

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MONROE)	CASE NO.
COUNTY WATER DISTRICT FOR RATE)	2017-00070
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On March 16, 2017, pursuant to 807 KAR 5:076, Monroe County Water District (“Monroe District”) tendered its application (“Application”) for adjustment to its water service rates and certain nonrecurring charges. Monroe District’s proposed rates would increase the monthly bill of a typical residential customer purchasing 4,000 gallons of water per month through a 5/8- x 3/4-inch meter from \$34.51 to \$39.07, an increase of \$4.56, or 13.2 percent,¹ and would generate \$225,312 in additional annual revenues.² By this Order we deny the water rates proposed by Monroe District, approve rates that will generate sufficient revenues for Monroe District to continue operations, and approve the non-recurring charges as proposed by Monroe District.

¹ Application, Tab 2, page 1.

² *Id.* Tab 4, page 1.

BACKGROUND

Monroe District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 3,438 water customers located in Monroe County, Kentucky.³ Monroe District does not produce any of its own water; rather, it purchases its water from the city of Tompkinsville. Monroe District received its last general rate adjustment on December 1, 2011.⁴

TEST PERIOD

The calendar year ended December 31, 2015, was used as the test year to determine the reasonableness of Monroe County's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

PROCEDURE

Monroe District tendered its application on March 16, 2017. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), was granted full intervention on April 10, 2017. The Commission, upon its own motion, established a procedural schedule on April 12, 2017. The Attorney General submitted his initial request for information on May 1, 2017. Monroe District submitted its responses to the Attorney General's initial data request on May 19, 2017, and additionally filed its first supplement to its application wherein, among other things, it revised the calculation of its proposed nonrecurring charges.

³ *Annual Report of Monroe County Water District No. 1 to the Public Service Commission for the Calendar Year Ended December 31, 2015 ("Annual Report")* at 12 and 53.

⁴ Case No. 2011-00272, *Application of the Monroe County Water District for the Approval of the Proposed Increase in Rates for Water Service* (Ky. PSC, Dec. 1, 2011) Final Order.

Commission Staff applied generally accepted methods and practices to review the reasonableness of Monroe District's pro forma financial statements, revenue requirement calculation, requested water rates, and requested nonrecurring charges. On June 30, 2017, Commission Staff ("Staff") issued a Staff Report finding that Monroe District's adjusted test-year operations support an overall revenue requirement of \$1,939,741, and additionally found Monroe District's proposed changes to its non-recurring charges to be reasonable.

On July 14, 2017, the Attorney General and Monroe District separately filed their written comments and objections to the Staff Report. The only finding in the Staff Report to which Monroe District objected was Staff's use of a 62.5-year life for Monroe District's transmission and distribution mains rather than the 50-year life Monroe District utilized in its Application. The Attorney General did not object to any finding in the Staff Report, but rather provided three comments concerning certain portions of the Staff Report, should the Commission rely upon them in a Final Order. First, the Attorney General commented on Staff's acceptance of the revised cost-justification calculations concerning non-recurring charges. He stated that Monroe District's customers will experience significant increases compared to what they might expect, due to Monroe District not requesting changes its non-recurring charges in past rate adjustments.⁵ Second, the Attorney General noted that while he agrees employee expenses are best considered as a total package per employee, he disagreed with the comparison made between Nolin Rural Electric Cooperative Corporation and Monroe District regarding the

⁵ Attorney General's Comments on Commission Staff Report, at 3.

total compensation package.⁶ Finally, the Attorney General questioned the support used in Staff's Report with regard to the depreciable lives assigned to transmission and distribution mains. He stated a concern that the record, as of the issuance of Staff's Report, did not contain enough evidence to support Staff's findings and that Staff should supplement the record to support its position.⁷

Per Commission Order issued on August 18, 2017, a hearing was held on September 27, 2017. On September 21, 2017, Monroe District submitted the following witnesses list: Jana Dubree, Office Manager, Monroe County Water District; Mark Williams, Chair, Monroe County Water District Board of Commissioners; Richard O. Ross, General Manager, Monroe County Water District; Robert D. Stigall, President, Stigall Engineering Associates; R. Brett Billingsley, C.P.A., Campbell, Meyer, and Rutledge, PLLC; and Melissa A. Melton, Technical Assistance Provider, CAK, Inc. By Order dated September 18, 2017, Ariel Miller adopted the findings and recommendations relating to Monroe District's overall revenue requirement as set forth in the Staff Report and she, with Jason Green, were listed as Staff witnesses who would testify at the September 27, 2017, hearing. The Attorney General did not call any witnesses in this matter.

