

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF BEAVER-ELKHORN)
WATER DISTRICT FOR RATE INCREASE) CASE NO. 8576

ORDER

On July 29, 1982, Beaver Elkhorn Water District ("Beaver-Elkhorn") filed its application seeking authority to increase its water service rates by \$73,684 annually, a 25 percent increase for total proposed annual revenues of \$367,660. Beaver-Elkhorn stated in its application that the proposed increase was necessary to provide funds to amortize bond indebtedness and interest, to maintain its plant, and to pay increased operating expenses. In this Order, the Commission has granted Beaver-Elkhorn rates to produce additional revenues of \$20,286.

In order to determine the reasonableness of the proposed increase, the Commission held a public hearing on October 27, 1982. There were no intervenors in this proceeding. All information requested has been filed.

TEST PERIOD

For the purpose of testing the reasonableness of the proposed rates, the Commission has adopted the 12 months ending April 30, 1982, as the test period in this matter.

REVENUES AND EXPENSES

Beaver-Elkhorn proposed various adjustments to its income statement to reflect more current operating conditions. The Commission is of the opinion that these adjustments are proper and has accepted them for rate-making purposes with the following exceptions:

Operating Revenues

Beaver-Elkhorn reported total operating revenues for the test period of \$315,273 of which \$14,218 was from customer tap-on fees. Tap-on fees are contributions in aid of construction and not revenues. Therefore, the Commission has reduced operating revenue by this amount. Moreover, Beaver-Elkhorn reported other operating revenues of \$529 from the sale of supplies. The Commission further reduced operating revenues by this amount because the sale represents a non-recurring item.

Supplies Expense

Beaver-Elkhorn reported transmission and distribution supplies expense of \$41,134 of which \$14,218 in expenses corresponded to tap-on fees described above. These expenditures represent capital additions that will have benefit over future periods. Thus, the Commission has reduced operating expenses by this amount.

Beaver-Elkhorn proposed a 10 percent increase in supplies expense due to expected increases from suppliers. Beaver-Elkhorn did not provide sufficient documentation to support known and measurable increases in these expenses. The Commission is of the

opinion that because of the inadequacy of the evidence supporting these proposed adjustments, they cannot be accepted for rate-making purposes.

Outside Services Employed

Beaver-Elkhorn proposed to include \$5,000 in its expenses for an audit fee incurred in 1982. The Commission is of the opinion that since this was an initial and therefore more extensive audit, the cost should be amortized over a period of 3 years. However, the Commission has made an adjustment to increase outside services expense by \$1,500 in recognition of Beaver-Elkhorn's annual audit requirement under its bond ordinance.

Beaver-Elkhorn also proposed an increase in legal fees of \$1,200 pursuant to a contract with a law firm. However, it was later disclosed that the contract had been cancelled. Therefore, the Commission has disallowed this adjustment.

Depreciation Expense

Beaver-Elkhorn proposed a pro forma depreciation expense of \$69,582.⁽¹⁾ The Commission has determined that this amount includes depreciation on \$2,738,964⁽²⁾ of contributed property. It

(1) Application, Exhibit J.

(2) Calculation:

| | |
|--|--------------------|
| Total contributed capital per books | \$2,678,941 |
| Add: Tap-on fees classified as revenue in 1981 through test period | 21,136 |
| Add: Tap-on fees classified as revenue in 1980 | 38,887* |
| Adjusted contributed capital | <u>\$2,738,964</u> |

* Based on average ratio of 1981 and test period tap-on fees to amounts expensed for tap-ons: $\$46,349 \times 83.9\% = \$38,887.$

is the policy of the Commission to compute depreciation expense on the basis of the original cost of the plant, less contributions in aid of construction, as ratepayers should not be required to provide recovery on that portion of plant that has been provided at zero cost. Therefore, the Commission has determined that Beaver-Elkhorn's adjusted depreciation expense is \$12,287.⁽³⁾

Thus, the Commission finds that Beaver-Elkhorn's adjusted test period operations are as follows:

| | <u>Beaver-Elkhorn</u> <u>Pro Forma</u> | <u>Commission</u> <u>Adjustments</u> | <u>Commission</u> <u>Adjusted</u> |
|----------------------|---|---|--------------------------------------|
| Operating Revenues | \$315,273 | (\$14,747) | \$300,526 |
| Operating Expenses | <u>350,388</u> | <u>(80,103)</u> | <u>270,285</u> |
| Net Operating Income | <u>(\$35,115)</u> | <u>\$65,356</u> | <u>\$ 30,241</u> |

