

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FOUNTAIN RUN WATER )  
DISTRICT #1 FOR RATE ADJUSTMENT ) CASE NO.  
PURSUANT TO 807 KAR 5:076 ) 2018-00205

ORDER

On June 19, 2018, Fountain Run Water District #1 (Fountain Run District #1) tendered an application (Application) to the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated July 9, 2018, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding Fountain Run District #1's Application.

Fountain Run District #1 determined that its test-year revenues and expenses justified a revenue increase of \$74,736 or 32.47 percent.<sup>1</sup> On October 1, 2018, Staff issued a report (Staff Report) summarizing its findings. Staff found that Fountain Run District #1's adjusted test-year operations for its water division support an Overall Revenue Requirement of \$327,500 and that an annual increase in revenue of \$74,272 or 32.27 percent would be necessary to generate the Overall Revenue Requirement. Staff performed a Cost-of-Service Study (COSS) to determine the rates for Fountain Run District #1.

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<sup>1</sup> Application, Attachment 5, Revenue Requirement Calculation – Debt Coverage Method.

On October 12, 2018, Fountain Run District #1 filed with the Commission its comments to the Staff Report.<sup>2</sup> Fountain Run District #1 accepted Staff's finding that it could justify an increase in revenue from water service of \$74,272 for an Overall Revenue Requirement of \$327,500. The utility further accepted Staff's finding that a rate increase of 32.27 percent would produce the \$327,500 in required revenue from water service. In its application, Fountain Run District #1 proposed to increase current water rates by an across the board 20 percent increase, but in its response to the Staff Report Fountain Run District #1 accepted the change in rate design presented by Staff. Fountain Run District #1 also requested that the Commission approve a phased-in approach for their rates, with a 20 percent increase in revenues in the first year, with the remaining 12.27 percent increase after one year.<sup>3</sup> The Commission agrees with Fountain Run District #1's request and finds that allowing Fountain Run District #1 to use a phased-in approach for the rates set forth in the Staff Report is warranted.

### BACKGROUND

Fountain Run District #1 a water district organized pursuant to KRS Chapter 74, provides water service to approximately 516 customers,<sup>4</sup> residing in Allen, Barren, and

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<sup>2</sup> Letter from Chairman Joe Cornwell, Fountain Run Water District #1, to Executive Director Gwen R. Pinson, Public Service Commission (October 12, 2018).

<sup>3</sup> *Id.*

<sup>4</sup> *Annual Report of Fountain Run Water District #1 to the Public Service Commission for the Calendar Year Ended December 31, 2017* (2017 Water Annual Report) at 38.

Monroe County, Kentucky.<sup>5</sup> Fountain Run District #1's last general rate adjustment occurred in 2002.<sup>6</sup>

TEST PERIOD

The calendar year ending December 31, 2017, should be used as the test year to determine the reasonableness of Fountain Run District #1's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Fountain Run District #1's pro forma income statement as follows:

|                              | 2017<br>Annual Report | Pro Forma<br>Adjustments | Pro Forma<br>Operations |
|------------------------------|-----------------------|--------------------------|-------------------------|
| Operating Revenues           | \$ 241,630            | \$ (4,941)               | \$ 236,689              |
| Operating Expenses           | 273,439               | 6,066                    | 279,505                 |
| Net Utility Operating Income | \$ (31,809)           | \$ (11,007)              | \$ (42,816)             |

REVENUE REQUIREMENTS

In its Staff Report, Staff determined that Fountain Run District #1's pro forma operations support an increase in revenues from water sales of \$74,272, or 32.27 percent above normalized operating revenues from water sales, as shown below:

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<sup>5</sup> 2017 Water Annual Report at 12.

<sup>6</sup> Case No. 2002-00199, *Alternative Rate Filing of Fountain Run Water District (Water Operations)* (Ky. PSC Aug. 8, 2002).

|  |    |             |
|--|----|-------------|
| Pro Forma Operating Expenses               | \$ | 279,505     |
| Plus: Average Annual Debt Service          |    | 39,996      |
| Depreciation Reserve Payment               |    | 7,999       |
| Overall Revenue Requirement                |    | 327,500     |
| Less: Other Operating Revenue              |    | (6,530)     |
| Rental Income                              |    | (15,680)    |
| Interest Income                            |    | (859)       |
|  |    | <hr/>       |
| Revenue Required from Rates                |    | 304,431     |
| Less: Normalized Revenues from Water Sales |    | (230,159)   |
|  |    | <hr/>       |
| Required Revenue Increase/(Decrease)       | \$ | 74,272      |
| Percentage Increase                        |    | 32.27%      |
|  |    | <hr/> <hr/> |

### 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 rates set forth in Appendix A 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 water rates originally proposed by Fountain Run District #1 are denied.
3. The water rates for Phase 1 in Appendix A to this order are approved for water service on and after the date of this Order.
4. The water rates for Phase 2 in Appendix B to this order are approved for water service one year after the date of this Order.

5. One week prior to the effective date of the Phase 2 water rates, Fountain Run District #1 shall publish notice following the requirements of 807 KAR 5:076, Section 5. The customer notice shall be in the same format, as set forth in Appendix C to this Order, and shall contain only the rate comparison being implemented for the Phase 2 rates.

6. Within 45 days of publishing the notice required in ordering paragraph 5, Fountain Run District #1 shall file proof of notice as required pursuant to 807 KAR 5:076, Section 5(3).

7. Within 20 days of the date of entry of this Order, Fountain Run District #1 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.

8. Any documents filed in the future pursuant to ordering paragraph 6 shall reference this case number and shall be retained in the post-case correspondence file.

9. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:

A handwritten signature in blue ink, appearing to read "Steven R. Punsor". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00205 DATED **NOV 19 2018**

The following rates and charges are prescribed for the customers in the area served by Fountain Run Water District #1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

#### Monthly Water Rates

##### Phase 1

##### 5/8 x 3/4- Inch Meter

|          |        |         |          |                   |
|----------|--------|---------|----------|-------------------|
| First    | 2,000  | Gallons | \$ 17.90 | Minimum bill      |
| Next     | 8,000  | Gallons | 7.46     | per 1,000 Gallons |
| Next     | 10,000 | Gallons | 5.90     | per 1,000 Gallons |
| All Over | 20,000 | Gallons | 5.00     | per 1,000 Gallons |

##### 1-Inch Meter

|          |        |         |          |                   |
|----------|--------|---------|----------|-------------------|
| First    | 5,000  | Gallons | \$ 40.28 | Minimum bill      |
| Next     | 5,000  | Gallons | 7.46     | per 1,000 Gallons |
| Next     | 10,000 | Gallons | 5.90     | per 1,000 Gallons |
| All Over | 20,000 | Gallons | 5.00     | per 1,000 Gallons |

##### 2-Inch Meter

|          |        |         |           |                   |
|----------|--------|---------|-----------|-------------------|
| First    | 20,000 | Gallons | \$ 136.58 | Minimum bill      |
| All Over | 20,000 | Gallons | 5.00      | per 1,000 Gallons |

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00205 DATED **NOV 19 2018**

The following rates and charges are prescribed for the customers in the area served by Fountain Run Water District #1 effective one year from the date of this Order. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

Phase 2

5/8 x 3/4- Inch Meter

|          |        |         |          |                   |
|----------|--------|---------|----------|-------------------|
| First    | 2,000  | Gallons | \$ 18.80 | Minimum bill      |
| Next     | 8,000  | Gallons | 8.35     | per 1,000 Gallons |
| Next     | 10,000 | Gallons | 7.10     | per 1,000 Gallons |
| All Over | 20,000 | Gallons | 5.80     | per 1,000 Gallons |

1-Inch Meter

|          |        |         |          |                   |
|----------|--------|---------|----------|-------------------|
| First    | 5,000  | Gallons | \$ 43.85 | Minimum bill      |
| Next     | 5,000  | Gallons | 8.35     | per 1,000 Gallons |
| Next     | 10,000 | Gallons | 7.10     | per 1,000 Gallons |
| All Over | 20,000 | Gallons | 5.80     | per 1,000 Gallons |

2-Inch Meter

|          |        |         |           |                   |
|----------|--------|---------|-----------|-------------------|
| First    | 20,000 | Gallons | \$ 156.60 | Minimum bill      |
| All Over | 20,000 | Gallons | 5.80      | per 1,000 Gallons |

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00205 DATED **NOV 19 2018**

NOTICE TO THE CUSTOMERS OF  
FOUNTAIN RUN WATER DISTRICT #1

On June 19, 2018, the Kentucky Public Service Commission (PSC) accepted for filing Fountain Run Water District #1's (Fountain Run District #1) application requesting to increase its revenue from water sales by \$74,735, an approximately 32.47 percent increase. After performing a review of Fountain Run District #1's application and records, the PSC Staff recommended that Fountain Run District #1 be granted an increase in water service revenues of approximately 32.27. In response to the PSC Staff Report of October 12, Fountain Run District #1 requested that 20 percent of the subsequent revenue increase be awarded in Phase 1 rates and the remaining 12.27 percent be awarded in Phase 2. Pursuant to the Final Order of the PSC in Case No. 2018-00205, the following rates shall become effective on November 19, 2019 for water service that Fountain Run Water District #1 provides.

5/8 x 3/4- Inch Meter

|          |        |         |          |                   |
|----------|--------|---------|----------|-------------------|
| First    | 2,000  | Gallons | \$ 18.80 | Minimum bill      |
| Next     | 8,000  | Gallons | 8.35     | per 1,000 Gallons |
| Next     | 10,000 | Gallons | 7.10     | per 1,000 Gallons |
| All Over | 20,000 | Gallons | 5.80     | per 1,000 Gallons |

1-Inch Meter

|          |        |         |          |                   |
|----------|--------|---------|----------|-------------------|
| First    | 5,000  | Gallons | \$ 43.85 | Minimum bill      |
| Next     | 5,000  | Gallons | 8.35     | per 1,000 Gallons |
| Next     | 10,000 | Gallons | 7.10     | per 1,000 Gallons |
| All Over | 20,000 | Gallons | 5.80     | per 1,000 Gallons |

2-Inch Meter

|          |        |         |           |                   |
|----------|--------|---------|-----------|-------------------|
| First    | 20,000 | Gallons | \$ 156.60 | Minimum bill      |
| All Over | 20,000 | Gallons | 5.80      | per 1,000 Gallons |

This filing may be examined at the offices of Fountain Run Water District #1 located at 226 Main St, Fountain Run, KY 42133.

This filing may also be examined at the offices of the Public Service Commission located at 211 Sower Boulevard in Frankfort, Kentucky, Monday – Friday from 8:00 am – 4:30 pm or on the PSC website at <http://psc.ky.gov>.

A Copy of the PSC Staff Report can be found at the following address:  
[https://psc.ky.gov/PSCSCF/2018%20Cases/2018-00205/20181001\\_STAFF\\_REPORT.pdf](https://psc.ky.gov/PSCSCF/2018%20Cases/2018-00205/20181001_STAFF_REPORT.pdf)

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\*Joe Cornwell  
Chairman  
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