On September 22, 2017, Monroe District filed a motion to take witness testimony by deposition because Melissa A. Melton would be unable to appear at the hearing. The Attorney General did not object to Monroe District's motion. The Commission entered an Order on October 3, 2017, continuing the hearing to October 25, 2017. Melissa A. Melton and Staff members Jason Green and Ariel Miller testified at the

⁶ *Id.*, at 5.

⁷ *Id.*, at 5.

October 25, 2017, hearing. Monroe District and the Attorney General filed post-hearing briefs on December 8, 2017.

ANALYSIS AND DISCUSSION OF ISSUES

The following are the Commission's analysis and discussion of the issues raised by the parties in their briefs and at the hearing, and by Staff in its report:

Depreciation Expense

The Commission has considered the arguments of Monroe District in support of its estimate of a 50-year service life assigned to its transmission and distribution mains and finds, as discussed in detail below, that the 62.5-year service life assigned by Staff is reasonable and supported by the evidence of record.

1. The NARUC Study and Monroe District's Expert.

In its Application, Monroe District cited *Depreciation Practices for Small Water Utilities (NARUC Aug. 15, 1979)*⁸ ("NARUC Study") and attached an affidavit from its consulting engineer Robert D. Stigall, whereby he provided the following sworn statement:

Based upon my training and experience as a professional engineer, my personal knowledge of Monroe District's operations, and experience with other water utilities that are similarly situated, the service lives assigned to Monroe District's assets are appropriate.⁹

Accordingly, Monroe District assigned a 50-year service life to its transmission and distribution mains. At the hearing on September 27, 2017, Mr. Stigall testified that he did not prepare Monroe District's Application and had not read it in its entirety. Mr.

⁸ Application, Tab 6, at 1(C.)

⁹ Application, Tab 21, at 3.

Stigall stated that he only provided an opinion as to whether the 50-year service life was reasonable.¹⁰

In its post-hearing brief, Monroe District argued that its proposed estimate of a 50-year service life for its water transmission and distribution mains was reasonable and supported by substantial evidence presented in the hearing and other filed documents.¹¹ In his post-hearing brief, the Attorney General stated that the Commission should not change its approach to determining useful lives on the basis of the instant case. The Attorney General further stated that the Commission should continue to analyze depreciation calculations on a case-by-case basis to best serve the interest of customers of individual utilities.¹²

Historically, the Commission has relied upon the NARUC Study to determine the reasonableness of depreciation practices of small water utilities. In the Staff Report, the mid-point of the NARUC ranges were used for all of Monroe District's assets.¹³ Staff based its decision to use the mid-point for the transmission and distribution mains on a discussion with Monroe District's General Manager, Richard Ross. As referenced in the Staff Report, Mr. Ross stated that the plant's overall condition was average for its age and that no component of the plant exhibits excessive or accelerated decay. In the Staff Report, Staff noted that discussions with Mr. Ross revealed approximately 95 percent of Monroe District's transmission and distribution mains are constructed of

¹⁰ September 27, 2017 H.V.T. at 4:41:11

¹¹ Post-Hearing Brief of Monroe County Water District, (filed Dec. 8, 2017) at 4.

¹² Attorney General's Post-Hearing Brief, (filed Dec. 8, 2017) at 2.

¹³ Staff Report at 25.

polyvinyl chloride (“PVC”) and all mains are in satisfactory condition with no major replacements necessary in the foreseeable future.¹⁴

During cross-examination at the hearing, Mr. Ross confirmed the conversation referenced in the Staff Report. Mr. Ross testified about a replacement project on Monroe District’s distribution system in 2003. Mr. Ross stated this project consisted of the replacement of eight miles of main that originally had been improperly installed. Mr. Ross further agreed that the project represented a small portion of the total system, and confirmed that there were no plans for any major replacements in the foreseeable future.¹⁵

Mr. Stigall testified that in his review process he looked for similarly situated utilities in order to make his determination regarding the service lives of Monroe District’s facilities.¹⁶ Mr. Stigall stated that he believed Monroe District had used a “standard of care”¹⁷ with regard to the proper installation of its transmission and distribution mains. He confirmed he did not base his report on an actual physical examination of the Monroe District’s mains, but instead that he based it upon comparison to similarly sized utilities and knowledge of practices at Monroe District. He stated that from 2003 to date, there have been no major replacements to transmission and distribution mains, and that no major replacements were expected to be undertaken in the near future.¹⁸ Mr. Stigall stated PVC would be the correct material for the size of

¹⁴ *Id.* at 29.

