

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|---------------------|
| APPLICATION OF SYMSONIA WATER DISTRICT |) | |
| FOR APPROVAL OF A CERTIFICATE OF PUBLIC |) | |
| CONVENIENCE AND NECESSITY FOR |) | CASE NO. 2012-00517 |
| CONSTRUCTION OF WATER FACILITIES, |) | |
| FINANCING AND INCREASED RATES FOR |) | |
| WATER AND SEWER SERVICE |) | |

ORDER

Symsonia Water District ("Symsonia District") has applied to adjust its rates for water and sewer service, for authorization to enter an Assistance Agreement with the Kentucky Infrastructure Authority ("KIA"), and for a Certificate of Public Convenience and Necessity ("Certificate") to construct a water treatment facility. By this Order, the Commission authorizes Symsonia District to enter the Assistance Agreement and issues a Certificate for the proposed construction. We further approve rates for water service that will produce annual water sales revenues of \$94,319, an increase of \$23,000, or 32.2 percent, over pro forma present water rate revenues and rates for sewer service that will produce annual sewer revenues of \$89,369, an increase of \$8,141, or 10 percent, over pro forma present sewer rate revenues.

On November 29, 2012, Symsonia District tendered its application for filing. Because the application failed to meet certain requirements of 807 KAR 5:001, the Commission did not accept the application for filing purposes until January 29, 2013. At that time, the Commission suspended the operation of Symsonia District's proposed

rates until July 24, 2013 and established a procedural schedule for review of Symsonia District's application.

On April 1, 2013, after reviewing the application and Symsonia District's records, Commission Staff issued a report containing its findings regarding the proposed rate adjustment. Commission Staff found that Symsonia District's proposed water rates would generate additional revenues of \$23,000 over pro forma test-year water revenues and its proposed sewer rates would generate additional revenues of \$8,141 over pro forma test-year sewer revenues.¹ Commission Staff further found that, using the operating ratio methodology to determine Symsonia District's revenue requirements, Symsonia District's financial condition would support a revenue requirement from water sales of \$103,607, which would require a revenue increase of \$32,288, and a revenue requirement from sewer sales of \$120,075, which would require a revenue increase of \$38,847.² Commission Staff recommended that the Commission direct Symsonia District to revise its method for calculating and recording depreciation expense for accounting and ratemaking purposes.³

In response to this report, Symsonia District advised the Commission that it did not contest or dispute Commission Staff's findings regarding the need for a higher revenue requirement, but would not amend its request. Symsonia District further waived its right to a hearing on its application and requested that the matter be

¹ Staff Report at 2.

² *Id.* at 19.

³ *Id.* at 4.

submitted for decision based upon the existing record.⁴ On May 6, 2013, the Commission closed the record and submitted the matter for decision. On July 1, 2013, Symsonia District advised the Commission of its intent to place its proposed rates into effect, subject to refund on July 24, 2013.⁵

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

1. Symsonia District, a water district organized pursuant to KRS Chapter 74, owns and operates water treatment and distribution facilities that serve approximately 322 customers in Graves County, Kentucky.⁶ It also owns and operates wastewater collection and treatment facilities that serve approximately 264 sewer customers in Graves County, Kentucky.⁷

2. Symsonia District proposes to construct a water treatment plant with a treatment capacity of 90,000 gallons of water per day.⁸ The proposed construction project includes two groundwater wells, a chemical feed building with two 150-gallon-per-minute high service pumps, 1,750 linear feet of 6-inch polyvinyl chloride water main, a 150,000-gallon ground storage tank, and a supervisory control and data acquisition system.

⁴ Letter from Keith Cooper, Chairman, Symsonia Water District, to Jeff Derouen, Executive Director, Public Service Commission (received Apr. 11, 2013).

⁵ Letter from Keith Cooper, Chairman, Symsonia Water District, to Jeff Derouen, Executive Director, Public Service Commission (received July 1, 2013).

⁶ *Annual Report of Symsonia Water District (Water Operations) to the Public Service Commission for the Calendar Year Ended December 31, 2012 ("Water Annual Report")* at 5, 21.

⁷ *Annual Report of Symsonia Water District (Sewer Operations) to the Public Service Commission for the Calendar year Ended December 31, 2012 ("Sewer Annual Report")* at 1, 12.

⁸ The proposed project is identified in the Water Resource Information System as Project No. WX21083055.

3. The proposed construction project is intended to supplement and eventually replace Symsonia District's existing water treatment facilities.

