

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST CARROLL WATER)
DISTRICT FOR AN ADJUSTMENT IN RATES) CASE NO. 2012-00433
PURSUANT TO THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

ORDER

West Carroll Water District ("West Carroll District") has applied to adjust its rates for water service. By this Order, the Commission approves rates that will produce annual water sales revenues of \$519,120, an increase of \$50,642, or 10.8 percent, over pro forma present rate revenues. Our action will increase the monthly bill of a customer who uses 5,000 gallons of water monthly from \$46.12 to \$51.11, or 10.8 percent.

On November 26, 2012, West Carroll District applied for a rate adjustment pursuant to 807 KAR 5:076. On January 29, 2013, after reviewing the application and West Carroll District's records, Commission Staff issued a report containing its findings and recommendations regarding the proposed rate adjustment. Commission Staff found that West Carroll District's proposed rates would generate additional revenues of \$38,201 over pro forma test-year revenues.¹ It further found that, using the approach that the Commission has historically employed to determine a water district's revenue requirements, West Carroll District's financial condition would support a revenue requirement of \$543,906 and, therefore, a revenue increase of \$50,642.² Commission Staff also recommended that the Commission direct West Carroll District to revise its

¹ Staff Report at 2.

² *Id.* at 13.

method for calculating and recording depreciation expense for accounting and ratemaking purposes.³

In response to this report, West Carroll District advised the Commission that it accepted Commission Staff's findings regarding the need for a higher revenue requirement and the rates that Commission Staff found would generate the higher revenue requirement. West Carroll District further waived its right to a hearing on its application and requested that the matter be submitted for decision based upon the existing record.⁴ On March 6, 2013, the Commission closed the record and submitted the matter for decision.

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

1. West Carroll District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 981 customers in Carroll, Trimble, and Henry counties, Kentucky.⁵

2. The calendar year ending December 31, 2011, should be used as the test year to determine the reasonableness of West Carroll District's existing and proposed rates.⁶

³ *Id.* at 10-11.

⁴ Letter from Chastity Robbins, Director of Finance, West Carroll Water District, to Jeff Derouen, Executive Director, Public Service Commission (Feb. 26, 2013).

⁵ *Annual Report of West Carroll Water District to the Public Service Commission of Kentucky for the Calendar Year Ending December 31, 2011* at 5 and 27.

⁶ 807 KAR 5:076, Section 8.

3. Based upon pro forma test-year operations, West Carroll District's total pro forma revenue from rates is \$493,264.⁷

4. Based upon pro forma test-year operations, West Carroll District's total pro forma operating expenses, after adjusting for known and measurable changes is \$461,388.⁸

5. The statement of West Carroll District's test-period operations, as adjusted for known and measurable changes, is set forth at Appendix A of this Order.

6. West Carroll District proposed to reduce reported depreciation expense by \$78,053 to reflect a change to the service lives that it assigns to certain assets.⁹

7. In lieu of conducting a depreciation study to determine the service lives of its assets or relying upon its own historic plant records, West Carroll District has relied upon the results of the 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"¹⁰ to make revisions to the service lives of several classes of its assets.¹¹

⁷ Staff Report at 5. \$468,478 (Water Sales) + \$22,909 (Other Water Revenues) + \$1,512 (Interest Income) + \$365 (Nonutility Income) = \$493,264.

⁸ *Id.*

⁹ App. Attachment SAO-W at 4.

¹⁰ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 10 (referring to the table of typical average service lives upon which West Carroll District relied).

¹¹ App. Attachment SAO-W at 4.

8. The Commission has previously used the same survey to establish the service lives of utility assets.¹²

9. West Carroll District's use of the survey to determine the service lives of certain classes of assets is reasonable.¹³

10. West Carroll District compared previously assigned service lives to certain classes of assets and, where these service lives fell outside of or narrowly within the NARUC survey range for an asset, assigned that asset a new service life within the NARUC survey range.

11. With the exception of its proposed reassignment of the service life for communications equipment,¹⁴ West Carroll District's reassignment of service lives for ratemaking purposes is reasonable and should be authorized for ratemaking and accounting purposes.

12. Appendix B to this Order sets forth the classes of assets whose service lives West Carroll District has adjusted; the previously assigned service life to each class; the newly assigned service life to each class; the service life range that the NARUC survey suggests for each class; and the assigned service life that should be used for ratemaking and accounting purposes for all future reporting periods.

¹² 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.

¹³ The Commission's use of the NARUC survey to determine service lives does not preclude the use of other surveys of the average lifetimes for the major water and wastewater system components.

