

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of

APPLICATION OF TRIMBLE COUNTY WATER )  
DISTRICT NO. 1, OF TRIMBLE COUNTY, )  
KENTUCKY, FOR (1) A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY, )  
AUTHORIZING AND PERMITTING SAID )  
WATER DISTRICT TO CONSTRUCT A )  
WATERWORKS CONSTRUCTION PROJECT, ) CASE NO. 7934  
CONSISTING OF EXTENSION, ADDITIONS, )  
AND IMPROVEMENTS TO THE EXISTING )  
WATERWORKS SYSTEM OF THE DISTRICT; )  
(2) APPROVAL OF THE PROPOSED PLAN )  
OF FINANCING OF SAID PROJECT; AND )  
(3) APPROVAL OF THE INCREASED WATER )  
RATES PROPOSED TO BE CHARGED BY )  
THE DISTRICT TO CUSTOMERS OF THE )  
DISTRICT )

O R D E R

On August 8, 1980, Trimble County Water District No. 1 (Applicant) filed an Application with this Commission seeking a Certificate of Public Convenience and Necessity authorizing the construction of extensions, additions and other improvements to its water distribution system; approval of the proposed method of financing the project; and approval of proposed adjustments to its existing rates for providing water service. On October 24, 1980, the Commission issued an Interim Order in this matter approving the construction and financing of this project.

The construction project proposed by the Applicant and certified by the Commission in its previous Order will enable the Trimble County Water District No. 1 to serve approximately 102 additional customers. Based on current rates and estimated average usage, the revenues provided from these new customers is approximately \$9,786 on an annual basis. Moreover, to meet its debt service requirements and to provide for known increases in the costs of providing water service, the Applicant requested increased rates to produce an additional \$ 23,503 in revenues annually.

In order to determine the reasonableness of the requested rates, the Commission scheduled a hearing for November 18, 1980 and required the Applicant to notify its customers of the date and place of hearing and of the proposed rates in manners prescribed by this Commission and Kentucky law. The Applicant complied with the notification requirements and the hearing was held as scheduled with the Attorney General's Division of Consumer Intervention, the sole intervenor in this matter, being present and participating in the proceedings. The Applicant has responded to all requests for information and the entire matter is now considered to be fully submitted for final determination by this Commission.

#### TEST PERIOD

Applicant proposed and the Commission has accepted the twelve months ending June 30, 1980 as the test period in this matter. Pro forma adjustments, where found reasonable have been included to more clearly reflect current operating conditions.

#### REVENUES & EXPENSES

Applicant proposed several adjustments to actual operating revenues and expenses as reflected in its "Schedule of Operating Revenues and Projected Expenses", Exhibit L, filed October 17, 1980. The Commission finds these adjustments proper and has accepted them for ratemaking purposes with the following exceptions:

(1) Applicant proposed to reduce the revenues obtained from customers receiving water via tank trucks from the District by \$2,282.<sup>1</sup> When questioned on this adjustment in the hearing of November 18, 1980, the Applicant's witness responded that this adjustment was made to reflect the reduced demand from customers who would be connected directly to the Applicant's lines following the construction project. While this may be true, the Applicant failed to provide the Commission with any supporting analysis or documentation outlining this reduced demand. Therefore, the Commission has no alternative but to reject this adjustment in total.

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<sup>1</sup>Exhibit L : \$6,432 - \$4,150 = \$ 2,282

(2) Applicant proposed an increase in its maintenance salaries of \$2,700.<sup>2</sup> In an explanation of this adjustment filed November 12, 1980, Applicant stated that the increase wasn't even to be considered by the Water District Board of Directors until after the first full year of operation following completion of the construction project. The Commission then is of the opinion that this adjustment is contingent upon factors beyond the scope of the test period; is not dependent on the additional volume of customers, lines or usage; and thus cannot be predicted with certainty. Therefore, the Commission has rejected this adjustment for ratemaking purposes.

(3) Applicant proposed an adjustment of \$1,340<sup>3</sup> to the test year balance in supplies used for maintenance and repairs. This adjustment was made to reflect a ten-percent increase to correspond with anticipated additional maintenance required to serve the new customers. In examining the Annual Reports filed by the Applicant for the past three years,<sup>4</sup> the Commission found that the test period balance in this account was abnormally high. Therefore, although the Commission has not reduced the test period figure itself, the Commission finds that the test period level of expense included in the rates prescribed herein will provide the Applicant with adequate revenues to maintain the system in good order.