4. Symsonia District's existing water treatment plant is approximately 50 years old, is nearing the end of its useful service life, and lacks sufficient capacity to adequately meet Symsonia District's current and near-future demands.⁹

5. The wells that currently serve as Symsonia District's water source lack sufficient capacity to meet current and anticipated demand, have experienced significant deterioration of their sand screens, and will require extensive repair to remain in service.¹⁰

6. The existing 75,000-gallon water storage tank that serves Symsonia District's system requires extensive maintenance and cannot be taken out of service because of a lack of system redundancy.¹¹

7. Austin Engineering, Inc. of Paducah, Kentucky, prepared the plans and specifications for the proposed construction project.

8. The Division of Water of the Kentucky Energy and Environment Cabinet has approved the plans and specifications for the proposed construction project.¹²

⁹ Symsonia District's Response to Commission Staff's First Request for Information, Item 3 (filed Mar. 22, 2013).

¹⁰ *Id.* Item 4.

¹¹ *Id.* Item 1.

¹² Letter from Mark Rasche, Supervisor, Water Infrastructure Branch, Kentucky Division of Water, to Jim Waid, Manager, Symsonia Water District (Jan. 12, 2012).

9. The estimated total cost of the construction project including construction, administrative, contingencies, legal, and engineering costs and inspection fees, is \$895,000.¹³

10. Symsonia District proposes to finance the proposed construction project with an appropriation of \$595,000 from the Kentucky General Assembly¹⁴ and a KIA loan of \$300,000.

11. The proposed project will not compete or conflict with the facilities of other jurisdictional utilities operating in the same area.

12. The proposed project will not result in the wasteful duplication of utility facilities or excessive investment.

13. The public convenience and necessity require the construction of the proposed construction project.

14. Symsonia District proposes to enter an Assistance Agreement with KIA to borrow \$300,000 and to repay the principal amount over a 20-year period at an interest rate not to exceed 1.75 percent per annum.

15. The proposed Assistance Agreement with KIA is for a lawful object within Symsonia District's corporate purposes, is necessary and appropriate for and consistent with Symsonia District's proper performance of its service to the public and will not impair Symsonia District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

¹³ WRIS Project Profile No. WX21083055, <http://wris.ky.gov/portal/DwPrjData/WX21083056> (last visited Aug. 10, 2013).

¹⁴ 2008 Ky. Acts Ch. 191.

16. The calendar year ending December 31, 2011 should be used as the test year to determine the reasonableness of Symsonia District's existing and proposed rates.

17. Symsonia District presently uses service lives for five classes of water operation assets that are at variance¹⁵ with those found in a survey of the National Association of Regulatory Utility Commissioners ("NARUC") that contained "a range of average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice."¹⁶

18. The Commission has previously used the same survey to establish the service lives of water utility assets.¹⁷

19. Symsonia District presently uses service lives for nine classes of sewer operation assets that are at variance¹⁸ with those that the Commission on Rural Water recommends.¹⁹

¹⁵ Staff Report Attachment C at 1.

¹⁶ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10.

¹⁷ See Case No. 2012-00390, *Application of Crittenden-Livingston Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 20, 2012); at 4, n. 10.

¹⁸ Staff Report Attachment C at 1.

¹⁹ Commission on Rural Water, *Guide for Support of Rural Water-Wastewater System* (Chicago, Ill. 1974) at 246 - 247.

20. The Commission has previously used the recommendations of the Commission on Rural Water to establish the service lives of wastewater utility assets.²⁰

21. The record contains no evidence that the service lives that Symsonia District uses are based upon a depreciation study or its own historic plant records.

22. Symsonia District's assignment of service lives for these 14 classes of assets is not reasonable for ratemaking purposes and revisions in these assignments should be made for ratemaking and accounting purposes.

23. Appendix A to this Order sets forth the classes of assets whose service lives should be adjusted, the previously assigned service life of each class, the service life range that the appropriate authority suggests for each class, and the assigned service life that should be used for ratemaking and accounting purposes for all future reporting periods.

24. Based upon pro forma test-year operations, Symsonia District's total pro forma revenue for its water operations is \$73,710.²¹

25. Based upon pro forma test-year operations, Symsonia District's total pro forma operating expenses for its water operations, after adjusting for known and measurable changes, is \$93,278.²²

26. The statement of Symsonia District's test-period operations for its water operations, as adjusted for known and measurable changes, is set forth in Appendix B of this Order.

²⁰ See, e.g. Case No. 2004-00336, *Joint Application of B & H, Inc. and Richmond Utilities, LLC for Approval of the Transfer of Wastewater Treatment Plant to Richmond Utilities, LLC* (Ky. PSC Dec. 22, 2004).