¹⁵ September 25, 2017 H.V.T. at 12:13:25.

¹⁶ *Id.* at 4:25:00.

¹⁷ *Id.* at 4:39:50.

¹⁸ *Id.* at 4:40:08.

Monroe District's system. Mr. Stigall also agreed that, given the testimony of Mr. Ross and the record revealing that a very small percentage of the mains had actually required repair, it is possible that based on the actual age of the PVC pipes, which was already approaching 50 years for a large number of Monroe District's mains, the service lives could be longer than 50 years. He explained that he did not have any data to suggest that the service life should be longer than 50 years, but also stated that he did not have any data to suggest he was "necessarily right either."¹⁹ Mr. Stigall stated that he had given PVC pipe a 50-year service life throughout his career. He also testified that he had not consulted any manufacturers of PVC pipe regarding the service lives of mains in his review of Monroe County's assets.²⁰ Monroe District argued in their post-hearing brief that the Commission Staff ignored Mr. Stigall's detailed statement in support of the use of a 50-year service life for Monroe District's water mains.

The Commission finds that there is not sufficient evidence to suggest that a 50-year life is more appropriate than a 62.5-year service life for Monroe District's transmission and distribution mains. The Commission evaluated the testimony of Monroe District's witnesses at the hearing regarding the age of the system, and notes Monroe District itself stated that there are no major replacements planned in the near future. In addition, Monroe District's witnesses testified that proper practices were used in the installation of its mains. Although Mr. Stigall testified that, based upon his practices, similarly situated utilities typically use a 50-year service life, he was unable to offer any data to support his position. The Commission also notes that Mr. Stigall did

¹⁹ *Id.* at 4:55:32.

²⁰ *Id.* at 4:54:05.

not base his report on a physical examination of the pipes, but on his past experience with contractors and his knowledge of Monroe District standard practices when installing the mains.

The Commission finds that Monroe District did not present evidence sufficient to refute the NARUC Study, nor did Monroe District's expert witness testify that 62.5-year service life was unreasonable. On the contrary, a 62.5-year service life is within the range suggested by the NARUC Study. Based upon the evidence in the record, the estimate provided by Staff is shown to be conservative. Monroe District cited the NARUC Study in its Application and then upon receiving Staff's recommendation, Monroe District argued in its response to the Staff Report that the NARUC Study was not a credible source. The Commission acknowledges that both Monroe District's proposed service life of 50-years and Staff's proposed service life of 62.5-years are reasonable under the terms of the NARUC Study. Given the evidence in the record that the majority of the mains are already approaching 50 years in service, the history of required repairs, and the apparent condition of the Monroe District mains given the absence of any planned major repairs or main replacement, the 62.5-year service life has been determined to be the more appropriate estimate.

Furthermore, a Utah State University study published in 2014 regarding depreciation of PVC pipes indicates that a service life of 100 years is reasonable.²¹ The Indiana Utility Regulatory Commission published a Small Utility Accounting Manual for Water and Wastewater Divisions that utilizes a service life of 75 years.²² Monroe

²¹ PSC Hearing Exhibit 2, at 7.

²² PSC Hearing Exhibit 3, at 13.

District cites to the Commission on Rural Water's Guide for the Support of Rural Water-Wastewater Systems ("Rural Water Guide") in its post-hearing brief. The Rural Water Guide, however, was issued in 1974, provides a service life range of 40 to 75 years for plastic water transmission mains, and a service life of 25 to 50 years for plastic water distribution mains.²³ The Rural Water Guide does not provide a strong alternative argument to the 1979 NARUC Study.

