

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

GENERAL ADJUSTMENT OF RATES OF )  
MARION COUNTY WATER DISTRICT, ) CASE NO. 7901  
EFFECTIVE JULY 21, 1980 )

O R D E R

On June 30, 1980, Marion County Water District (hereinafter Applicant or Marion County) filed an application with this Commission giving notice of a General Adjustment of Rates to become effective on and after July 21, 1980. The proposed rates would produce additional revenue of \$71,740 annually, an increase of 38.8% based on the test year revenue. Applicant stated that the adjustment in rates was necessary (1) to enable the District to attain a sound financial position; (2) for the District to meet the increased costs of operations; and (3) to ensure the financial integrity of the District.

On July 1, 1980, the Commission issued an Order which suspended the proposed rate increase for a period of five months, or until December 21, 1980. The Commission issued an additional Order on August 13, 1980, which scheduled a hearing for October 28, 1980, and directed Applicant to give notice to its customers of the proposed rate increase and the scheduled hearing.

On July 8, 1980, the Division of Consumer Intervention in the Office of the Attorney General filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein.

The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance.

### COMMENTARY

Marion County Water District is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. Marion County Water District presently serves approximately 1,300 consumers in the Kentucky counties of Marion and Nelson. Applicant purchases all its water from the Lebanon Water Company and has no production facilities of its own.

### TEST YEAR

Applicant proposed and the Commission has adopted the twelve-month period ending March 31, 1980, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

### REVENUE REQUIREMENTS

Applicant proposed several pro forma adjustments to expenses in Exhibit 10 of its application. The adjustments were proposed to normalize increases in purchased water costs, salaries and wages, insurance premiums, employee benefits, and directors' fees. Also included was an adjustment to amortize the costs incurred as a result of this proposed rate increase. The Commission is of the opinion that the adjustments are generally proper and accepted for rate-making purposes with the following modifications.

The adjustment to normalize the increased cost of purchased water has been reduced by \$6,921 to reflect the Commission's policy concerning what is a reasonable line loss for water utilities. It is the opinion of this Commission that line loss of 15% is the maximum amount that can be used for rate-making purposes.

The Commission has reduced Applicant's depreciation expense by \$19,736 for rate-making purposes. Applicant had, at test year end, Contributions in Aid of Construction of \$869,280, or approximately 50.3% of total plant. The Commission, for the purpose of determining Applicant's revenue requirement, has therefore reduced depreciation expense by 50.3% or \$19,736. It is the intent of the Commission that Applicant, through its water service rates, will

generate revenues sufficient to recover all costs incurred in providing service to its customers. However, it is not the Commission's intent that Applicant charge its customers for costs it has not incurred, as would be the case if Applicant were allowed to charge its customers for depreciation on contributed property.

The effect of these adjustments on Net Income is as follows:

|                    | <u>Test Year</u>  | <u>Adjustments</u> | <u>Adjusted Test Year</u> |
|--------------------|-------------------|--------------------|---------------------------|
| Operating Revenues | \$184,956         | \$ -0-             | \$184,956                 |
| Operating Expenses | 159,227           | 8,482              | 167,709                   |
| Operating Income   | \$ 25,729         | \$(8,482)          | \$ 17,247                 |
| Interest Income    | 1,708             | -0-                | 1,708                     |
| Interest Expense   | 38,938            | 1,312              | 40,250                    |
| Net Income         | <u>\$(11,501)</u> | <u>\$(9,794)</u>   | <u>\$(21,295)</u>         |

The Commission is of the opinion that an operating ratio of .88 will be adequate to allow Applicant to pay its operating expenses found reasonable for rate-making purposes, service its debt, and maintain an adequate reserve for any extraordinary repair or capital expenditures. Based on this operating ratio Applicant's operating revenues should be \$230,828 which will require additional revenue of \$45,872.

#### RATE DESIGN

Applicant proposed to modify its rate design by decreasing the number of rate blocks from seven to four in its declining block structure. The Commission concurs with Applicant's proposal as it considers this a progressive step in the area of rate design and herein orders Applicant to adopt the rates set forth in Appendix "A" attached hereto.

#### SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates for water service set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues in the amount of approximately \$230,800 which are the fair, just, and reasonable rates for service rendered by Applicant on and after the date of this Order.

IT IS THEREFORE ORDERED that the rates proposed by Marion County Water District are hereby denied.

IT IS FURTHER ORDERED that the rates set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered by Marion County Water District on and after the date of this Order.

IT IS FURTHER ORDERED that Marion County Water District shall file with this Commission, within thirty (30) days from the date of this Order, its revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 21st day of November, 1980.

UTILITY REGULATORY COMMISSION

Chairman

Handwritten signature of John H. ...

Vice Chairman

Handwritten signature of Mary Kay ...

Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7901 DATED NOVEMBER 21,  
1980.

The following rates and charges are prescribed for the customers in the area served by Marion 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 date of this Order.

Rates: Monthly

|                        |                                |                        |
|------------------------|--------------------------------|------------------------|
| First                  | 1,000 gallons used per month   | \$7.25 Minimum Bill    |
| Next                   | 9,000 gallons used per month   | 1.60 per 1,000 gallons |
| Next                   | 90,000 gallons used per month  | 1.20 per 1,000 gallons |
| All Over               | 100,000 gallons used per month | .95 per 1,000 gallons  |
| Minimum Monthly Charge |                                |                        |
|                        | 5/8 or 3/4 Inch Meter          | \$ 7.25                |
|                        | 2 Inch Meter                   | 16.00                  |