²¹ Staff Report at 6. \$71,319 (Water Sales) + \$2,209 (Other Water Revenue) + \$182 (Interest and Dividend Income) = \$73,710.

²² *Id.*

27. Based upon pro forma test-year operations, Symsonia District's total pro forma revenue for its sewer operations is \$83,750.²³

28. Based upon pro forma test-year operations, Symsonia District's total pro forma operating expenses for its sewer operations, after adjusting for known and measurable changes, is \$107,885.²⁴

29. The statement of Symsonia District's test-period operations for its sewer operations, as adjusted for known and measurable changes, is set forth in Appendix C of this Order.

30. Symsonia District currently has no long-term debt.²⁵

31. Given the absence of any long-term debt, the use of an operating ratio²⁶ to determine Symsonia District's total revenue requirement is appropriate.²⁷

32. An operating ratio of 0.88 will permit Symsonia District to meet its reasonable operating expenses and adequate cash working capital and should be used to determine Symsonia District's total revenue requirements.

²³ Staff Report at 7. \$81,228 (Flat Rate Revenues) + \$2,340 (Other Sewer Revenue) + \$182 (Interest and Dividend Income) = \$83,750.

²⁴ *Id.*

²⁵ Principal and interest payments on the proposed KIA loan are not expected to begin before June 1, 2014. See Staff Report at 18 – 19.

²⁶ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

²⁷ See, e.g., Case No. 9612, *Application of Lake City Water District for an Adjustment of Rates Pursuant to the Alternative Procedure for Small Utilities* (Ky. PSC Sept. 18, 1986). See also 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

33. Applying an operating ratio to Symsonia District's pro forma water operations results in a total revenue requirement of \$105,998²⁸ for Symsonia District's water operations and requires an increase to water sales revenues of \$32,288.²⁹

34. Applying an operating ratio to Symsonia District's pro forma sewer operations results in a total revenue requirement of \$122,597³⁰ for Symsonia District's sewer operations and requires an increase to sewer revenues of \$38,847.³¹

35. Based upon pro forma test-year sales, Symsonia District's proposed rates will produce additional annual revenues from water sales of \$23,000 and permit Symsonia District's water operations to obtain total annual revenues of \$96,710.

36. Based upon pro forma test-year sales, Symsonia District's proposed rates will produce additional annual revenues from sewer operations of \$8,141 and permit Symsonia District's sewer operations to obtain total annual revenues of \$91,891.

37. Symsonia District's proposed rates will allow both of its operations to meet all cash operating expenses and provide for a reserve.

²⁸ \$93,278 (Operating Expenses) ÷ 0.88 = \$105,998.

| | |
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| ²⁹ Total Revenue Requirement | \$105,998 |
| Less: Other Operating Revenue | (2,209) |
| Interest Income | <u>(182)</u> |
| Revenue for Water Sales | \$103,607 |
| Less Pro Forma Present Rate Revenue | <u>(71,319)</u> |
| Revenue Increase | <u>\$ 32,288</u> |

³⁰ \$107,885 (Operating Expenses) ÷ 0.88 = \$122,597

| | |
|---|------------------|
| ³¹ Total Revenue Requirement | \$122,597 |
| Less: Other Operating Revenue | (2,340) |
| Interest Income | <u>(182)</u> |
| Revenue for Sewer Sales | \$120,075 |
| Less Pro Forma Present Rate Revenue | <u>(81,228)</u> |
| Revenue Increase | <u>\$ 38,847</u> |

38. The annual reserve for water operations will be sufficient to meet the annual principal and interest payments on Symsonia District's proposed loan with KIA.³²

39. The record contains no evidence that permitting Symsonia District to assess its proposed rates will result in any degradation or reduction in the quality of service that Symsonia District currently provides.

40. A utility may propose 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 proposed rates should be accepted.³³

41. Symsonia District's proposed rates, which are set forth in Appendix D, should be approved for water and sewer service rendered on and after July 24, 2013.³⁴

42. Symsonia District fails to allocate for accounting purposes expenses that its water and sewer operations share.

43. Symsonia District fails to comply with the Uniform System of Accounts by failing to maintain separate cash accounts for each of its operations and accounting for cash transactions separately.

³² Annual debt service on the KIA loan is estimated to be \$18,433. Application ¶ 4. An annual reserve of \$22,483 should exist for Symsonia District's water operations. $\$22,483 = \$96,710$ (Total Revenue at Requested Rates) - $\$74,227$ (Cash Operating Expenses).