REVENUE REQUIREMENTS

Based on Beaver-Elkhorn's revised bond payment schedule, its average debt service for the next 5 years is approximately \$42,106. This amount does not include debt service on a note with the Bank Josephine for land purchased by Beaver-Elkhorn. Beaver-Elkhorn agreed that the land, which is currently classified as

(3) Calculation:

| | | |
|-------|--|--------------------|
| | Adjusted utility plant in service | \$3,331,461 |
| Less: | Adjusted contributed capital | 2,738,964 |
| Less: | Land classified as plant in service to be changed to investment | 30,000 |
| | Non-contributed plant in service | <u>\$ 562,497*</u> |

* Non-contributed property of \$562,497 X composite depreciation rate of 2.11% = \$11,869 adjusted depreciation expense + \$418 (adjustment for property purchased during test period) = \$12,287.

plant in service, should now be classified as an investment, since there is no intended use of the land for water utility purposes, and the land is currently for sale. Therefore, Beaver-Elkhorn's debt service coverage on adjusted net operating income of \$30,241 is .72X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. Furthermore, the Commission is of the opinion that a debt service coverage of 1.2X is the fair, just and reasonable coverage necessary for Beaver-Elkhorn to pay its operating expenses and to meet the requirements of its lenders. Accordingly, the Commission has determined that additional revenues of \$20,286⁽⁴⁾ are necessary to provide the 1.2X debt service coverage which will insure the future financial viability of Beaver-Elkhorn.

RATE DESIGN

Beaver-Elkhorn proposed to change its rate structure by adjusting the usage levels in the various rate blocks to more accurately reflect the actual usage levels of its customers. The Commission is of the opinion that the proposed usage levels are reasonable and will enable Beaver-Elkhorn to achieve a fairer allocation of usage and billing, thus benefitting both the utility and its customers and should, therefore, be approved.

| | | |
|-----|----------------------------------|-----------|
| (4) | 1.2X \$42,106 | \$ 50,527 |
| | Add: Adjusted Operating Expenses | 270,285 |
| | Subtotal | \$320,812 |
| | Less: Adjusted operating revenue | 300,526 |
| | Increase in gross revenues | \$ 20,286 |

OTHER MATTERS

The Commission recognizes the necessity and importance of medical and hospital insurance coverage to employees. However, the Commission is of the opinion that the present method of paying, in addition to each employee's wages, a cash allowance in lieu of Beaver-Elkhorn providing group medical coverage, without proof or verification from each employee regarding the use of this additional cash, does not guarantee that each employee actually has medical and hospitalization coverage. Therefore, the Commission urges Beaver-Elkhorn to investigate all available sources of medical and hospitalization insurance plans and consider offering group coverage to its employees. Additionally this measure could prove beneficial to Beaver-Elkhorn's ratepayers, since group coverage may result in less expense than the present cash allowance.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) The rates in Appendix A will produce gross annual operating revenues of \$320,812 and are the fair, just and reasonable rates to be charged in that they will allow Beaver-Elkhorn to pay its operating expenses, service its debt, and provide a reasonable amount of surplus for equity growth.

(2) The rates proposed by Beaver-Elkhorn would produce revenues in excess of those found fair, just and reasonable by the Commission and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates proposed by Beaver-Elkhorn be and they hereby are denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are approved as the fair, just and reasonable rates to be charged by Beaver-Elkhorn for service rendered on and after the date of this Order.

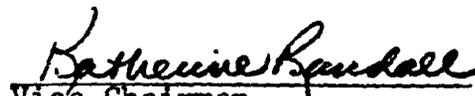
IT IS FURTHER ORDERED that the proposed change in Beaver-Elkhorn's rate structure is fair, just and reasonable and is therefore approved.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, Beaver-Elkhorn shall file with this Commission its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 22nd day of December, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8576 DATED DECEMBER 22,
1982

The following rates are prescribed for the customers in the area served by Beaver-Elkhorn 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 date of this Order

RATES: Monthly

| | |
|----------------------|---------------------------|
| First 1,000 gallons | \$ 8.30 Minimum Bill |
| Next 19,000 gallons | 1.50 per 1,000 gallons |
| Next 30,000 gallons | 1.30 per 1,000 gallons |
| Next 50,000 gallons | 1.10 per 1,000 gallons |
| Over 100,000 gallons | 1.00 per 1,000 gallons |
| Unmetered Customers | \$11.30 Flat Rate |
| Resale Customers | \$ 1.00 per 1,000 gallons |