COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF THE SOUTHSIDE WATER ASSOCIATION, INC.	))	CASE NO. 7991

O R D E R

On October 9, 1980, Southside Water Association, Inc., hereinafter referred to as the Applicant, filed an application with this Commission requesting authority to increase its water service rates by approximately $9,704 annually, an increase of 20.69%.

On October 29, 1980, the Division of Consumer Intervention in the Department of Law filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein. A hearing was scheduled for March 11, 1981, at the Commission's offices in Frankfort, Kentucky. All parties were notified and the hearing was conducted as scheduled.

Commentary

Southside Water Association, Inc. is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. The Applicant presently serves approximately 250 consumers in Lee County, Kentucky.

Test Period

The Commission has adopted the twelve (12) month period ending July 31, 1980, as the test year for the purposes of determining the reasonableness of the rates proposed herein. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

Revenues and Expenses

Applicant proposed pro forma adjustments to revenues, salaries, other labor expense, electric, purchased water, and supplies based on increases that occurred during the test year. In determining the projected expense, Applicant applied percentage increasesto the test year end level of expenses which resulted in an overstatement of each expense inasmuch as the test year expenses included these increases for most of the test year. The Commission is of the opinion that the proposed pro forma adjustments should be revised as follows:

1. The actual salaries expense for the test period totaled $5,606 of which $2,280 was allocated to the bookkeeper and $3,326 to the maintenance foreman. At the end of the test year, the foreman was receiving $1.35 per customer which results in an annualized amount of $4,050 based on 250 customers. Therefore, the Commission will allow only $724 of the proposed adjustment.

2. Applicant stated that backhoe labor increased 20% during the test year with the hourly charge increasing from $25 to $30. The test year operating expenses reflected only two (2)

hours of backhoe labor which occurred during the test year which was not at the new charge of $30. Therefore, the new charge results in an additional increase of $10 in this expense.

3. Applicant's purchased water expense increased from 65¢ to 85¢ per 1,000 gallons of water during October of the test year. Based on the actual gallons purchased during the test year, Applicant would realize an annual cost of purchased water of $16,078.

4. The proposed adjustment to supplier expense has been revised to exclude $539 that was erroneously included in test year operating expenses for costs which should have been capitalized. The Commission also finds that the proposed arbitrary percentage increases applied to this expense are speculative in nature and should not be allowed for rate-making purposes.

5. The Commission has reduced tax expense by $503 to exclude sales tax which was erroneously included in test year expenses. This results in an adjusted expense of $718.

6. The Commission has reduced Applicant's depreciation expense by $856 for rate-making purposes. Applicant's balance sheet reflected contributions in aid of construction of $43,411 or approximately 17% of total plant. 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.

7. The Commission has adjusted test year revenues by $2,355 to reflect the normalization of test year end customers. This adjustment was based on billing data that was submitted by the Applicant.

Based on these adjustments, Applicant's test period operations would appear as follows:

	Actual	Adjustments	Adjusted
Operating Revenues	$44,541	$2,355	$46,896
Operating Expenses	33,036	348	33,384
Operating Income	$11,505	$2,007	$13,512
Other Income	480	--	480
Other Deductions	9,822	--	9,822
Net Income	$ 2,163	$2,307	$ 4,170

Revenue Requirements

The bond resolution from Farmers Home Administration requires the Applicant to maintain a debt service coverage of 1.1. Applicant's debt service coverage for the test year was 1.37. After taking into consideration the pro forma adjustments, Applicant's debt service coverage would be 1.42. The Commission is of the opinion that the adjusted debt service coverage is reasonable and sufficient to allow Southside Water Association to pay operating expenses, meet debt service requirements, and maintain an adequate depreciation fund.

Summary

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion that the rates proposed by Southside Water Association would produce revenues in excess of those found to be reasonable herein and therefore must be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED, that the rates proposed by Southside Water Association are hereby denied.

Done at Frankfort, Kentucky, this 4th day of May 1981.

PUBLIC SERVICE COMMISSION

Chairman

Did not participate
Vice Chairman

Commissioner

ATTEST:

Secretary