

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY     )  
WATER DISTRICT FOR AN ADJUSTMENT     ) CASE NO. 2007-00135  
OF RATES AND ISSUANCE OF BONDS     )

ORDER

Northern Kentucky Water District (“Northern District”) has applied for authority to issue \$30,075,125 in revenue bonds, and for authority to increase its water rates. By this Order, we authorize the requested financing and establish rates that will produce annual revenues from water sales of \$41,201,823, an increase of \$6,263,406 over normalized revenues from water sales of \$34,938,417.

On March 30, 2007, Northern District notified the Commission of its intent to file an application for an adjustment of rates. On May 30, 2007, Northern District tendered its application. The rates, which Northern District proposed to become effective on July 1, 2007 and which were based upon a historical test period ending December 31, 2006, would produce additional revenues of \$5,287,415 or 15 percent over normalized revenues from existing rates of \$35,214,639.<sup>1</sup> Northern District proposed to fund its construction projects through the issuance of \$30,075,125 of 25-year parity revenue bonds with interest rates varying from 3.70 to 4.57 percent per annum.<sup>2</sup>

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<sup>1</sup> Application, Exhibit N (“Cost-of-Service Study”) at 3.

<sup>2</sup> Application, Exhibit A at 6.

The Commission established this docket and permitted the Attorney General of Kentucky (“AG”) to intervene in this matter. On June 29, 2007, the Commission suspended the rates for 5 months from July 1, 2007 up to and including November 30, 2007 and established a schedule for their examination.

Following extensive discovery, an informal conference was held on October 19, 2007 for the purpose of discussing procedural matters for the upcoming hearing, issues regarding pending surcharge proceedings,<sup>3</sup> and the possibility of settlement. At the informal conference, Commission Staff presented its proposed adjustments to the revenue requirement contained in Northern District’s Application.<sup>4</sup> Northern District accepted Commission’s Staff’s adjustments and agreed to revise its revenue requirement schedules to reflect those adjustments.<sup>5</sup>

On October 24, 2007, Northern District submitted revised schedules<sup>6</sup> reflecting the adjustments discussed with Commission Staff and the AG. Northern District’s revised schedules produce an increase in operating revenues of \$3,911,624,<sup>7</sup> a decrease of \$1,375,791 or 26 percent below the original increase requested of

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<sup>3</sup> Case No. 2006-00315, Application of Northern Kentucky Water District for A Certificate of Convenience and Necessity for the Construction of Sub District F Water Main Extensions, Financing and Surcharge; and Case No. 2007-00131, Application of Northern Kentucky Water District for A Certificate of Convenience and Necessity for the Construction of Sub District G Water Main Extensions, Financing and Surcharge.

<sup>4</sup> Memorandum of the October 19, 2007 Informal Conference entered into the Case File on October 30, 2007 at 2.

<sup>5</sup> Id.

<sup>6</sup> Revenue Requirement Schedules 1 through 10 of Exhibit N, Cost-of-Service Study.

<sup>7</sup> Notice of Filing of Revised Schedules, submitted October 24, 2007, Schedule 1, Summary of Test Year Revenue Requirements.

\$5,287,415. In his October 25, 2007 response, the AG states that he does not object to Northern District's revised schedules, nor does he object to submitting the matter to the Commission without an evidentiary hearing. Northern moved on October 31, 2007 that this case be submitted for decision on the record without a hearing, since there appear to be no remaining outstanding issues, and given the AG's agreement that an evidentiary hearing is unnecessary.

In Case No. 2006-00398,<sup>8</sup> the Commission found that Northern District's current depreciation rates warrant adjustment and ordered Northern District to adjust its current depreciation rates based on the average life range for each asset group found appropriate in the National Association of Regulatory Utility Commissioners Study of Depreciation Practices for Small Water Utilities, dated August 15, 1979.<sup>9</sup> In its response to the November 21, 2007 Order, Northern District elected to use the remaining life depreciation rates contained in Appendix B of that Order.

In its revised schedules filed December 14, 2007,<sup>10</sup> Northern District determined that by using the new depreciation lives its pro forma depreciation expense will increase from the test-period actual level of \$5,613,542 to \$8,149,106, an increase of \$2,535,564. An increase in depreciation expenses results in a corresponding increase in Northern District's revenue requirement. While this matter has been proceeding

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<sup>8</sup> Case No. 2007-00398, Application of Northern Kentucky Water District for Approval of Depreciation Study (Ky. PSC November 21, 2007).

<sup>9</sup> Where the NARUC Study makes no recommendation for depreciation rates for a listed asset group, the Commission found that the depreciable life recommended in Northern District's Revised Study should be utilized.