Staff testified that Monroe District is unable to perform a depreciation study because it simply does not have the required records.²⁴ In the absence of a depreciation study, which is not possible due to the age of Monroe District's facility and records, and which the Commission understands can be difficult and costly for a small water utility to undertake, some standard metric must be used as a guide for determining the useful lives of a small utility's assets. The Commission and Staff historically has used the NARUC study as that standard. The Commission finds, therefore, that a 62.5-year service life, the midpoint of the NARUC range, be assigned to all of Monroe District's transmission and distribution mains.

2. Monroe District's Additional Arguments

In addition to the arguments addressed above, Monroe District made other post-hearing arguments that the Commission will address herein. Monroe District argued that the Commission's finding in Case No. 2011-00272²⁵ of a service life of 50 years is

²³ Monroe District Post-Hearing Brief, at 7-8.

²⁴ October 25, 2017, H.V.T. at 4:17:10.

²⁵ *Application of the Monroe County Water District for the Approval of the Proposed Increase in Rates for Water Service*, Case No. 2011-00272 (filed Aug. 15, 2011).

controlling precedent,²⁶ and further argues that Commission precedent plays the “strongest role” in Staff’s recommendation of 62.5 years.²⁷ Monroe District’s argument that the finding of a 50-year service life in Case No. 2011-00272 fails, as the controlling precedent is not the finding of a 50-year service life, but is the process by which the result was obtained.

The 2011 case record does not contain any additional evidence to identify the processes Staff used to determine the 50-year service life beyond the use of the NARUC Study. Monroe District argues that Staff had a responsibility to identify the changes that had taken place in the years since the Monroe District’s last rate case.²⁸ The testimony of record is clear that in the instant case, Staff based its Report upon the field interview and applied the range of service lives and analysis of the NARUC Study. After the additional examination of witnesses and investigation of comparable depreciation studies, it is clear that Staff thoroughly investigated and considered the decision to apply a 62.5-year service life. Further, the age of the Monroe District system reinforces the estimate of depreciable service life. The collateral estoppel argument also fails, as there is no merit to an argument that once a service-life has been assigned to a system, that issue has been “litigated” and cannot be revisited in a rate case which is later in time and in which the facts have changed.

²⁶ Monroe District’s Post-Hearing Brief, at 9.

²⁷ *Id.* at 13.

²⁸ *Id.* at 14.

In its post-hearing brief, Monroe District argued that a recommendation by Staff should be based upon “solid, concrete evidence – hard facts and hard numbers.”²⁹ This argument is not convincing as the record supports Staff’s recommendation. The determination of useful service life is at best an educated estimate in the absence of a depreciation study. The Commission heard evidence of Mr. Stigall’s education and qualifications to make an educated estimate of the service-life. Mr. Stigall also testified that he did not perform a depreciation study and used the depreciation schedules that had been prepared by accountants.³⁰ Contradicting its own evidence, Monroe District cited to Case No. 2014-00342³¹ in which the Commission found that the opinion testimony of a certified public accountant is insufficient evidence to support a water district’s proposed service life. Monroe District argued further that Staff was not qualified to make an “engineering judgment” and that additionally, Staff was not qualified to apply the NARUC Study. Monroe District argues that the Commission should afford no weight to Staff’s opinion.³² Staff testified that the former engineers employed by the Commission used the NARUC Study to determine the useful lives in a rate case.³³ Monroe District argued that the Kentucky Rules of Evidence should apply in an advisory nature while trying to argue that Ms. Miller is not a qualified expert. However, this argument implies that she is required to be an expert and there is no such

²⁹ *Id.* at 16.

³⁰ October 25, 2017, H.V.T. at 4:44:07.

³¹ *Application of Mountain Water District for Adjustment of Water and Sewer Rates*, (Ky. PSC Dec.11, 2014).

³² Monroe District Post-Hearing Brief, at 19.

³³ October 25, 2017, H.V.T. at 4:11:16.

authority or precedent that requires this. Further, the Commission is not bound by the Kentucky Rules of Evidence,³⁴ as Monroe District admits in its post-hearing brief.

Finally, Monroe District's arguments that the NARUC study is not incorporated into the Commission's regulations and that the Commission should employ qualified personnel, such as trained engineers, are arguments that are not specific to Monroe District, and have no bearing on Staff's determination as to service life. As the Attorney General argued in his post-hearing brief, these matters are not directly relevant to the determination of service lives of the transmission and distribution mains for Monroe District.