(4) Applicant proposed an adjustment of \$500<sup>5</sup> to Legal and Auditing Expenses. When responding to questions concerning this adjustment, the witness stated that this was to cover the cost of a "more complete report at year end for the Trimble County Water District."<sup>6</sup> As to the nature of the report or why additional reporting would be required, the Applicant's witness made no explanation. Without information supporting a need for the report the Commission must conclude that the adjustment is unsupported and has therefore rejected this adjustment for ratemaking purposes.

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<sup>2</sup>Ibid; \$20,700 - \$18,000 = \$ 2,700

<sup>3</sup>Ibid; \$14,000 - \$12,660 = \$1,340

<sup>4</sup>Made a part of the Evidence of Record (T.E. page 49) in the Hearing of November 18, 1980.

<sup>5</sup>Exhibit L ; \$2,565 - \$2,065 = \$500

<sup>6</sup>T.E., Hearing of November 18, 1980, page 26.

(5) Applicant proposed an adjustment of \$7,511<sup>7</sup> to depreciation expense. The Commission is of the opinion that the allowance for depreciation expense should be computed on the basis of the original cost of utility plant in service less contributions in aid of construction, as the Applicant paid or is paying only for the non-contributed assets and should not be permitted recovery on plant provided free of cost. Therefore, the Commission has determined that the appropriate adjustment to depreciation is \$3,685 making adjusted test year depreciation \$15,610.<sup>8</sup>

Moreover, Applicant made two "rounding" adjustments to expenses for telephone service and insurance. These are not material in amount but are improper in theory and have been rejected for ratemaking purposes.

Therefore, Applicant's test year operations are adjusted as

follows:	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 72,093	\$ 9,786	\$ 81,879
Operating Expenses	<u>57,626</u>	<u>12,297</u>	<u>69,923</u>
Net Operating Income	\$ 14,467	\$ (2,511)	\$ 11,956

#### DEBT SERVICE COVERAGE

Applicant's rates as proposed produce total operating revenue of approximately \$110,382, which includes the revenues derived from truck water sales of \$6,432. Moreover, Applicant has other interest income of \$1,398<sup>9</sup> on a proforma basis.

Applicant's adjusted annual debt service cost, following the financing of the extensions as approved in the Commission's Interim Order in this matter, is \$37,074.<sup>10</sup> Therefore, the debt service coverage produced by Applicant's proposed rates from adjusted test period sales volume is 1.13x; calculated as follows:

<sup>7</sup> Exhibit L, \$19,436 - \$11,925 = \$7,511

<sup>8</sup> \$10,335 - \$3,253 = \$7,082  
 \$379,000 X .0225 = +8,528  
\$15,610

<sup>9</sup> Exhibit L.

<sup>10</sup> T.E., Hearing of November 18, 1980, page 15.

Adjusted Operating Revenue	\$ 110,382
Adjusted Interest Income	<u>1,398</u>
Subtotal	\$ 111,780
Less:	
Adjusted Operating Expenses	<u>69,923</u>
Margin	\$ 41,857
Margin	\$ 41,857
÷ Debt Service Cost	\$ 37,074
Debt Service Coverage	<u><u>1.13X</u></u>

The Commission is of the opinion that the debt service coverage generated by the proposed rates is fair and reasonable and will satisfy the requirements of Applicant's lender, the Farmer's Home Administration and should be approved.

#### SUMMARY

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

(1) That the rates and charges prescribed and set forth in Appendix "A" attached hereto and made a part hereof should produce gross annual operating revenues of approximately \$110,382, and are the fair, just and reasonable rates to be charged for water service rendered by the Applicant on and after the date of the issuance of the water revenue bonds.

(2) That the gross annual operating revenues in the amount of \$110,382 are necessary and will permit the Applicant to meet its adjusted operating expenses and provide a 1.13 X coverage of its annual debt service cost.

IT IS THEREFORE ORDERED, that the rates sought by Trimble County Water District No. 1 are hereby approved and set forth in Appendix "A" to this Order to become effective for water service rendered on and after the date of the issuance of the water revenue bonds.

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

Done at Frankfort, Kentucky, this the 23rd day of January, 1981.

UTILITY REGULATORY COMMISSION

Did not participate  
Chairman

*John H. ...*  
Vice Chairman

*Mary Kay ...*  
Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7394 Dated January 23,  
1981.

The following rates are prescribed for all customers served by Trimble County Water District No. 1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

First	1,000 gallons	\$5.00 Minimum Bill
Next	2,000 gallons	3.00 per 1,000 gallons
Next	3,000 gallons	2.00 per 1,000 gallons
Next	6,000 gallons	1.50 per 1,000 gallons
All Over	12,000 gallons	1.00 per 1,000 gallons

Special Contracts

West Carroll County Water District	\$ .60 per 1,000 gallons
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