<sup>10</sup> Revenue Requirement Schedules 1 through 10 of Exhibit N, Cost-of-Service Study.

using Northern District's then current depreciation rates, we find no reason not to incorporate the remaining life depreciation rate schedule filed December 14, 2007 in this case to calculate Northern District's depreciation expense and revenue requirement.

Having reviewed Northern District's revised cost-of-service schedules and the evidence of record, the Commission finds that Northern District requires an increase in revenues of \$6,263,406, determined as follows:

Debt Service Requirement – 3 Year Averages	\$ 13,969,286 <sup>11</sup>
Add: Debt Service Coverage	2,701,477 <sup>12</sup>
Operation & Maintenance Expenses	20,779,693
Taxes Other Than Income Tax	561,803
Depreciation Expense	<u>+ 8,149,106</u>
Total Revenue Requirement	\$ 46,161,365
Less: Other Income and Deductions	2,387,169
Boone & Florence – Reserve	<u>- 443,685</u>
Revenue Requirement from Operations	\$ 43,330,511
Less: Other Operating Revenues	<u>- 2,128,688</u>
Revenue Requirement from Water Sales	\$ 41,201,823
Less: Pro Forma Revenue from Water Sales	<u>- 34,938,417</u>
Required Increase	<u>\$ 6,263,406</u>

#### COST-OF-SERVICE STUDY

Northern District proposes to increase its water rates by an across the board of 15 percent for all of its customers. Northern District did not perform a cost-of-service study to determine these increases, but rather relied upon the cost-of-service study approved in Case No. 2005-00148.<sup>13</sup>

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<sup>11</sup> \$13,507,386 (Revenue Bonds) + \$236,900 (2007 SRF Loan) + \$225,000 (Taylor Mill Loan) = \$13,969,286.

<sup>12</sup> \$13,507,386 (Revenue Bonds) x 0.2 (Required Coverage) = \$2,701,477.

<sup>13</sup> Case No. 2005-00148, Application of Northern Kentucky Water District for (A) An Adjustment of Rates; (B) A Certificate of Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds, (Ky. PSC April 28, 2006).

Northern District's proposed rates are based on the rate design currently applied to Northern District's retail customers. The proposed rates consist of a service charge by meter size that has no volume allowance and a three step declining block commodity charge. Wholesale customers under the proposed rate structure will continue to be charged a flat per CCF commodity charge. The Commission accepts Northern District's rate design, but denies the proposed rates because they produce revenue greater than that found reasonable herein.

### SUMMARY

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Northern District proposes to fund \$25,700,000 of construction projects, as set forth in its application, with the proceeds of the issuance of \$30,075,125 of 25-year parity revenue bonds with interest rates varying from 3.70 to 4.57 percent per annum.
2. The proposed bond issuance is for a lawful object within Northern District's corporate purposes, is necessary and appropriate for and consistent with the proper performance by Northern District of its service to the public, and will not impair its ability to perform that service and is reasonably necessary and appropriate for such purpose.
3. The rates in Appendix A are the fair, just, and reasonable rates for Northern District and will produce gross annual revenues as found reasonable herein.
4. Northern District's proposed rates would produce revenue less than that found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that:

1. Northern District is authorized to issue approximately \$30,075,125 of 25-year parity revenue bonds with interest rates varying from 3.70 to 4.57 percent per annum.
2. The proceeds of the issuance authorized herein shall be used only for the purposes set forth in Northern District's application.
3. Northern District's proposed rates are denied.
4. The rates set forth in Appendix A are approved for service rendered by Northern District on and after the date of this Order and will produce gross annual revenues as found reasonable herein.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 21<sup>st</sup> day of December, 2007.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2007-00135 DATED December 21, 2007

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

Service Charges

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$ 12.54	\$ 18.97
3/4"	\$ 12.96	\$ 19.99
1"	\$ 14.15	\$ 22.98
1 1/2"	\$ 15.93	\$ 27.08
2"	\$ 20.13	\$ 38.07
3"	\$ 48.61	\$ 118.45
4"	\$ 60.89	\$ 148.45
6"	\$ 90.16	\$ 219.44
8"	\$ 121.75	\$ 299.79
10"	\$ 161.91	\$ 391.47

Commodity Charges

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rates</u>
	ccf	ccf	
First	15	45	\$ 3.31 per ccf
Next	1,635	4,905	\$ 2.88 per ccf
Over	1,650	4,950	\$ 2.55 per ccf
Wholesale			\$ 2.22 per ccf