³³ *Utilities Operating Co. v King*, 143 So.2d 854, 45 PUR3d 439, 443 (Fla. 1962) ("[I]n the absence of some showing that the service to the public will suffer by allowing . . . [a] 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); 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).

³⁴ Symsonia District's proposed rates allocate its proposed revenue requirement increase evenly among all usage blocks. The Commission has previously found that this methodology, in the absence of a cost-of-service study, to be reasonable. See Case No. 2012-00537, *Alternative Rate Filing for Bath County Water District* (Ky. PSC May 17, 2013).

44. On July 1, 2013, the Commission received a letter from Symsonia District giving notice that it would place its proposed rates into effect subject to refund on July 24, 2013 if a final order approving new rates had not been issued by that date. Since the rates approved by this Order are identical to the proposed rates placed into effect on July 24, 2013, no refunds are due to customers.

IT IS THEREFORE ORDERED that:

1. Symsonia District is granted a Certificate to proceed with the proposed construction project as set forth in its application.
2. Symsonia District shall notify the Commission prior to performing any additional construction not expressly authorized by this Order.
3. Any deviation from the construction approved shall be undertaken only with the approval of the Commission.
4. Symsonia District shall furnish documentation of the total costs of this project, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.
5. Symsonia District shall file with the Commission a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of substantial completion of the construction certificated herein.

6. If any surplus from the budgeted funds remains upon completion of the proposed project, Symsonia District shall advise the Commission in writing of this fact within 60 days of substantial completion of the construction.

7. If the estimated total cost of the proposed project is revised, Symsonia District shall within 10 days of such revision file with the Commission written notice of the revised cost and the reasons for such revision.

8. Symsonia District shall require the construction to be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil, electrical, or mechanical engineering to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

9. Symsonia District is authorized to enter an Assistance Agreement with KIA to borrow an amount not to exceed \$300,000 with a term of 20 years at an interest rate not to exceed 1.75 percent per annum.

10. Within 30 days of executing the proposed agreement, Symsonia District shall file a copy of the executed assistance agreement and any documents referenced in the executed assistance agreement that Symsonia District has not previously filed with the Commission.

11. The proceeds from the assistance agreement shall be used only for the lawful purposes specified in Symsonia District's Application.

12. Symsonia District's proposed rates for water and sewer service, which are set forth in Appendix D, are approved for service that Symsonia District renders on and after July 24, 2013.

13. Symsonia District shall, for accounting and ratemaking purposes, use the "PSC Approved Service Life" set forth in Appendix A to this Order for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order, but shall make no retroactive adjustment to its books to account for the cumulative effect of this change in accounting estimate.

14. Within 20 days of the date of this Order and using the Commission's Electronic Tariff Filing System, Symsonia District shall file with the Commission revised tariff sheets that contain the rates set forth in Appendix D.

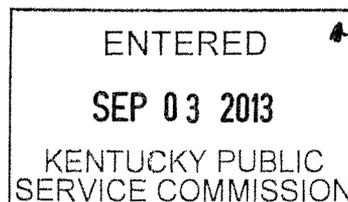
15. In all future reporting periods, Symsonia District shall use reasonable allocation factors and allocate shared transactions and expenses between its water and sewer operations.

16. Any documents filed pursuant to ordering paragraphs 2, 4 through 7, and 10 shall reference this case number and shall be retained in the utility's general correspondence file.

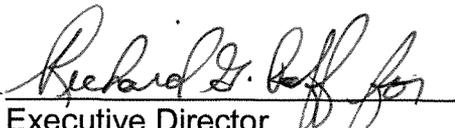
17. The Executive Director shall serve a copy of this Order upon KIA.

Nothing contained herein shall be deemed a warranty or guarantee of the Commonwealth of Kentucky, or any agency thereof, of the evidences of indebtedness authorized herein.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00517 DATED SEP 03 2013

