

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LEDBETTER WATER	)	CASE NO.
DISTRICT FOR AN ALTERNATIVE RATE	)	2018-00117
ADJUSTMENT	)	

ORDER

On April 2, 2018, Ledbetter Water District (Ledbetter District) tendered its 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 April 16, 2018, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding Ledbetter District's Application.

Ledbetter District determined that its test-year revenues and expenses justified a revenue increase of \$116,432 or 27.27 percent<sup>1</sup> for its water division and a revenue increase of \$285,106 or 67.03 percent<sup>2</sup> for its sewer division. On July 16, 2018, Staff issued a report (Staff Report) summarizing its findings. Staff found that Ledbetter District's water division adjusted test-year operations support an Overall Revenue Requirement of \$510,629 and that an annual increase in revenue of \$74,796 or 17.52 percent would be necessary to generate the Overall Revenue Requirement. Staff found that Ledbetter District's sewer division adjusted test-year operations support an Overall

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<sup>1</sup> Application, Attachment 4.

<sup>2</sup> *Id.*

Revenue Requirement of \$668,704 and that an annual increase in revenue of \$233,023 or 54.20 percent would be necessary to generate the Overall Revenue Requirement. Staff further found that an across-the-board increase to all rate classes is the appropriate means to achieve the increased revenue requirement for both the water and sewer divisions.

On July 27, 2018, Ledbetter District filed with the Commission its comments to the Staff Report.<sup>3</sup> Ledbetter District accepted Staff's finding that it could justify an increase in revenue from water service of \$74,796 for an Overall Revenue Requirement of \$510,629. The utility further accepted Staff's finding that a rate increase of 17.52 percent would produce the \$501,756 in required revenue from water service. Concerning sewer rates in Staff's findings, Ledbetter District accepted what was presented with two exceptions. First, Ledbetter District requested that an audit adjustment to increase depreciation expense by \$14,747 that was omitted in Staff's pro forma operations statement be included in the final revenue requirement and rates. Second, Ledbetter District requested that 65 percent of the approved revenue increase be included in the first phase of their increase rather than equally divided between the first and second phases as set out in the Staff Report. Ledbetter District cites that it is delinquent on debt service payments and has depleted its reserves, which necessitates a larger immediate revenue increase.<sup>4</sup> The Commission agrees that the audit adjustment should be included in the final revenue requirement and rates, and has reviewed Ledbetter District's request

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<sup>3</sup> Letter from Chairman Philip Dae, Ledbetter Water District, to Executive Director Gwen R. Pinson, Public Service Commission (July 27, 2018).

<sup>4</sup> *Id.*

for relief and finds that allowing Ledbetter District to recover 65 percent of the approved increase in Phase 1 is warranted and therefore will allow the requested relief.

### WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Staff Report, Ledbetter District's test-year water loss was 27.67 percent. However, Ledbetter District's office manager informed Staff during the field review that the excessive water loss in 2016 resulted from a large leak that was found and repaired during the test-year, and that the resulting water loss for the calendar year ended in 2017 was significantly lower. In its 2017 water loss reports provided to Staff at the field review, the district reported water loss of 16.8 percent or 1.8 percent above the 15 percent allowable limit. Staff believes that the level of water loss reported for 2017 more accurately represents the level of water loss that should be reported by Ledbetter District going forward. Accordingly, Staff reduced test-year expenses by \$2,826 to account for the 1.8 percent excess water loss.<sup>5</sup>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the fifteen 15 percent unaccounted-for water loss threshold and strongly encourages Ledbetter District to continue to pursue reasonable actions to reduce its unaccounted-for water loss.

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<sup>5</sup> Staff Report at 17.

## BACKGROUND

Ledbetter District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 1,258 customers,<sup>6</sup> and sewer service to approximately 815 customers<sup>7</sup> residing in Livingston County, Kentucky.<sup>8</sup> Ledbetter District's last general rate adjustment occurred in 2009.<sup>9</sup>

## TEST PERIOD

The calendar year ending December 31, 2016, should be used as the test year to determine the reasonableness of Ledbetter District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

## SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Ledbetter District's pro forma income statement as follows:

### Water Division

	<u>2016 Annual Report</u>	<u>Audit Adjustments</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 455,405	\$ (8,275)	\$ (11,546)	\$ 435,584
Operating Expenses	<u>476,010</u>	<u>(8,959)</u>	<u>(17,697)</u>	<u>449,354</u>
Net Utility Operating Income	<u>\$ (20,605)</u>	<u>\$ 684</u>	<u>\$ 6,151</u>	<u>\$ (13,770)</u>

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<sup>6</sup> Annual Report of Ledbetter Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016, (2016 Water Annual Report) at 48.

<sup>7</sup> Annual Report of Ledbetter Water Sewer District to the Public Service Commission for the Calendar Year Ended December 31, 2016, (2016 Sewer Annual Report) at 26.

<sup>8</sup> 2016 Water Annual Report at 12.

<sup>9</sup> Case No. 2008-00498, Application of Ledbetter Water District for Approval of an Increase in Rates for Water Service (Ky. PSC May. 19, 2009).

