

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF PENDLETON COUNTY WATER)	CASE NO.
DISTRICT FOR AN ALTERNATIVE RATE)	2019-00310
ADJUSTMENT)	

ORDER

On September 3, 2019, Pendleton County Water District (Pendleton District) tendered an application (Application) with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. On September 9, 2019, Pendleton District was notified that its Application was rejected as deficient. Pendleton District corrected its filing deficiencies, and the Application was deemed filed on September 18, 2019. In its Application, Pendleton District requested rates that would increase annual water sales revenues by \$185,756, a 13.98 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 October 16, 2019, which, among other things, required the Commission Staff (Staff) to file a report containing its findings regarding Pendleton District's Application. There are no intervenors in this proceeding.

Pursuant to the procedural Order, on January 15, 2020, Staff issued a report (Report) summarizing its findings regarding Pendleton District's requested rate adjustment. In its Report, Staff found that Pendleton District's adjusted test-year operations support an Overall Revenue Requirement of \$1,570,135, and that an annual

revenue increase of \$185,944, or 13.95 percent, is necessary to generate the Overall Revenue Requirement.

On January 29, 2020, Pendleton District filed with the Commission its comments on Staff's Report. Pendleton District accepted the findings and recommendations contained in Staff's Report, including the recommended 13.95 percent increase. Pendleton District waived its right to a formal hearing and requested that the Commission issue an Order approving the Staff Report and rate increase as soon as possible. With its comments, Pendleton District did not request that an informal conference be held.¹

BACKGROUND

Pendleton District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 2,417 customers in Campbell, Grant, and Pendleton County, Kentucky.²

TEST PERIOD

The calendar year ended December 31, 2018, was used as the test year to determine the reasonableness of Pendleton District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

¹ Letter from Pendleton District (filed Jan. 29, 2020).

² *Annual Report of Pendleton District to the Public Service Commission for the Calendar Year Ended December 31, 2018 (Annual Report)* at 12 and 48.

SUMMARY OF REVENUE AND EXPENSES

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

	<u>2018 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 1,364,671	\$ 7,313	\$ 1,371,984
Operating Expenses	<u>1,462,998</u>	<u>(26,562)</u>	<u>1,436,436</u>
Net Operating Income	<u>\$ (98,327)</u>	<u>\$ 33,875</u>	<u>\$ (64,452)</u>

MODIFICATIONS TO STAFF'S FINDINGS

Pendleton District 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 herein, Pendleton District requires an increase in revenues of \$185,944, or 13.95 percent above pro forma present rate revenues, as shown below:

	<u>Staff</u>
Pro Forma Operating Expenses	\$ 1,436,436
Plus: Average Annual Debt Payments	111,416
Additional Working Capital	<u>22,283</u>
Overall Revenue Requirement	1,570,135
Less: Other Operating Revenue	(38,578)
Interest Income	<u>(12,207)</u>
Revenue Required From Rates	1,519,350
Less: Pro Forma Present Rate Revenues	<u>(1,333,406)</u>
Required Revenue Increase	<u>185,944</u>
Percent Increase	<u>13.95%</u>

RATE DESIGN

Pendleton District requested to increase its current retail water service rates by an across-the-board percentage. The Commission finds that, in the absence of a cost-of-service study, the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to Pendleton District's retail customers. The rates in the Appendix attached to this Order will produce water rate revenues from Pendleton District's retail customers sufficient to recover the revenue required from rates of \$1,519,350, which has been determined to be reasonable by the Commission herein. The monthly bill of a typical residential customer will increase from \$39.90 to \$45.47, an increase of \$5.57, or 13.95 percent.

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 Commission has historically used a Debt Service Coverage (DSC) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to Pendleton District's pro forma operations results in an Overall Revenue Requirement of \$1,570,135. A revenue increase of \$185,944 for water service rates is necessary to generate the Overall Revenue Requirement.
3. The water service rates proposed by Pendleton District should be denied.

4. The water 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. Except where they contradict or conflict with the findings contained in this Order, 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 Pendleton District are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by Pendleton District on and after the date of this Order.

4. Within 20 days of the date of entry of this Order, Pendleton 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.

5. Pendleton District 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.

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

By the Commission

ENTERED
MAR 10 2020
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2019-00310 DATED **MAR 10 2020**

The following rates and charges are prescribed for the customers in the area served by Pendleton County 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

5/8 x 3/4 Meter through 2-inch Meter

First 2,000 Gallons	\$25.70	Minimum Bill
Next 3,000 Gallons	11.12	Per 1,000 Gallons
Next 10,000 Gallons	10.50	Per 1,000 Gallons
All Over 15,000 Gallons	9.12	Per 1,000 Gallons

Pendleton County High School

First 125,000 Gallons	\$1,167.26	Minimum Bill
Over 125,000 Gallons	9.12	Per 1,000 Gallons

Griffin Industries

First 400,000 Gallons	\$3,675.26	Minimum Bill
Over 400,000 Gallons	9.12	Per 1,000 Gallons

City of Butler

First 1,672,917 Gallons	\$7,503.15	Minimum Bill
Over 1,672,917 Gallons	4.48	Per 1,000 Gallons

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