¹⁴ We find that the useful life for communications equipment should remain at 10 years and have increased West Carroll District's proposed adjustment to depreciation expense by \$323.

13. The three-year average of West Carroll District's principal and interest payments on its existing long-term debt is \$68,765.¹⁵

14. The Commission has historically used the Debt Service Coverage Methodology to calculate the revenue requirements of water districts with long-term bonded debt.

15. Applying the Debt Service Coverage Methodology to West Carroll District's pro forma operations, results in a total revenue requirement of \$543,906 and an increase to water sales revenue of \$50,642.¹⁶

16. Based upon pro forma test-year sales, West Carroll District's proposed rates will not produce annual revenues from water sales of \$519,120 or permit West Carroll District to obtain total annual revenues of \$543,906.

17. In the absence of a cost-of-service study to allocate costs, the most equitable means to establish rates to produce the revenue requirement is to allocate the required revenue increase evenly among all usage blocks.

18. The rates set forth in Appendix C to this Order allocate the required revenue increase evenly among all usage blocks. Based upon pro forma test-year sales, they will produce revenues from water sales of \$519,120 and will permit West Carroll District to obtain total revenues of \$543,906. They are fair, just, and reasonable and should be charged by West Carroll District for service rendered on and after the date of this Order.

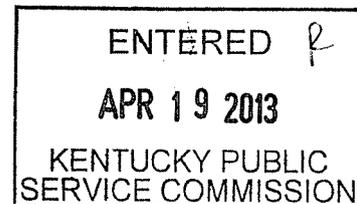
¹⁵ Staff Report at 15.

¹⁶ *Id.* at 13.

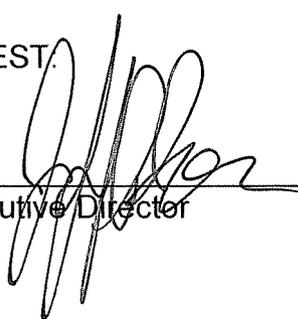
IT IS THEREFORE ORDERED that:

1. West Carroll District's proposed rates are denied.
2. West Carroll District shall charge the rates set forth in Appendix B to this Order for water service rendered on and after the date of this Order.
3. Within 20 days of the date of this Order and using the Commission's Electronic Tariff Filing System, West Carroll District shall file with the Commission revised tariff sheets that contain the rates set forth in Appendix C.
4. West Carroll District shall for, accounting and ratemaking purposes, use the "PSC Approved Service Life" set forth in Appendix C 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.

By the Commission



ATTEST.



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00433 DATED APR 19 2013

West Carroll Water District's Adjusted Operating Statement

Operating Revenue	
Water Sales	\$ 468,748
Other Water Revenues:	<u>22,909</u>
Total Operating Revenues	<u>491,387</u>
Operating Expenses	
Operation and Maintenance Expense:	
Salaries & Wages - Officers	9,000
Purchased Water	111,395
Purchased Power	10,385
Materials & Supplies	18,425
Contractual Services	206,757
Water Testing	6,468
Insurance	7,485
Bad Debt Expense	4,176
Miscellaneous Expenses	<u>4,673</u>
Total Operation & Maintenance Expenses	378,764
Depreciation Expense	80,967
Amortization Expense	268
Taxes Other than Income	<u>1,389</u>
Total Operating Expenses	<u>461,388</u>
Net Operating Income	29,999
Plus: Interest Income	1,512
Gain on Disposal of Asset	<u>365</u>
Income Available to Service Debt	<u>\$ 31,876</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00433 DATED APR 19 2013

Proposed Modifications to the Service Lives of
Certain Assets of West Carroll Water District

Asset Class	NARUC Range	Previous Assigned Service Life	Newly Assigned Service Life	PSC Approved Service Life
Communications Equipment	10 years	10 years	20 years	10 years
Transmission and Distribution Mains	50 – 75 years	50 years	65 years	65 years
Services	30 – 50 years	35 years	40 years	40 years
Meters	35 – 45 years	35 years	40 years	40 years
Meter Installations	40 – 50 years	20 – 35 years	45 years	45 years
Hydrants	40 – 60 years	35 years	50 years	50 years
Fencing	35 – 40 years	5 – 20 years	35 years	35 years

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00433 DATED APR 19 2013

The following rates and charges are prescribed for the customers in the area served by West Carroll Water District for service rendered on and after the date of this Order. 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

First	2,000 gallons	\$ 24.98	Minimum bill
Next	3,000 gallons	8.71	per 1,000 gallons
Next	5,000 gallons	7.85	per 1,000 gallons
Next	10,000 gallons	6.98	per 1,000 gallons
Over	20,000 gallons	6.15	per 1,000 gallons

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