15
395	Laboratory Equipment	15-20	120	180	15
396	Power Operated Equipment	10-15	120	120	10
			180	180	15
			60	120	10
397	Communications Equipment	10	120	120	10
			60	120	10

*Laurel County Water District #2
3910 South Laurel Road
London, KY 40744

*Wanda Smith
Office Manager/Accountant
Laurel County Water District #2
3910 South Laurel Road
London, KY 40744