Sewer Division

	2016 Annual Report	Audit Adjustments	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 414,843	\$ 5,429	\$ 15,275	\$ 435,547
Operating Expenses	423,800	4,917	7,857	436,574
Net Utility Operating Income	<u>\$ (8,957)</u>	<u>\$ 512</u>	<u>\$ 7,418</u>	<u>\$ (1,027)</u>

REVENUE REQUIREMENTS

Water Division

In its Staff Report, Staff determined that Ledbetter District's pro forma operations support an increase in revenues from water sales of \$74,796, or 17.52 percent above normalized operating revenues from water sales, as shown below:

Operating Expenses	\$ 449,354
Divided by: Operating Ratio	<u>88%</u>
Overall Revenue Requirement	510,629
Less: Other Operating Revenue	(8,624)
Interest Income	<u>(249)</u>
Revenue Requirement - Water Rates	501,756
Less: Normalized Revenue from Water Service	<u>(426,960)</u>
Required Revenue Increase	<u>\$ 74,796</u>
Percentage Increase	<u>17.52%</u>

Sewer Division

In its Staff Report, Staff determined that Ledbetter District's pro forma operations support an increase in revenues from sewer sales of \$233,023 or 54.20 percent above normalized operating revenues from sewer sales. However, including the omitted audit

adjustment as requested by Ledbetter District, Staff determined that Ledbetter District's pro forma operation support an increase in revenues from sewer sales of \$247,770 or 57.63 percent, as shown below:

Pro Forma Operating Expenses	\$ 436,574
Debt Coverage Requirement	205,731
Additional Working Capital	<u>41,146</u>
Overall Revenue Requirement	683,451
Less: Other Operating Revenue	(5,612)
Interest Income	<u>(134)</u>
Revenue Required from Rates	677,705
Less: Normalized Revenues from Sewer Sales	<u>(429,935)</u>
Required Revenue Increase	<u>\$ 247,770</u>
Percentage Increase	<u>57.63%</u>

#### SUMMARY

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

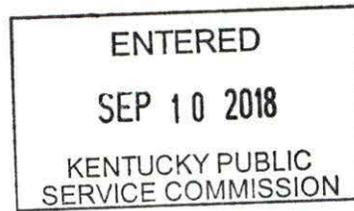
1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The rates proposed by Ledbetter District would produce revenues in excess of the amount found reasonable herein and should be denied.
3. The rates set forth in Appendix A to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. With the exception of the change to the sewer division's Revenue Requirement, as explained above, 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 Ledbetter District are denied.
3. The water rates set forth in Appendix A to this Order are approved for water service on and after the date of this Order.
4. The sewer rates originally proposed by Ledbetter District are denied.
5. The sewer rates for Phase 1 in Appendix A to this order are approved for sewer service on and after the date of this Order.
6. The sewer rates for Phase 2 in Appendix A to this order are approved for sewer service one year after the date of this Order.
7. One week prior to the effective date of the Phase 2 sewer rates, Ledbetter District shall publish notice following the requirements of 807 KAR 5:075, Section 5. The customer notice shall be in the same format, as set forth in Appendix B to this Order, and shall contain only the rate comparison being implemented for the rate phase.
8. Within 45 days of publishing the notice required in ordering paragraph 7, Ledbetter District shall file proof of notice as required pursuant to 807 KAR 5:076, Section 5(3).
9. Within 20 days of the date of entry of this Order, Ledbetter District 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.
10. Any documents filed in the future pursuant to ordering paragraph 8 shall reference this case number and shall be retained in the post-case correspondence file.
11. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00117 DATED **SEP 10 2018**

The following rates and charges are prescribed for the customers in the area served by Ledbetter Water District. 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

Customer Charge	\$7.74	Minimum Bill
First 25,000 Gallons	6.68	per 1,000 Gallons
Over 25,000 Gallons	4.52	per 1,000 Gallons

Monthly Sewer Rates

Phase 1

<u>All Customers</u>		
First 2,000 Gallons	\$34.69	Minimum Bill
Over 2,000 Gallons	17.71	per 1,000 Gallons
Unmetered Customers	86.92	per Month

Phase 2

<u>All Customers</u>		
First 2,000 Gallons	\$39.74	Minimum Bill
Over 2,000 Gallons	20.29	per 1,000 Gallons
Unmetered Customers	100.61	per Month

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00117 DATED **SEP 10 2018**

NOTICE TO THE CUSTOMERS OF  
LEDBETTER WATER DISTRICT

On April 2, 2018, the Kentucky Public Service Commission (PSC) accepted for filing Ledbetter Water District's (Ledbetter District) application requesting to increase its revenue from sewer sales by \$284,930, an approximately 67 percent increase. After performing a review of Ledbetter District's application and records, the PSC Staff recommended that Ledbetter District be granted an increase in sewer service revenues of approximately 54.20 percent to be divided equally between two phases. In response to the PSC Staff Report of July 16, 2018, Ledbetter District requested that an audit adjustment of \$14,747 that had been omitted from Staff's Report be included in the revenue requirement, and that 65 percent of the subsequent revenue increase be awarded in Phase 1 rates. Pursuant to the Final Order of the PSC in Case No. 2018-00117, the following rates shall become effective on Sept. 10, 2019 for sewer service that Ledbetter Water District provides.

All Customers

First 2,000 Gallons	\$39.74	Minimum Bill
Over 2,000 Gallons	20.29	per 1,000 Gallons
Unmetered Customers	100.61	per Month

This filing may be examined at the offices of Ledbetter Water District located at 1483 US 60 West in Ledbetter, Kentucky.

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/2018-00117/20180716\\_STAFF\\_REPORT01.pdf](https://psc.ky.gov/PSCSCF/2018%20Cases/2018-00117/20180716_STAFF_REPORT01.pdf)

\*Ledbetter Water District  
1483 US Highway 60W  
P. O. Box 123  
Ledbetter, KY 42058-0123

\*Billy Downs  
Manager  
Ledbetter Water District  
P. O. Box 123  
Ledbetter, KY 42058