

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO. 2012-00009
MUHLENBERG COUNTY WATER DISTRICT)

ORDER

Pursuant to 807 KAR 5:076, Muhlenberg County Water District (“Muhlenberg District”), has applied for an adjustment of rates for water service. By this Order, the Commission establishes rates that will produce additional annual revenues of \$361,778, or 12.23 percent increase over normalized test-period revenues from water sales of \$2,959,438. For the average residential customer who consumes 3,817 gallons of water monthly, his or her monthly bill will increase from \$32.06 to \$36.07, or approximately 12.51 percent. The Commission also approves the assessment of a monthly surcharge of \$1.91 on all customers for a period of 120 months to finance a meter replacement program.

Muhlenberg District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 6,022 customers in Muhlenberg County, Kentucky.¹ Its last general rate adjustment occurred in May 2007.²

¹ *Annual Report of Muhlenberg County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* at 5, 27.

² Case No. 2006-00248, *The Application of Muhlenberg County Water District For a General Rate Adjustment Pursuant to the Provisions of KRS 278.030 and 807 KAR 5:001* (Ky. PSC May 3, 2007). On September 20, 2008, Muhlenberg District adjusted its rates pursuant to KRS 278.015 and 807 KAR 5:069 to reflect an increase in the rates of its wholesale water supplier. See Case No. 2008-00342, *Purchased Water Adjustment of Muhlenberg County Water District* (Ky. PSC Sept. 22, 2008).

On January 10, 2012, Muhlenberg District filed with the Commission its application for an adjustment of its rates for water service. Using its historical operations for the calendar year ended December 31, 2010 and adjusting for known and measureable changes, Muhlenberg District proposed rates that would produce additional revenues from water sales of \$361,778, an increase of 12.23 percent over normalized revenues from water sales of \$2,959,438. It also proposed to assess a monthly surcharge of \$1.91 on all customers for 12 months to finance a meter replacement program.

On March 30, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and Muhlenberg District's operations during the test period. It found that, based upon Muhlenberg District's test-period operations, Muhlenberg District required total revenues of \$3,435,369 to meet its reasonable operating expenses and provide for reasonable equity growth. It further found that, to reach this level of revenue, Muhlenberg District required a rate adjustment to generate additional annual revenue of \$361,778 over normalized revenue from rates of \$2,959,438 and that Muhlenberg District's proposed rates would produce this level of revenue. Commission Staff recommended that Muhlenberg District's proposed surcharge be approved subject to certain conditions.

Muhlenberg District responded to the findings and recommendations contained in Commission Staff's report on April 9, 2012. It stated no objections to those findings and recommendations and further advised that that matter should be submitted to the Commission for decision based upon the existing record.

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

1. Except where they conflict with the findings contained in this Order, the findings contained in Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2010 should be used as the test period to determine the reasonableness of Muhlenberg District's existing and proposed rates.

3. Based upon pro forma test-period operations, Muhlenberg District's pro forma annual revenue is \$3,073,591.³ Approximately \$2,959,438 of this revenue results from water sales.

4. Based upon pro forma test-period operations, Muhlenberg District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$2,920,148.⁴

5. Muhlenberg District's average annual principal and interest payment on its long-term debt for the three-year period from 2012 to 2014 is \$429,351.

6. Given that Muhlenberg District is a water district, the use of debt service coverage methodology to determine its total revenue requirement is appropriate.

7. The use of a debt service coverage ratio of 1.2x should be used to determine Muhlenberg District's total revenue requirement.

³ Revenue from Metered Water Sales (\$2,959,438) + Other Operating Revenue (\$101,829) + Interest Income (\$12,324) = \$3,073,591. Other Operating Revenue includes forfeited discounts and miscellaneous service revenue.

