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June 5, 2018

PSC STAFF OPINION 2018-009

Mr. Charles White
White and Company P.S.C
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033

Re: Marion County Water District
Request for Staff Opinion
For Audit Year ended December 31, 2017

Dear Mr. White:

On February 5, 2018, the Commission received your letter dated February 1, 2018, in which you request a Staff Opinion regarding treatment of a water tank owned by the district, located in Bradfordsville, Kentucky. This opinion represents Commission Staff's interpretation of the law as applied to the facts presented, is advisory in nature, and is not binding on the Commission should the issues be formally presented for Commission resolution.

Based upon your communications, Commission Staff understands the facts are as follows:

Marion County Water District ("Marion County") a water district organized pursuant to KRS Chapter 74 provides water service to 5,927 customers in Marion County, Kentucky.¹

- On February 5, 2018, the Public Service Commission received a letter from Marion County dated February 1, 2018. The letter stated that Marion County was inquiring about a water tank in Bradfordsville, Kentucky.

¹ Annual Report of Marion County Water District to Public Service Commission for the year ending December 31, 2016 ("2016 Annual Report") at 48.

- The tank was put into service on December 1, 1986 at a cost value of \$222,346. The tank has been depreciating on a straight line basis over a 50 year life.
- As of January 1, 2017, the asset had a net book value of \$88,567.
- The tank was dismantled in August 2017.²

Your letter asks the following question: Is Marion County able to write off the remaining book balance of the tank for the audit year ended on December 31, 2017?

Commission Staff believes that Marion County is entitled to claim the depreciation for the remaining years of the 50 year life of the tank for the audit year which ended on December 31, 2017.

Commission Staff directs you to the 1996 version of the National Association of Regulatory Utility Commissioners Uniform System of Accounts for Class A/B Water Districts and Associations, modified and adopted by the Kentucky Public Service Commission in 2002.³ It states as follows:

27(B)(2) When a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

27(H) In some instances the unexpected early retirement of a major unit of property, which would eliminate or seriously deplete the existing depreciation reserve, may require accounting treatment which differs from that described in paragraph B above. In such instances the Commission may authorize or order the loss on retirement to be charged to income in the current year or transferred to account 186 - Miscellaneous Deferred Debits, and amortized in future periods. Such accounting treatment shall be used only when specifically authorized or directed by the Commission.⁴

² Letter of February 1, 2018, from Charles White and James Lee Mudd on behalf of Marion County.

³ <https://psc.ky.gov/agencies/psc/forms/usoa/0700ab02.pdf>

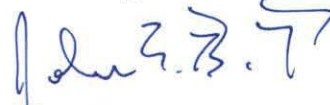
⁴ The 1996 version of the National Association of Regulatory Utility Commissioners Uniform System of Accounts for Class A/B Water Districts and Associations modified and adopted by the Kentucky Public Service Commission in 2002, Accounting Instructions, Item 27, Utility Plant - Additions and Retirements at 32-33.

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This letter represents the Commission Staff's interpretation of the law as applied to the facts presented. This opinion is advisory in nature and not binding on the Commission should the issues herein be formally presented for Commission resolution.

Questions concerning this opinion should be directed to Jenny L. Sanders, Commission Staff Attorney, at (502) 782-2581 or Jenny.Sanders@ky.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "John E.B. Pinney". The signature is stylized and includes a large, sweeping flourish on the right side.

John E.B. Pinney
Acting General Counsel

JS/kg