Reasons for Rate Increase

North Mercer Water District (the "District") is requesting a 24.41% rate increase for its retail customers. The rate increase will generate approximately $481,314 in additional annual revenue. The District needs the rate increase for the following reasons:

1. To enable the District to pay its annual principal payments on its existing long term debts from water revenues rather than from depreciation reserves;

2. To enable the District to meet the coverage requirements set forth in its existing debt instruments;

3. To restore the District to a sound financial condition; and

4. To enable the District to enhance its financial capacity so it can continue to operate its system in compliance with the federal Safe Drinking Water Act, as amended in 1996, and KRS Chapter 151.

Replacing Declining Block Rate Tiers. The District desires to replace its existing 4-tier Declining Block Rate structure with a single rate tier. This will encourage conservation by its customers and will eliminate the subsidy currently being given to large volume customers.

Minimum Bills for Larger Meters. Currently, the District does not have a minimum bill for larger size meters. The District has approximately 32 customers with a 1-inch meter and 3 customers with a 2-inch meter. The District is proposing to establish a minimum bill for these larger size meters.

Cost of Service Study. Because the District is replacing its existing 4-tier Declining Block Rate structure with a single rate tier, it cannot utilize a uniform across-the-board rate increase of 24.41%. Consequently, it was necessary to prepare a Cost of Service Study to allocate fixed and variable costs. A copy of the Cost of Service Study is attached to this ARF Application.

Bond Refunding. The District has seven (7) outstanding Bond Issues. Three (3) of these bear interest at rates ranging from 4.375% to 5.50%. The District is seeking to refund these three (3) Bond Issues (See PSC Case No. 2016-00355, which is pending before the PSC). The Bond Refunding is scheduled to close in mid-December 2016. If present market conditions remain unchanged, the District expects to achieve annual debt service savings of approximately $14,000. If the Bond Refunding is successful, the District will provide the PSC with a new Debt Service Schedule.

Replacement of Infrastructure. The revenue generated from the proposed rate increase will allow for the replacement of defective mains and service lines from cash reserves instead of issuing new debt.