⁴ This amount does not include \$87,534 in purchased water expenses that Muhlenberg District incurred during the test period. During the test period, Muhlenberg District experienced unaccounted-for water loss of 23.708 percent. "Unaccounted-for water loss" equals the difference of the total amount of water produced and purchased and the sum of water sold, water used for fire protection purposes, and water used in treatment and distribution operations (e.g., backwashing filters, line flushing). 807 KAR 5:066, Section 6(3), provides that "for rate making purposes, a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of the total water produced and purchased, excluding water used by a utility in its own operations."

8. Applying a debt service coverage of 1.2x to Muhlenberg District's average annual debt service requirement for the period from 2012 to 2014 produces a total revenue requirement of \$3,435,369, or \$361,778 more than Muhlenberg District's pro forma annual revenues.

9. Muhlenberg District's proposed rates will produce total annual revenues of \$3,435,369,⁵ will allow Muhlenberg District to meet its reasonable operating expenses and debt service requirements, and will provide for reasonable equity growth.

10. Muhlenberg District's proposed rates are fair, just, and reasonable and should be assessed for service rendered on and after the date of this Order.

11. Muhlenberg District proposes to implement a program to replace all of its 3/4 x 5/8-inch water meters. It estimates the total cost of this program will be \$1,332,255 and will take ten years to complete.

12. The majority of Muhlenberg District's water meters are in excess of 30 years old, are nearing the end of their useful service life, and will require repair or replacement.

13. During the test period, Muhlenberg District experienced unaccounted-for line loss of 23.708 percent and non-revenue water loss of 29.29 percent.⁶

14. During the period from 2006 through 2010, approximately 26.91 percent of Muhlenberg District's water purchases was non-revenue water.

15. Replacement of Muhlenberg District's aging meter population will likely reduce the level of non-revenue water.

⁵ The proposed rates will produce revenues from water sales of \$3,321,216.

⁶ "Non-revenue water is defined as "those components of system input volume that are not billed and produce no revenue; equal to unbilled authorized consumption plus apparent losses plus real losses." American Water Works Association, *Water Audits and Loss Control Programs* (3d ed. 2009) at 271.

16. Muhlenberg District's proposed replacement program includes the installation of radio-read technology that should significantly reduce labor expense related to meter reading and enable the water district to collect a significant amount of customer usage data to better monitor water usage, discover customer leaks, and develop a more effective rate design.

17. The use of a monthly surcharge assessed over a 120-month period is a reasonable means to fund Muhlenberg District's proposed water meter replacement program.

18. The assessment of any monthly surcharge should be conditioned upon stringent reporting requirements regarding the collection and use of the surcharge proceeds and strict limits on Muhlenberg District's use of the surcharge proceeds.

19. Muhlenberg District's proposed water meter replacement surcharge should be approved subject to the following conditions:

a. Surcharge collections must be promptly deposited and subsequently maintained in a separate interest-bearing account.

b. Muhlenberg District should file quarterly activity reports with the Commission that include a statement of monthly surcharge billings and collections, a monthly surcharge bank statement, a list of each payment from the account, its payee, a description of its purpose, and invoices supporting each payment.

c. Surcharge proceeds should be used only for the purchase and installation of meters to replace Muhlenberg District's existing meters.

d. Any use of surcharge proceeds for a purpose other than the purchase and installation of replacement meters or failure to timely submit the required

reports is grounds for termination of the surcharge and for refund of all collected surcharge proceeds.

20. Muhlenberg District should, subject to the conditions set forth in Finding 18, be authorized to assess a monthly surcharge of \$1.91 to each customer for a period of 120 months or until \$1,357,255 has been assessed, whichever occurs first.

IT IS THEREFORE ORDERED that:

1. Except when they contradict or conflict with the findings contained in this Order, the findings contained in Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates set forth in the Appendix to this Order are approved for water service that Muhlenberg District renders on and after the date of this Order.

3. Subject to the conditions set forth in ordering paragraph 4, Muhlenberg District is authorized to assess a monthly surcharge of \$1.91 on each customer beginning on May 1, 2012 and continuing for a period of 120 months or until the total amount of the surcharge assessed equals \$1,357,255, whichever occurs first.