Employee Healthcare Costs

In its Application, Monroe District requested to increase Employee Pensions and Benefits by \$11,223 to normalize expenses related to health, dental, and life insurance paid on behalf of its employees by Monroe District. In the Staff Report, Monroe District's proposed adjustment was accepted. The report stated that the cost of Monroe District's employee compensation package was reasonable and that it did not warrant additional adjustment.³⁵ At the hearing, Monroe District provided extensive testimony and exhibits regarding the reasonableness of employee compensation levels. The Commission has reviewed and has taken into consideration Monroe District's position.

In recent Orders, the Commission has made ratemaking adjustments to reduce the cost of employee benefit packages paid by some utilities when certain aspects of those benefits packages were found to be unreasonable based on a review of total

³⁴ KRS 278.310.

³⁵ Staff Report at 16.

salaries and fringe benefits. The Commission is placing greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs for market and geographic competitiveness to ensure the development of fair, just, and reasonable rates.

The Commission has found that in most cases 100 percent employer-funded healthcare does not meet those criteria. Absent a utility's requirement of reasonable employee participation in healthcare costs, the Commission has applied a consistent standard by utilizing the Bureau of Labor Statistics report,³⁶ which reflects an average employee contribution to single healthcare coverage of 21 percent of cost. Accordingly, the Commission finds that Employee Health Insurance Premiums should be reduced by 21 percent for single healthcare coverage, in the amount of \$20,562.³⁷

Cost of Living Adjustment and Changes to Employee Staffing Levels

In its Application, Monroe District requested to increase test-year Salaries and Wages by \$33,145 to reflect increases in wages for cost-of-living and merit increases during 2015 and 2016, and to decrease Salaries and Wages by \$13,960 for wages that were associated with tap-on fees.³⁸ Staff accepted these adjustments in its Report. Subsequent to the filing of the Staff Report, Monroe District, in its third supplement to its

³⁶ Bureau of Labor Statistics, Healthcare Benefits, March 2016, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2016/ownership/private/table10a.pdf>).

³⁷

Pro Forma Health Insurance Premiums	\$	97,916
Times: 21 Percent		<u>21%</u>
Adjustment to Health Insurance	\$	<u>20,562</u>

³⁸ Application, Tab 3, at 4.

Application, filed information regarding changes to its staffing levels and the most recent cost-of-living increase awarded to Monroe District's employees. Specifically, Monroe District hired two additional full-time employees, and, on July 10, 2017, granted a two percent cost-of-living increase to Monroe District's current employees. On October 16, 2017, in its response to the Attorney General's post-hearing data request, Monroe District indicated that one of its employees, an Accounts Receivable Clerk I, had resigned following the September 27, 2017, hearing. Monroe District stated that the net effect of these changes since the filing of the original Application is \$47,188.

Monroe District did not amend its Application when it notified the Commission of these changes. In fact, it stated on more than one occasion that Monroe District did not intend to amend the Application, and that it merely supplemented the record which requests rates that will generate revenues of approximately \$1,932,500.³⁹ In Case No. 10481, Kentucky-American Water Company ("Kentucky-American") requested to increase its rate base by \$1,985,570 to reflect plant placed into service 5 months after the close of the historical test period. All utilities under the Commission's jurisdiction were subsequently placed on notice that "post test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as plant additions."⁴⁰ It continues that, "[the Commission] will accept a forecasted test period in lieu of the adjusted historical test period."

³⁹ Response to Attorney General's Post-Hearing Data Request, at 1.

⁴⁰ Case No. 10481, *Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989* at 5 (Ky. PSC Aug. 22, 1989).

Monroe District has made a similar request in this case by supplementing its Application with what it believes to be significant changes to its operations that occurred subsequent to the test year. The Commission finds that all post-test-period adjustments (operating revenues and expenses) should be held to the same standard that it established in Case No. 10481. To the extent that Monroe District supplements the record, the Commission finds that in order to fully consider these post-test-period changes, the use of a forecasted test year would be the desirable remedy. Therefore, the Commission denies all adjustments that occurred subsequent to the issuance of Staff's Report. The Commission additionally finds that in future rate cases, cost-of-living adjustments without a sound basis, such as a relevant inflation index or written performance-based metric, will be disallowed.