Proposed Modifications to the Service Lives of
Certain Assets of Symsonia Water District

| Asset Class | Division | Applicable Depreciation Guide | Guide Range | Previous Assigned Service Life | PSC Approved Service Life |
|-------------------------------------|----------|-------------------------------|---------------|--------------------------------|---------------------------|
| Wells and Springs | Water | NARUC | 25 - 35 years | 39 years | 35 years |
| Supply Mains | Water | NARUC | 50 - 75 years | 39 years | 62.5 years |
| Transmission and Distribution Mains | Water | NARUC | 50 - 75 years | 39 years | 62.5 years |
| Hydrant | Water | NARUC | 40 - 60 years | 10 years | 50 years |
| Office Furniture and Equipment | Water | NARUC | 20 - 25 years | 5 years | 20 years |
| Pumping Equipment | Sewer | CRW | 7 years | 32.5 years | 7 years |
| Oxidation Lagoon | Sewer | CRW | 5 - 25 years | 32.5 years | 25 years |
| Treatment and Disposal | Sewer | CRW | 10 years | 39 years | 10 years |
| Office Equipment | Sewer | CRW | 20 - 25 Years | 5 years | 20 years |
| Office Furniture | Sewer | CRW | 20 - 25 Years | 7 years | 20 years |
| Office Improvements | Sewer | CRW | 35 - 40 Years | 15 years | 35 years |
| Trencher | Sewer | CRW | 10 - 15 Years | 7 years | 15 years |
| Store Equipment | Sewer | CRW | 20 Years | 10 years | 20 years |
| Transportation Equipment | Sewer | CRW | 7 Years | 10 years | 7 years |

NARUC – NARUC's *Depreciation Practices for Small Water Utilities*

CRW – Commission on Rural Water's *Guide for Support of Rural Water-Wastewater System*

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00517 DATED SEP 03 2013

Symsonia Water District's Adjusted Operating Statement (Water Operations)

| | |
|--|--------------------|
| Operating Revenue | |
| Meter Sales | \$ 71,319 |
| Other Water Revenues: | <u>2,209</u> |
| Total Operating Revenues | <u>73,528</u> |
| Operating Expenses | |
| Operation and Maintenance Expense: | |
| Salaries and Wages - Employees | 42,316 |
| Purchased Power | 3,262 |
| Chemicals | 6,780 |
| Materials and Supplies | 6,384 |
| Contractual Services | 3,810 |
| Insurance | 5,229 |
| Regulatory Commission Expense | 132 |
| Miscellaneous Expenses | <u>6,314</u> |
| Total Operation and Maintenance Expenses | 75,227 |
| Depreciation Expense | <u>19,051</u> |
| Total Operating Expenses | <u>93,278</u> |
| Net Operating Income | (19,750) |
| Interest and Dividend Income | <u>182</u> |
| Income Available to Service Debt | <u>\$ (19,568)</u> |

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00517 DATED **SEP 03 2013**

Symsonia Water District's Adjusted Operating Statement (Sewer Operations)

| | |
|--|--------------------|
| Operating Revenue | |
| Flat Rate Sales | \$ 81,228 |
| Other Sewer Revenues: | <u>2,340</u> |
| Total Operating Revenues | <u>83,568</u> |
| Operating Expenses | |
| Operation and Maintenance Expense: | |
| Salaries | 30,428 |
| Purchased Fuel and Power | 11,834 |
| Chemicals | 4,291 |
| Disposal - Materials and Supplies | 8,559 |
| Maintenance Fee - Contractual Services | 1,501 |
| Insurance | 5,229 |
| Regulatory Commission Expense | 132 |
| Uncollectible Accounts | 36 |
| Miscellaneous Expenses | <u>6,020</u> |
| Total Operation and Maintenance Expenses | 68,030 |
| Depreciation Expense | <u>39,855</u> |
| Total Operating Expenses | <u>107,885</u> |
| Net Operating Income | (24,317) |
| Interest and Dividend Income | <u>182</u> |
| Income Available to Service Debt | <u>\$ (24,135)</u> |

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00517 DATED **SEP 03 2013**

The following rates and charges are prescribed for the customers in the area served by Symsonia Water District for service rendered on and after July 24, 2013. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8-Inch x 3/4-Inch Meter

| | | |
|-------|----------------|------------------------|
| First | 2,000 gallons | \$15.41 Minimum bill |
| Next | 3,000 gallons | 3.85 per 1,000 gallons |
| Next | 5,000 gallons | 2.97 per 1,000 gallons |
| Next | 10,000 gallons | 2.50 per 1,000 gallons |

2-Inch Meter

| | | |
|-------|----------------|------------------------|
| First | 20,000 gallons | \$66.74 Minimum bill |
| Over | 20,000 gallons | 2.50 per 1,000 gallons |

Monthly Sewer Rates

| | |
|---------------------|----------------------------------|
| Residential Service | \$28.21 per 1,000 gallons |
| Other | 28.21 per Residential Equivalent |

(A residential equivalent equals 12,000 gallons per month)

Keith Cooper
Chairman
Symsonia Water District
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Symsonia, KY 42082-9801