4. The assessment and collection of the surcharge approved in ordering paragraph 3 of this Order is subject to the following conditions:

a. Muhlenberg District shall use the surcharge proceeds only for the purchase and installation of meters to replace Muhlenberg District's existing meters.

b. Muhlenberg District shall promptly deposit and subsequently maintain all surcharge collections in a separate interest-bearing account.

c. Muhlenberg District shall file quarterly activity reports with the Commission that include a statement of monthly surcharge billings and collections, a

monthly surcharge bank statement, a list of each payment from the account, its payee, a description of its purpose, and invoices supporting each payment.

d. Any use of surcharge proceeds for a purpose other than for the purchase and installation of replacement meters or any failure to timely submit the reports required by this Order or to maintain the proceeds in the manner prescribed in this Order shall be grounds for immediate termination of the surcharge and refund of all collected surcharge proceeds.

5. a. Muhlenberg District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

b. Muhlenberg District shall debit monthly billings of the surcharge to customer accounts receivable and credit the contribution account.

c. When Muhlenberg District collects the meter replacement surcharge from the customer, it shall debit special funds and credit the customer account.

6. Within 20 days of the date of this Order, Muhlenberg District shall file revised tariff sheets with the Commission setting forth the rates approved in this Order.

7. Any documents filed in the future pursuant to this Order shall reference this case number and shall be retained in the utility's general correspondence file.

8. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon Muhlenberg District's showing of good cause for such extension.

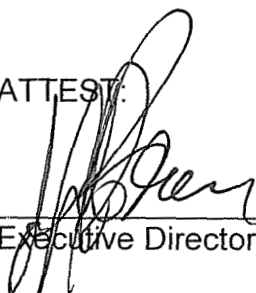
9. The informal conference and hearing scheduled in this matter are cancelled.

10. This matter is closed and shall be removed from the Commission's docket.

By the Commission

ENTERED *pn*
APR 30 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00009 DATED APR 30 2012

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District. 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.

<u>Usage Brackets</u>		<u>Rates</u>		
<u>5/8 x 3/4 Inch Meter:</u>				
First	2,000	\$	22.53	Min. Bill
Next	8,000	\$	7.45	Per 1,000 Gal
Next	10,000	\$	6.79	Per 1,000 Gal
Next	30,000	\$	6.14	Per 1,000 Gal
Over	50,000	\$	5.48	Per 1,000 Gal
<u>1 Inch Meter:</u>				
First	5,000	\$	44.88	Min. Bill
Next	5,000	\$	7.45	Per 1,000 Gal
Next	10,000	\$	6.79	Per 1,000 Gal
Next	30,000	\$	6.14	Per 1,000 Gal
Over	50,000	\$	5.48	Per 1,000 Gal
<u>1 1/2 Inch Meter:</u>				
First	11,000	\$	88.89	Min. Bill
Next	9,000	\$	6.79	Per 1,000 Gal
Next	30,000	\$	6.14	Per 1,000 Gal
Over	50,000	\$	5.48	Per 1,000 Gal
<u>2 Inch Meter:</u>				
First	16,000	\$	122.82	Min. Bill
Next	4,000	\$	6.79	Per 1,000 Gal
Next	30,000	\$	6.14	Per 1,000 Gal
Over	50,000	\$	5.48	Per 1,000 Gal
<u>3 Inch Meter:</u>				
First	26,000	\$	186.77	Min. Bill
Next	24,000	\$	6.14	Per 1,000 Gal
Over	50,000	\$	5.48	Per 1,000 Gal
<u>4 Inch Meter:</u>				
First	36,000	\$	248.15	Min. Bill
Next	14,000	\$	6.14	Per 1,000 Gal
Over	50,000	\$	5.48	Per 1,000 Gal
Wholesale		\$	4.35	Per 1,000 Gal

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