Rate Case Expenses

A utility may properly recover reasonable rate case expenses as a cost of doing business.⁴¹ The Commission generally has permitted the recovery of rate case expenses in rates but has disallowed such expenses when a utility has failed to provide adequate documentation of the incurrence of the expense.⁴² Monroe District requested to recover \$15,000.00 in rate case expense amortized over three years in its Application. Monroe District did not amend its Application, but instead filed several Supplements, claiming that they "notified the Commission of changing conditions that might affect the Commission's review."⁴³ There has also been precedent that a utility

⁴¹ *Driscoll v. Edison Light & Power Co.*, 307 U.S. 104, 120 (1939).

⁴² Case. No. 2008-00250, *Frankfort Plant Board at 7* (Ky. PSC Apr.6, 2009).

⁴³ Monroe District Post-Hearing Brief, at 2.

must justify a high level of expense for a relatively simple alternate rate filing.⁴⁴ Currently, the Application requests \$15,000.00 and has not been amended. For these reasons, the Commission grants the \$15,000.00, amortized over three years as requested in the Application, and denies Monroe District's request to recover its rate case costs referred to in the three supplements filed in the record.

Sales of Water

Subsequent to the issuance of Staff's Report, an error was discovered in Monroe District's Application in the Usage Table provided as an exhibit to support its Billing Analysis.⁴⁵ The Usage Table miscalculates gallons attributable to the minimum bills for amounts over 20,000 gallons for customers served by 2-inch meters. Monroe District's exhibit shows the total over-20,000-gallon usage attributable to the minimum bill for those customers to be 2,700,00 gallons. The result of this error is an overstatement of gallons of usage over 20,000 that are above the minimum bill. The corrected Usage Table for the 2-inch meter size is calculated below.

	Bills	Gallons	First 20,000	Over 20,000
First 20,000 Gallons (Minimum Bill)	107	370,590	370,590	
Over 20,000 Gallons	270	40,137,970	5,400,000	34,737,970
Totals	377	40,508,560	5,770,590	34,737,970

Additionally, the Revenue Table (Current Rates) miscalculates the revenues for usage in the next 5,000 Gallons and over 10,000 Gallons categories for the 5/8-Inch x

⁴⁴ Case No. 9127, *Sergent & Sturgeon Builders, Inc., Gardenside Subdivision Sewer Division at 14 (Ky.PSC Mar. 25, 1985)*.

⁴⁵ Application, Tab 5 at 1.

3/4-Inch meter class, which are entered as \$131,896 and \$104,396, respectively.⁴⁶ The corrected revenue for this usage tier should be \$142,490 and \$114,233, respectively.

The combined result of the corrected allocation of gallons and recalculation of revenue for the 5/8-Inch x 3/4-Inch meter class results in a net increase to pro forma present rate revenues of \$5,068. The Commission finds that Sales of Water shall be increased by this amount to reflect the correct test year Sales.

MODIFICATIONS TO STAFF'S FINDINGS

Based on its modifications made herein to the Commission Staff's Report, the Commission finds that Monroe District's adjusted pro forma operating revenues and expenses should be as follows:

⁴⁶ *Id.* at 3.

	Commission Staff Report	Adjustments	Adjusted Pro Forma Expense
Operating Revenues			
Sales of Water	\$ 1,707,729	\$ 5,068	\$ 1,712,797
Miscellaneous Service Revenue	81,509		81,509
Total Operating Revenues	<u>1,789,238</u>	<u>5,068</u>	<u>1,794,306</u>
Operating Expenses			
Operation and Maintenance Expenses			
Salaries and Wages - Employees	369,369		369,369
Salaries and Wages - Commissioners	6,000		6,000
Employee Pensions and Benefits	156,886	(20,562)	136,324
Purchased Water	590,723		590,723
Purchased Power			
Pumping	47,966		47,966
Other	13,341		13,341
Materials and Supplies	90,927		90,927
Contractual Services	57,569		57,569
Transportation Expenses	18,197		18,197
Insurance	34,437		34,437
Bad Debt Expense	8,224		8,224
Regulatory Commission Expense	1,125	3,875	5,000
Miscellaneous Expense	25,433		25,433
Total Operation and Maintenance Expenses	1,420,197	(16,687)	1,403,510
Taxes Other Than Income	3,101		3,101
Depreciation	283,712		283,712
Total Operating Expenses	<u>1,707,010</u>	<u>(16,687)</u>	<u>1,690,323</u>
Net Operating Income	82,228	21,755	103,983
Interest Income	7,839		7,839
Income Available to Service Debt	<u>\$ 90,067</u>	<u>\$ 21,755</u>	<u>\$ 111,822</u>

