

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LEDBETTER WATER AND	)	
SEWER DISTRICT FOR AN ADJUSTMENT IN	)	
RATES PURSUANT TO THE ALTERNATIVE	)	CASE NO. 2012-00057
RATE FILING PROCEDURE FOR SMALL	)	
UTILITIES	)	

ORDER

Pursuant to 807 KAR 5:076, Ledbetter Water and Sewer District (“Ledbetter District”) applied for an adjustment of rates for sewer service. By this Order, the Commission establishes rates that will produce additional annual revenues of \$117,795, a 32.76 percent increase over normalized test-period revenues from sewer service of \$359,592. These rates will increase the monthly bill of a customer who uses 5,000 gallons of water from \$47.99 to \$63.82, or approximately 32.99 percent.

Ledbetter District, a water and sewer district organized pursuant to KRS Chapter 74, owns and operates facilities that provide sewer service to approximately 801 customers in Livingston County, Kentucky.<sup>1</sup>

On February 17, 2012, Ledbetter District filed with the Commission its Application for an adjustment of its rates for sewer service. Using its historical operations for the calendar year ending December 31, 2010, and adjusting for known and measureable changes, Ledbetter District proposed rates that would produce additional revenues from sewer service of \$115,565, an increase of 32.14 percent over normalized revenues from sewer service of \$359,592.

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<sup>1</sup> *Annual Report of Ledbetter Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* (“Annual Report”) at 5 and 27.

Commission Staff reviewed Ledbetter District's Application and financial records. On May 7, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate adjustment and Ledbetter District's operations during the test year. It found that Ledbetter District's pro forma operating expenses for the test period were \$343,605 and its total revenue requirement from sewer service was \$477,387. It further found that to obtain this revenue requirement, Ledbetter District required a revenue increase of \$117,795, or 32.76 percent over its normalized revenues.

Pursuant to the terms of the Commission's Order of March 2, 2012, Ledbetter District advised the Commission in writing on May 10, 2012 that the report's findings and recommendations should be submitted for decision based upon the existing record and without a hearing. It did not dispute any of the findings of Commission Staff nor did it request the rates that Commission Staff found would generate the revenue requirement that Commission Staff found reasonable. Pursuant to the terms of the Commission's Order of March 2, 2012, this case stood submitted for decision upon receipt of Ledbetter District's written notice.

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 Ledbetter District's existing and proposed rates.

3. Based upon pro forma test-period operations, Ledbetter District's pro forma total annual revenue is \$361,072.<sup>2</sup> Approximately \$359,592 of this revenue is from sewer service.<sup>3</sup>

4. Based upon pro forma test-period operations, Ledbetter District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$343,605.

5. Ledbetter District's average annual principal and interest payment on its long-term debt for the three-year period from 2012 to 2014 is \$135,262.<sup>4</sup>

6. Given that Ledbetter 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 Ledbetter District's total revenue requirement.

8. Applying a debt service coverage of 1.2x to Ledbetter District's average annual debt service requirement for the period from 2011 to 2014 produces a total revenue requirement from sewer service of \$477,387 or \$117,795 more than Ledbetter District's pro forma annual revenue from sewer service of \$359,592.

9. Based on normalized test-period water usage, Ledbetter District's proposed rates will produce total annual revenues of \$475,157, and result in total annual revenues of \$476,637.<sup>5</sup>

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<sup>2</sup> \$359,592 (Operating Revenues) + \$680 (Interest and Dividend Income) + \$800 (Miscellaneous Nonoperating Income) = \$361,072.

<sup>3</sup> \$359,488 (Sewage Revenue) + \$104 (Miscellaneous Sewer Revenue) = \$359,592.

<sup>4</sup> This amount is based upon the average annual principal and interest payments that Ledbetter District will make on Kentucky Infrastructure Authority Loan No. A-06-01 and on Kentucky Association of Counties Note 2007-B for the period from 2011 to 2014.

<sup>5</sup> \$475,157 (Operating Revenues) + \$800 (Misc. Nonoperating Revenue) + \$680 (Interest and Dividend Income) = \$476,637.

10. Ledbetter District's proposed rates will not allow Ledbetter District to meet its reasonable operating expenses and debt service requirements and provide for reasonable equity growth and, therefore, should be denied.

11. The rates set forth in the Appendix to this Order will produce total annual revenues from sewer service of \$477,387 and result in total annual revenues of \$478,867.<sup>6</sup>

12. The rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. Except where 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. Ledbetter District's proposed rates are denied.

3. The rates set forth in the Appendix to this Order are approved for sewer service that Ledbetter District renders on and after the date of this Order.

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

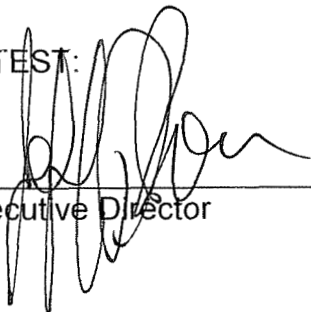
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<sup>6</sup> \$477,387 (Operating Revenues) + \$800 (Misc. Nonoperating Revenue) + \$680 (Interest and Dividend Income) = \$478,867.

By the Commission

ENTERED *JA*  
AUG 09 2012  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:



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Executive Director

Case No. 2012-00057

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00057 DATED **AUG 09 2012**

The following rates and charges are prescribed for the customers in the area served by Ledbetter Water and Sewer 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.

#### MONTHLY SEWER RATES

First	2,000 gallons	\$25.21 Minimum Bill
Over	2,000 gallons	12.87 per 1,000 gallons
Unmetered		63.82 per Bill

Billy Downs  
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Ledbetter Sewer District  
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