

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LETCHER)	CASE NO.
COUNTY WATER AND SEWER DISTRICT FOR)	2017-00211
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On July 6, 2017, Letcher County Water and Sewer District (“Letcher County”) tendered an application (“Application”) with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. By letter dated July 10, 2017, the Commission notified Letcher County that the Application was deemed filed. In its Application, Letcher County requested rates that would increase annual water sales revenues by \$271,662, a 25.00 percent increase to pro forma present rate water sales revenues.

Pursuant to the procedural Order, on October 17, 2017, Commission Staff (“Staff”) issued a report (“Report”) summarizing its findings regarding Letcher County’s requested rate adjustment. In its Report, Staff found that Letcher County’s adjusted test-year operations support an overall revenue requirement of \$1,782,599 and that an annual revenue increase of \$585,813, or 54.89 percent, is necessary to generate the overall revenue requirement. Staff also found that Letcher County’s leak adjustment rate was insufficient to recover the cost incurred by the utility and should be increased to \$4.34 per 1,000 gallons. Staff further found that Letcher County should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

On October 31, 2017, Letcher County filed with the Commission its comments on Staff's report wherein it did not object to any of the Staff's findings, but did request that the Commission authorize a 25.00 percent across-the-board water rate increase as originally requested in the Application. With its comments, Letcher County did not request that a conference or hearing be held.¹

BACKGROUND

Letcher County 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 2,894 customers in Letcher County, Kentucky.² Letcher County does not produce any of its own water; rather, it purchases its water from the cities of Vicco, Jenkins, and Dry Fork, and from Knott County Water and Sewer. This is Letcher County's first general rate adjustment since its initial operations.

TEST PERIOD

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

SUMMARY OF REVENUE AND EXPENSES

Based on the findings of the Staff Report, Letcher County's pro forma operations should be as follows:

¹ Letter from Bernard Watts, Chairman, Letcher County Water and Sewer District, to Gwen R. Pinson, Executive Director, Public Service Commission (Oct. 23, 2017).

² *Annual Report of Letcher County Water and Sewer District to the Public Service Commission for the Calendar Year Ended December 31, 2015 ("Annual Report")* at 12 and 53.

	2015 Annual Report	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,272,925	\$ (76,979)	\$ 1,195,946
Operating Expenses	<u>1,855,527</u>	<u>(271,873)</u>	<u>1,583,654</u>
Net Operating Income	<u>\$ (582,602)</u>	<u>\$ 194,894</u>	<u>\$ (387,708)</u>

MODIFICATIONS TO STAFF'S FINDINGS

Letcher County proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In its Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Letcher County requires an increase in revenues of \$585,813, or 54.89 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 1,583,654
Plus: Average Annual Debt Payments	165,787
Additional Working Capital	<u>33,157</u>
Overall Revenue Requirement	1,782,599
Less: Other Operating Revenue	(128,659)
Interest Income	<u>(840)</u>
Revenue Required From Rates	1,653,100
Less: Pro Forma Present Rate Revenues	<u>(1,067,287)</u>
Required Revenue Increase	<u>\$ 585,813</u>
Percent Increase	<u>54.89%</u>

RATE DESIGN

Although Staff determined that a 54.89 percent increase is warranted, Letcher County requests to increase its current water service rates by an even across-the-board

25.00 percent increase. The requested 25.00 percent increase will produce additional revenues, sufficient for Letcher County to meet the Debt Service Coverage (“DSC”) ratio requirement of United States Department of Agriculture Rural Development and Kentucky Infrastructure Authority, Letcher County’s lenders.

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 Letcher County’s customers. The monthly bill of a typical residential customer using 3,500 gallons of water will increase from \$31.00 to \$38.75, an increase of \$7.75, or 25.00 percent.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The Commission has historically used a DSC method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission’s DSC method to Letcher County’s pro forma operations results in an Overall Revenue Requirement of \$1,782,599. A revenue increase of \$585,813 from water service rates is necessary to generate the overall revenue requirement.
3. The record contains no evidence that permitting Letcher County to assess water service rates at a level lower than could be supported will result in any degradation or reduction in the quality of water service currently provided by Letcher

County. A utility may assess rates that fail to produce a level of revenues that accepted ratemaking methodologies would regard as sufficient or adequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of this level of revenue, the 25.00 percent increase in water service rates requested by Letcher County should be approved by the Commission.³

4. The water service rates proposed by Letcher County should be approved.

5. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

6. The Commission finds that Letcher County's Leak Adjustment Rate is a non-recurring charge subject to 807 KAR 5:006, Section 9(1). Letcher County's current Leak Adjustment Rate of \$2.90 per 1,000 gallons results in a monetary loss to the utility and should be revised. The rate of \$4.43 per 1,000 gallons as determined in the Staff Report will allow the utility to recover the costs incurred by the utility and should be approved.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The general service rates proposed by Letcher County are approved.

3. The Leak Adjustment Rate of \$4.43 per 1,000 gallons as set forth in Appendix to this Order is approved.

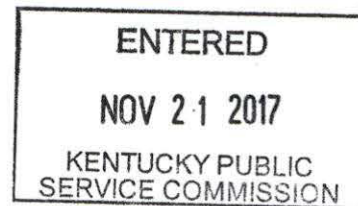
³ *Utilities Operating Co. v King*, 143 So2d 854, 45 PUR3d 439,443 (Fla. 1962) ("[I]n the absence of some showing that the service to the public will suffer by allowing the utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission."). See also Case No. 2006-00410, *The Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective on and after December 2, 2006* (Ky. PSC Aug. 2, 2007); and Case No. 98-398, *Adjustment of Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

4. The rates set forth in the Appendix to this Order are approved for services rendered by Letcher County on and after the date of this Order.

5. Within 20 days of the date of this Order, Letcher County 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.

6. Letcher County shall use the mid-point of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the Application and agreed upon by Staff, 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

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2017-00211 DATED **NOV 21 2017**

The following rates and charges are prescribed for the customers in the area served by Letcher County 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 Water Rates

First	2,000 Gallons	\$34.07 Minimum Bill
Over	2,000 Gallons	9.30 per 1,000 Gallons
<u>Leak Adjustment rate</u>		4.43 per 1,000 Gallons

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