REVENUE REQUIREMENT DETERMINATION

Based on the modifications to the findings of the Commission Staff Report, the Commission finds that Monroe District requires an overall revenue requirement of \$1,923,043, as determined below. In its September 30, 2017 filing, Monroe District gave notice that it intended to put the rates requested in its Application into effect

subject to refund.⁴⁷ The Commission finds that Monroe District shall refund its customers the difference between the rates requested in the application that generate the required revenue of \$1,932,500, and the rates that generate that revenue requirement of \$1,833,695 found to be reasonable by the Commission in this Order.

Pro Forma Operating Expenses	\$ 1,690,323
Add: Average Annual Debt Payments	193,942
Additional Working Capital	<u>38,778</u>
Overall Revenue Requirement	1,923,043
Less: Other Operating Revenue	(81,509)
Interest Income	<u>(7,839)</u>
Revenue Required from Rates	1,833,695
Less: Pro forma Present Rate Revenues	<u>(1,712,797)</u>
Revenue Increase	<u>\$ 120,898</u>
Percentage Increase	<u>7.06%</u>

RATE DESIGN

The Commission finds that in the absence of a cost-of-service study the proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to Monroe District’s customers. The rates in the Appendix A attached to this Order will produce water rate revenues of approximately \$1,833,695. The revenue requirement is determined herein to be reasonable by the Commission. The rates calculated in Appendix A have been determined to be sufficient to produce the revenue requirement determined by Staff for the time period between September 30, 2017 and November 7, 2017. The Commission finds that any amounts in excess of

⁴⁷ Notice of Intent to Place Rates Into Effect, at 1 (September 30, 3017).

the rates calculated in Appendix A for this time period should be refunded to Monroe District's customers.

PURCHASED WATER ADJUSTMENT

By Final Order dated November 8, 2017, in Case No. 2017-00404, Monroe District was granted an adjustment to its water service rates pursuant to the purchased water adjustment procedure.⁴⁸ The Commission finds that the purchased water adjustment factor that was determined in that case shall be used to calculate the rates in Appendix B for service rendered on or after November 8, 2017. The Commission also finds that Monroe District should refund any amounts exceeding this rate that were collected between November 8, 2017, and the date of this Order.

NONRECURRING CHARGES

The non-recurring charges proposed by Monroe County in its first supplement to the application and contained in Appendix C of this Order are found to be reasonable and are approved for service rendered by Monroe County on and after the date of this Order.

SUMMARY

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

1. Monroe District's proposed rates would produce revenue in excess of that found reasonable herein and should be denied.

⁴⁸ KRS 278.015; 807 KAR 5:068.

2. The recommendations and findings contained in the Commission Staff's Report, as modified herein, are adopted and incorporated by reference into this Order as if fully set out herein.

3. The rates set forth in Appendix A to this Order will produce the gross annual revenues found reasonable for the period between September 30, 2017, and November 7, 2017, and should be approved for service rendered by Monroe District during those dates.

4. Monroe District should be required to refund any amounts in excess of the rates in Appendix A for service rendered by Monroe District between September 30, 2017, and November 7, 2017.

5. The rates set forth in Appendix B to this Order will produce gross annual revenues as found reasonable herein and should be approved for service rendered by Monroe District on and after November 8, 2017.

6. Monroe District should be required to refund any amounts exceeding the rates found to be reasonable by the Commission in Appendix B for service rendered by Monroe District from November 8, 2017, to the date of this Order.

7. The nonrecurring charges set forth in Appendix C to this Order should be approved for service rendered from September 30, 2017, to the date of this Order, and to continue after the date of this Order.

IT IS THEREFORE ORDERED that:

1. Monroe District's proposed water service rates are denied.

2. The recommendations and findings contained in Commission Staff's Report, as modified herein, are adopted and incorporated by reference into this Order as if fully set out herein.

