

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF P. R. WASTEWATER)	CASE NO.
MANAGEMENT, INC. FOR AN ALTERNATIVE)	2018-00339
RATE ADJUSTMENT)	

ORDER

On October 5, 2018, P. R. Wastewater Management, Inc. (P. R. Wastewater Management), tendered an application (Application) with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. By letter dated October 16, 2018, the Commission notified P. R. Wastewater Management that its Application was rejected as deficient. P. R. Wastewater Management cured its filing deficiencies and its Application was deemed filed as of November 5, 2018.

In its Application, P. R. Wastewater Management requested rates that would increase annual water sales revenues by \$8.70, a 33.08 percent increase to pro forma present rate water sales revenues.

To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated February 5, 2019, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding P. R. Wastewater Management's Application.

Pursuant to the procedural Order, on March 22, 2019, Staff issued a report (Report) summarizing its findings regarding P. R. Wastewater Management's requested rate adjustment. In its Report, Staff found that P. R. Wastewater Management's adjusted

test-year operations support an Overall Revenue Requirement of \$148,844 and that an annual revenue increase of \$37,753, or 33.98 percent, is necessary to generate the Overall Revenue Requirement.

On March 29, 2019, P. R. Wastewater Management filed with the Commission its comments on Staff's Report. P. R. Wastewater Management requested that the Commission approve the applications requested rate of \$35.00 instead of Staff's authorized amount of \$35.24. As a basis for this request, P. R. Wastewater Management explains that its financial position is such that it requires an immediate rate increase, and if it accepted Staff's recommended higher rate, the rate increase would be delayed due to customer renotification of the higher rates. In its comments, P. R. Wastewater Management waived its right to a conference or hearing be held.¹

BACKGROUND

P. R. Wastewater Management is a wastewater company that owns and operates a wastewater treatment system through which it provides service to approximately 352 customers² in Shelby County, Kentucky.³ This is P. R. Wastewater Management's first general rate adjustment since May 18, 2000

¹ Letter from Lawren Just, P. R. Wastewater Management, Inc. to Executive Director, Public Service Commission (Mar 29, 2019).

² Application at 5.

³ *Annual Report of P. R. Wastewater Management to the Public Service Commission for the Calendar Year Ended December 31, 2017 (Annual Report)* at 9.

TEST PERIOD

The calendar year ended December 31, 2017, was used as the test year to determine the reasonableness of P. R. Wastewater Management's existing and proposed wastewater rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes P. R. Wastewater Management's pro forma income statement as follows:

	<u>2017 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 109,480	\$ 1,611	\$ 111,091
Operating Expenses	<u>117,621</u>	<u>13,362</u>	<u>130,983</u>
Net Operating Income	<u>\$ (8,141)</u>	<u>\$ (11,751)</u>	<u>\$ (19,892)</u>

MODIFICATIONS TO STAFF'S FINDINGS

P. R. Wastewater Management proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In its Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations, P. R. Wastewater Management requires an increase in revenues of \$37,753, or 33.98 percent above pro forma present rate revenues, as shown below:

Operating Expenses	\$ 130,983
Allowable NOI	<u>17,861</u>
Revenue Requirement	\$ 148,844
Less: Pro Forma Present Rate Revenues	<u>(111,091)</u>
Required Revenue Increase	<u>\$ 37,753</u>
Percentage	<u>33.98%</u>

RATE DESIGN

The rates in the Appendix attached to this Order will produce wastewater service rate revenues of approximately \$147,840 annually. The revenue requirement from wastewater service determined to be reasonable by the Commission herein. The monthly bill of a residential customer will increase from \$26.30 to \$35.00, an increase of \$8.70, or 33.08 percent. The monthly bill of a nonresidential customer will increase from \$26.30 per residential equivalency to \$35.00 per residential equivalency.⁴ Using Staff's revenue requirement of \$148,844, Staff determined the flat monthly rate to be \$35.24 per residential customer and \$35.24 per nonresidential customer.⁵ The difference between P. R. Wastewater's requested rate and the rate Staff determined in order to meet the revenue requirement is a deficit of (\$0.24) per residential customer per month, or approximately (\$85.20) a month.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

⁴ A residential equivalent unit is that portion of a user's facility that has an impact on the water and wastewater system equivalent to a single family residence. A residential equivalent is defined as 12,000 gallons per month.

⁵ Staff Report at 11.

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.

2. The Commission has historically used an Operating Ratio method to calculate the revenue requirement for wastewater utilities without outstanding long-term debt. Application of the Commission's Operating Ratio method to P. R. Wastewater Management's pro forma operations results in an Overall Revenue Requirement of \$148,844. A revenue increase of \$37,753 from wastewater service rates is necessary to generate the Overall Revenue Requirement.

3. The record contains no evidence that permitting P. R. Wastewater Management to assess wastewater service rates at a level lower than could be supported will result in any degradation or reduction in the quality of wastewater service currently provided by P. R. Wastewater Management. A utility may assess rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as sufficient or adequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of this level of revenue, the 33.08 percent increase in wastewater service rates requested by P. R. Wastewater Management should be approved by the Commission.⁶

⁶ *Utilities Operating Co. v King*, 143 So2d 854, 45 PUR3d 439,443 (Fla. 1962) ([I]n the absence of some showing that the service to the public will suffer by allowing the utility to charge rates which will not produce a fair return, the utility 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.). See also Case No. 2006-00410, *The 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); and 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).

4. The wastewater service rates proposed by P. R. Wastewater Management will produce a level of revenue that is sufficient to meet its reasonable operating expenses, with cash working capital of \$16,857⁷, and should be approved.

5. The wastewater service rates set forth in the Appendix 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 general service rates proposed by P. R. Wastewater Management are approved.

3. The rates set forth in the Appendix to this Order are approved for services rendered by P. R. Wastewater Management on and after the date of this Order.

4. Within 20 days of the date of entry of this Order, P. R. Wastewater Management 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.

5. P. R. Wastewater Management shall use the mid-point of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the Application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation, or retained earnings should be made to account for this change in the accounting estimate.

⁷ \$147,840 (Requested Revenue Requirement) - \$130,983 (Pro forma Operating & Maintenance Expenses) = \$16,857.

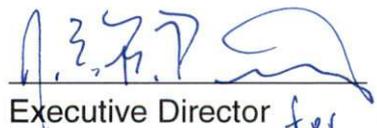
6. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED
APR 12 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director for Gregory R. Pearson

Case No. 2018-00339

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00339 DATED **APR 12 2019**

The following rates and charges are prescribed for the customers in the area served by P. R. Wastewater Management. 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 Sewer Rates

Residential Flat Rate	\$35.00
Nonresidential Flat Rate per residential equivalent of 12,000 Gallons	\$35.00

*Ms. Lawren A Just
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