

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF)
KENTUCKY HILLS COMPANY) CASE NO. 7640
WATER SYSTEM)

O R D E R

WATER SERVICE RATES

Preface

On October 26, 1979, the Kentucky Hills Company (Southwire Company, d/b/a Kentucky Hills Company), hereinafter referred to as the Utility, filed with the Commission an application for approval of an adjustment of its water service rates and for approval of proposed revisions to certain parts of its rules and regulations. The rate adjustment sought by the Utility could increase annual revenues by approximately \$9,483 over test year revenues.

On November 20, 1980, the Utility filed a notification of its intent to begin charging its proposed rates on January 1, 1980. The Commission, in order to consider the reasonableness of the proposed rates, ordered their suspension for a five (5) month period beginning January 1, 1980 and ending May 31, 1980. Under authority of KRS 278.190, the Utility began charging the proposed rates on all billings for services rendered after June 1, 1980.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, February 21, 1980. All parties of interest were notified with the Consumer Intervention Division of the Attorney General's Office permitted to intervene in the matter. At the hearing, certain requests for additional information were made by the Commission staff. This information has been filed, and the entire matter is now considered to be fully submitted for a final determination by this Commission.

This Order addresses the matter of an adjustment of water service rates. A separate Order entered August 26, 1980, addressed the matter of an adjustment of sewage service rates.

Test Period

The Utility has selected the twelve (12) month period ending July 31, 1979, as the "Test-Year" and has submitted tabulations of its revenues and expenses for this period including its pro forma adjustments thereto for the Commission's consideration in the determinations of rate adjustments. Said tabulations along with those found reasonable by this Commission are included in Appendix "B" of this Order.

Valuation Method

Net Investment

The Commission has determined that at the end of the test period, the Applicant's net investment in its utility operations was as follows:

Utility Plant in service	\$ 42,751 ^{1/}
Add: Cash Working Capital	1,459 ^{2/}
Subtotal	\$ 44,210
Less: Accumulated Depreciation	\$ 5,340 ^{3/}
Contributions in aid of construction	-0-
Net Investment	\$ 38,870 ^{4/}

^{1/} Utility Plant in Service of \$42,751 was taken from the Utility's Balance Sheet as of August 31, 1979.

^{2/} The allowance for cash working capital was computed as one-eighth of the Utility's total operation and maintenance expenses less depreciation and taxes; all in accordance with the Utility's Comparative Income Statement for the Test Year as adjusted.

^{3/} Accumulated depreciation of \$5,340 was taken from the Utility's Balance Sheet as of August 31, 1979.

^{4/} The Pro Forma Net Income of \$1,003 (See Appendix "B") estimated to be realized from the requested \$18,469 Operating Income Found Reasonable herein is 2.58% of the \$38,870 Net Investment.

The Commission is of the opinion that the Net Investment rate base method is appropriate in this instance, realizing, however, that other valuation methods could yield different results.

Findings in this Matter

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and FINDS:

1. That the Utility pursuant to KRS 278.190 notified the Commission of its intent to begin charging its proposed rates for services rendered on and after January 1, 1980. Further, that the Commission, by its Order to suspend the proposed rates for a five-month period beginning January 1, 1980, established June 1, 1980, as the date that the Utility could begin charging its proposed rates. Further, that on or after June 1, 1980, the Utility did begin charging its proposed rates.

2. That June 1, 1980, is the date on which the rates fixed by this Order should become effective.

3. That according to the record in this matter, the Utility's existing rates produced gross revenues of \$8,986 from an average of 42 single family residences, 45 apartments and one school receiving water service during the twelve month test period ending July 31, 1979. Further, that \$14,037 expenses for this period resulted in a net income deficit of \$5,051 for the period.

4. That the rates set forth in Appendix "A", attached hereto and made a part hereof, should produce annual revenues of approximately \$18,469 from 87 dwelling units and one school and are fair, just and reasonable rates to be charged by the Utility for water services rendered to its customers. Further, the said \$18,469 Annual Revenue is the same as requested by the Utility; but is produced by rates that represent a more equitable apportionment of cost of service than those proposed by the Utility. The Utility's proposed rates should therefore be denied.

5. That the Commission, after consideration of the tabulation of test-year and pro forma revenues and expenses submitted

by the Utility, concludes that these revenues, expenses and adjustments thereto can be summarized as shown in Appendix "B", attached hereto and made a part hereof. On the basis of the said Appendix "B" tabulation, the Commission further concludes that annual revenues in the amount of \$18,353⁴⁶ are necessary and will permit the Utility to meet its reasonable expenses for providing water service to 88 customers which includes Hancock County Schools.

6. That the Utility should refund all water service revenues collected subsequent to June 1, 1980, that are in excess of those which would have been collected from the rates fixed by this Order. Further, that the Utility shall file with this Commission, within thirty (30) days of the date of this Order, a report of refund amounts due its customers and shall complete said refunds within ninety (90) days of the date of this Order.

Orders in this Matter

The Commission on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that the rates as prescribed and set forth in Appendix "A" attached hereto and made a part hereof be and they are hereby fixed as the fair, just and reasonable rates of the Utility for providing water service to its customers located in Hancock County, Kentucky, to become effective for the Utility's billing for services on or after June 1, 1980.

IT IS FURTHER ORDERED that the rates sought by the Utility be and the same are hereby denied.

IT IS FURTHER ORDERED that the Utility file with this Commission within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Utility's Rules and Regulations for providing services to its customers shall be filed with said tariff sheets.

IT IS FURTHER ORDERED that the Utility shall file with this Commission, within thirty (30) days of the date of this Order,

a report of refund amounts due its customers and shall complete said refunds within ninety (90) days of the date of this Order.

Done at Frankfort, Kentucky, this 26th day of August, 1980.

UTILITY REGULATORY COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX "B"

APPENDIX TO AN ORDER OF
THE UTILITY REGULATORY COMMISSION
IN CASE NO. 7640 DATED AUGUST 26, 1980

In accordance with finding number 6, the following is the Commission's summary of "Test-Year" and projected annual revenues and expenses for providing service to 88 customers.

<u>REVENUES:</u>	<u>TEST YEAR^{1/}</u> 8- 1-78 7-31-79	<u>PRO FORMA^{1/}</u> <u>REQUESTED</u>	<u>PRO FORMA</u> <u>FOUND</u> <u>REASONABLE</u>
Water Sales	\$ 8,986	\$ 18,469	\$ 18,469
 <u>EXPENSES:</u>			
1) General	\$ 5,492	\$ 6,316	\$ 6,316
2) Labor	2,368	2,842	2,842
3) Utilities - Electric	2,081	2,331	2,331
4) Insurance	280	294	294
5) Taxes - Property	168	347	347
6) Depreciation	2,198	2,198	2,198
7) Miscellaneous	90	90	90
8) Management Services	1,264	1,352	1,352
9) Professional Services	96	96	96
	<u>\$14,037</u>	<u>\$ 15,866</u>	<u>\$ 15,866</u>
Net Income Before Repairs	(\$5,051)	2,603	2,487
 Sandblast & Paint:			
1) Water tank (\$5,000)	-0-	1,000	1,000
2) Well towers (\$3,000)	-0-	600	600
	<u>-0-</u>	<u>1,600</u>	<u>1,600</u>
Net Income After Payment of Repairs Expenses	(\$5,051)	\$ 1,003	\$ 1003

^{1/} Test-Year and Pro Forma Revenues and Expenses were taken from the exhibits of record in this matter.