3. The rates set forth in Appendix A to this Order are approved for services rendered by Monroe District between the dates of September 30, 2017, and November 7, 2017.

4. Monroe District shall refund its customers for amounts billed in excess of the rates in Appendix A for service rendered by Monroe District between September 30, 2017, and November 7, 2017.

5. The rates set forth in Appendix B to this Order are approved for services rendered by Monroe District on and after November 8, 2017.

6. Monroe District shall refund its customers for amounts billed in excess of the rates in Appendix B for service rendered by Monroe District from November 8, 2017, to the date of this Order.

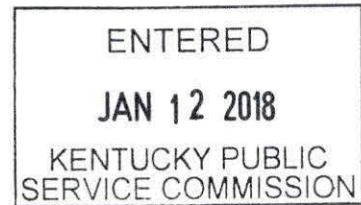
7. The nonrecurring charges set forth in Appendix C to this Order are approved for services rendered by Monroe District between, September 30, 2017, and on the date of this Order, and after the date of this Order.

8. Within 20 days of the date of the entry of this Order, Monroe District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

9. Monroe District shall use the depreciable life ranges found reasonable by Staff in the Staff Report, to depreciate water plant assets for accounting purposes in all

future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00070 DATED **JAN 12 2018**

The following rates and charges are prescribed for the customers in the area served by Monroe 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.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$ 20.27 Minimum Bill
Next	3,000 Gallons	8.34 per 1,000 Gallons
Next	5,000 Gallons	7.06 per 1,000 Gallons
Over	10,000 Gallons	6.09 per 1,000 Gallons

1-Inch Meter

First	5,000 Gallons	\$ 45.29 Minimum Bill
Next	5,000 Gallons	7.06 per 1,000 Gallons
Over	10,000 Gallons	6.09 per 1,000 Gallons

2-Inch Meter

First	20,000 Gallons	\$142.34 Minimum Bill
Over	20,000 Gallons	6.09 per 1,000 Gallons

Wholesale Rate

3.21 per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00070 DATED **JAN 12 2018**

The following rates and charges are prescribed for the customers in the area served by Monroe 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.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$ 22.15 Minimum Bill
Next	3,000 Gallons	9.28 per 1,000 Gallons
Next	5,000 Gallons	8.00 per 1,000 Gallons
Over	10,000 Gallons	7.03 per 1,000 Gallons

1-Inch Meter

First	5,000 Gallons	\$ 49.99 Minimum Bill
Next	5,000 Gallons	8.00 per 1,000 Gallons
Over	10,000 Gallons	7.03 per 1,000 Gallons

2-Inch Meter

First	20,000 Gallons	\$161.14 Minimum Bill
Over	20,000 Gallons	7.03 per 1,000 Gallons

Wholesale Rate

4.15 per 1,000 Gallons

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00070 DATED **JAN 12 2018**

The following rates and charges are prescribed for the customers in the area served by Monroe 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.

Nonrecurring Charges

Meter Connection/Tap-On Charge	
5/8-Inch X 3/4-Inch Meter	\$1,375.00
1-Inch Meter	1,635.00
2-Inch Meter	4,990.00
Connection/Turn-on Charge	85.00
Connection/Turn-on Charge (After Hours)	100.00
Deposit	
5/8-Inch X 3/4-Inch Meter	80.00
1-Inch Meter	370.00
2-Inch Meter	1,425.00
Field Collection Charge	65.00
Meter Re-Read Charge	65.00
Meter Relocation Charge	610.00
Meter Testing Charge	125.00
Reconnection Charge	125.00
Reconnection Charge (After Hours)	140.00
Returned Check Charge	35.00
Service Call/Investigation Charge	75.00
Service Call/Investigation Charge (After Hours)	95.00
Service Line Inspection Charge	85.00

*Gerald E Wuetcher
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Justin M. McNeil
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Kent Chandler
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Mary Ellen Wimberly
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Monroe County Water District
205 Capp Harlan Road
Tompkinsville, KY 42167

*Jana Dupree
Monroe County Water District
205 Capp Harlan Road
Tompkinsville, KY 42167

*Richard O Ross
General Manager
Monroe County Water District
205 Capp Harlan Road
Tompkinsville, KY 42167