

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WEST)	CASE NO.
CARROLL WATER DISTRICT FOR RATE)	2017-00244
ADJUSTMENT)	

ORDER

On June 23, 2017, West Carroll Water District (“West Carroll”) tendered an application (“Application”) with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. On July 10, 2017, the Commission notified West Carroll by letter that the Application was rejected as deficient, and on July 11, 2017, a supplemental deficiency letter was issued. By letter dated August 4, 2017, the Commission notified West Carroll that the Application was deemed filed. In its Application, West Carroll requested rates that would increase the monthly bill of a typical residential customer purchasing 5,000 gallons of water by \$10.22, from \$51.11 to \$61.33, or approximately 20.00 percent.

On December 4, 2017, Staff issued a report (“Report”) summarizing its findings regarding West Carroll’s requested rate adjustment. In its Report, Staff found that West Carroll’s adjusted test-year operations support an Overall Revenue Requirement of \$608,763 and that an annual revenue increase of \$99,372, or 20.43 percent, is necessary to generate the Overall Revenue Requirement.

On December 14, 2017, West Carroll filed with the Commission its comments on Staff’s report wherein it accepted Staff’s findings but requested to adopt the 20.00

percent increase included in their original Application. West Carroll also waived its right to a hearing.¹ On March 7, 2018, Commission Staff issued its first request for information (“Staff’s First Request”) to West Carroll. On March 19, 2018, West Carroll provided its responses to Staff’s First Request.

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. As noted in the Staff Report that was issued on December 4, 2017, West Carroll reported a test-year water loss of 32.33 percent. Accordingly, Staff reduced test-year expenses by \$23,408 to account for the 17.33 percent excess water loss.²

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the fifteen (15) percent unaccounted-for water loss threshold and strongly encourages West Carroll to pursue reasonable actions to reduce its unaccounted-for water loss. In addition, the Commission would like to see West Carroll’s specific efforts to reduce its unaccounted-for water loss. For this reason, West Carroll will be required to file annually a report that documents each effort made by West Carroll to reduce its unaccounted-for water loss for the next five years. Failure by West Carroll to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

¹ Letter from Chastity Robbins, Director of Finance, West Carroll Water District, to Gwen R. Pinson, Executive Director, Public Service Commission (Dec. 14, 2017).

² Staff Report at 5.

BACKGROUND

West Carroll 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 959 customers in Carroll, Henry, and Trimble counties, Kentucky.³ West Carroll's last application for rate adjustment was in Case No. 2012-00433,⁴ or approximately six years ago.

TEST PERIOD

The calendar year ended December 31, 2016, was used as the test year to determine the reasonableness of West Carroll's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

MODIFICATIONS TO STAFF'S FINDINGS

In its Report, Staff reduced operating expenses by \$10,142 to reflect the annual amount of the amended Operation Agreement between Carrollton Utilities ("CU") and West Carroll. Staff determined the contracted annual compensation to be reasonable.

In response to Staff's First Request, West Carroll provided exhibits that showed that a portion of CU employees' health insurance benefits is part of the contracted amount. Of the employee health insurance benefits that are allocated to the contract with West Carroll, some employees contribute to a portion of their premiums while other employees do not contribute at all.

The Commission notes that in recent Orders, it has made ratemaking adjustments to reduce the cost of employee benefit packages paid by some utilities

³ *Annual Report of West Carroll Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* ("Annual Report") at 12 and 48.

⁴ Case No. 2012-00433, *Application of West Carroll Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Oct. 17, 2012).

when certain aspects of those benefits packages were found to be unreasonable based on a review of total 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 a fair, just, and reasonable rate.

Consistent with recent Orders in which the Commission has reduced benefit expenses for utilities that pay a substantial portion of its employees' health insurance coverage, the Commission is reducing West Carroll's allocated portion of family and dependent coverage health insurance premiums by 33 percent, and single premiums by 21 percent, the national average employee contribution rate,⁵ as shown below.

<u>Policy Type</u>	<u>Allocated Annual Expense</u>	<u>Percentage Reduction</u>	<u>Adjustment</u>
Family or Dependent	\$37,556	33%	\$ 12,393
Single	\$ 7,196	21%	1,511
Total Decrease			<u>\$ 13,904</u>

SUMMARY OF REVENUE AND EXPENSES

Based on the findings of the Staff Report and the adjustment made by the Commission above, West Carroll's pro forma operations should be adjusted as follows:

⁵ Bureau of Labor Statistics, Healthcare Benefits, March 2017, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table10a.pdf>)

	<u>Staff Pro Forma Operations</u>	<u>Commission Adjustments</u>	<u>Commission Pro Forma Operations</u>
Operating Revenues	\$ 509,039		\$ 509,039
Operating Expenses	<u>523,254</u>	<u>(13,904)</u>	<u>509,350</u>
Net Operating Income	(14,215)	13,904	(311)
Interest Income	<u>352</u>		<u>352</u>
Income Available for Debt Service	<u>\$ (13,863)</u>	<u>\$ 13,904</u>	<u>\$ 41</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, West Carroll requires an increase in revenues of \$85,467, or 17.57 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 509,350
Plus: Average Annual Principal and Interest Payments	71,257
Additional Working Capital	<u>14,251</u>
Overall Revenue Requirement	594,858
Less: Other Operating Revenue	(22,647)
Interest Income	<u>(352)</u>
Revenue Required from Rates	571,859
Less: Pro Forma Present Rate Service Revenues	<u>(486,392)</u>
Required Revenue Increase	<u>\$ 85,467</u>
Percentage Increase	<u>17.57%</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 West Carroll's customers. The rates in the Appendix attached to

this Order will produce water rate revenues of approximately \$571,859. The revenue requirement is determined herein to be reasonable by the Commission. The monthly bill of a typical residential customer using 5,000 gallons will increase from \$51.11 to \$60.09, or 17.57 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 debt service coverage (“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 West Carroll’s pro forma operations result in an Overall Revenue Requirement of \$594,858. A revenue increase of \$85,467 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by West Carroll should be denied.

4. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable 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 West Carroll are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by West Carroll on and after the date of this Order.

4. Within 20 days of the date of entry of this Order, West Carroll 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.

5. On January 1 of each calendar year, with the first filing starting on January 1, 2019, and the last filing to be filed on January 1, 2021, West Carroll shall file with the Commission a report that documents West Carroll's specific efforts to reduce unaccounted-for water loss and any progress that it has made as a result of those efforts.

6. Any documents filed subsequent to the date of this Order shall be retained in the post case reference file.

7. This case is now closed and removed from the Commission's docket.

By the Commission

ENTERED
APR 24 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2017-00244

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00244 DATED **APR 24 2018**

The following rates and charges are prescribed for the customers in the area served by West Carroll Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

First	2,000 Gallons	\$29.37 Minimum Bill
Next	3,000 Gallons	10.24 per 1,000 Gallons
Next	5,000 Gallons	9.23 per 1,000 Gallons
Next	10,000 Gallons	8.21 per 1,000 Gallons
Over	20,000 Gallons	7.23 per 1,000 Gallons

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