

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF EAST DAVIESS)
COUNTY WATER ASSOCIATION, INC.,)
ORGANIZED PURSUANT TO CHAPTER 273,)
OF THE KENTUCKY REVISED STATUTES,)
FOR (1) A CERTIFICATE OF PUBLIC CON-)
VENIENCE AND NECESSITY, AUTHORIZING)
AND PERMITTING SAID WATER ASSOCIATION) CASE NO. 8091
TO CONSTRUCT A WATERWORKS CONSTRUCTION)
PROJECT, CONSISTING OF EXTENSIONS,)
ADDITIONS AND IMPROVEMENTS TO THE)
EXISTING WATERWORKS SYSTEM: (2) AP-)
PROVAL OF PROPOSED PLAN OF FINANCING:)
(3) APPROVAL OF THE INCREASED WATER)
RATES PROPOSED TO BE CHARGED BY THE)
ASSOCIATION TO CUSTOMERS OF THE ASSO-)
CIATION: (4) APPROVAL TO ESTABLISH A)
WATER PURCHASED ADJUSTMENT TARIFF)
PROVISION)

INTERIM ORDER

On December 4, 1980, East Daviess County Water Association, Inc., (Applicant) filed an Application with this Commission (formerly the Utility Regulatory Commission), seeking a Certificate of Public Convenience & Necessity authorizing the construction of extensions, additions and other improvements to its water distribution system; approval of the proposed method of financing the project; approval to establish a purchased water adjustment tariff; and approval of proposed adjustments to its existing rates for providing water service. An Interim Order previously issued dealt with the findings on construction and financing issues which will be discussed briefly herein. This instant Order will address the Applicant's proposals for increased rates and establishment of a purchased water adjustment tariff. In order to determine the reasonableness of the requested rates the Commission

scheduled a hearing for March 12, 1981, and required Applicant to notify its customers of the date and location of the hearing and of the proposed rates in manners prescribed by this Commission's rules and regulations. 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 proceeding. The Applicant has responded to all requests for information and, the record, with respect to the proposed rate increase and the purchased water adjustment tariff, 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 August 31, 1980, as the test period in this matter.

REVENUES AND EXPENSES

Applicant submitted its actual income statement for the twelve months ending August 31, 1980, without proposing adjustments to said statement. However, in the hearing of March 12, 1980, Applicant's witness submitted an exhibit outlining applicable changes in revenues and expenses due to normal volume growth in the number of customers and anticipated volume growth due to the planned construction projects. The Commission is of the opinion that these adjustments are proper and has accepted them for ratemaking purposes.

Moreover, the Commission has made several adjustments to Applicant's test year operations described as follows:

1. Purchased Water. As a result of the planned construction project, Applicant will be able to purchase all of its water from Owensboro Municipal Utilities at a current

rate of \$.435 per thousand gallons. During the test period Applicant, in addition to purchasing water from Owensboro had also made purchases from Southeast Daviess County Water District at a higher rate. The Commission has, therefore, made an adjustment to reduce this expense by \$4,132.¹

2. Repairs and Maintenance. During the test period Applicant had repairs and maintenance expenses of \$14,075. By comparison, Applicant's expenses during the twelve months ending December 31, 1979 and December 31, 1980 were \$6,711 and \$10,743 respectively. Applicant's witness was questioned on the issue of the significantly higher level of cost in the test period and could provide no explanation. While an audit of the Applicant's records would provide the detail necessary to more accurately determine the expected level of recurring repairs and maintenance costs, the Commission is of the opinion that an approximation based on the average of the expenses in the past two calendar years is a reasonable estimate of projected future cost in this instance and will produce essentially the same results in a more expeditious and less costly approach. Therefore, the Commission has made an adjustment to reduce Applicant's expenses by \$5,348,² to reflect representative annual recurring level of repairs and maintenance.

¹Calculation:

$$\begin{aligned} &6,742 \text{ M gallons} \div .89 \text{ (line loss was 11\%)} = \\ &7,575 \text{ M gallons} \div 7,575 \text{ M gallons} \times \$.435 = \\ &\$3,295 \times 12 = \$39,542; \$43,674 - \$39,542 = \$4,132 \end{aligned}$$

$$\begin{aligned} &^2\text{Calculation: } (\$6,711 + \$10,742) \div 2 = \$8,727; \\ &\$14,075 - \$8,727 = \$5,348 \end{aligned}$$

3. Office Rent. Applicant testified that effective this month it was purchasing its own office building and, therefore, the Commission has eliminated the test year rent expenses of \$2,750.
4. 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 reduced depreciation expense by \$19,970, making the adjusted test year expense \$16,239.³

Therefore, Applicant's test year operations are adjusted as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$165,280	\$13,416	\$178,696
Operating Expenses	<u>162,412</u>	<u>(30,300)</u>	<u>132,112</u>
Net Operating Income	\$ 2,868	\$43,716	\$ 46,584

DEBT SERVICE COVERAGE

Applicant's rates as proposed produce total operating revenue of approximately \$211,489. Moreover, Applicant had other interest income during the test year of \$2,991.

Applicant's adjusted annual debt service cost, following the financing approved in the Commission's Interim Order dated February 4, 1981, is \$84,504⁴. Therefore, the debt service coverage produced by Applicant's proposed rates from the adjusted test period sales volume is .98 X calculated as follows:

³ Calculation:
 $\$1,819,431 - \$1,007,495 = \$811,936 \times 2\% = \$16,239$

⁴ Applicant's Exhibit 11

Adjusted Operating Revenue	\$212,100
Interest Income	<u>2,991</u>
Subtotal	\$215,091
Less:	
Adjusted Operating Expenses	<u>\$132,112</u>
Margin	\$ 82,979
Margin	\$82,979
÷ Debt Service Cost	<u>84,504</u>
Debt Service Coverage	<u>.98X</u>

The Commission is, therefore, of the opinion that the proposed rates should be approved as the revenues generated will be sufficient to pay Applicant's operating expenses and improve its financial position.

PURCHASED WATER ADJUSTMENT

Applicant proposed that the Commission approve its tariff establishing a purchased water adjustment clause. At this time, the Commission has pending a regulation establishing the implementation of this type of adjustment clause for water utilities, however, no final approval has been granted. Therefore, the Commission denies approval of the Applicant's tariff at this time without prejudice.

CONSTRUCTION

On February 4, 1981, the Commission issued an Interim Order in this matter approving the construction of the committed project costing \$656,400 and financing of \$800,000. No certificate was granted for the proposed additional construction of \$143,600, as final plans for the project had not been submitted. The Order further required that Applicant should obtain approval for this additional project before construction was begun. This Interim Order again reaffirms that upon completion of plans and specifications the Applicant is required to apply for the Commission's approval before the additional construction is undertaken. Realizing that to require re-filing would necessitate additional expense, the Commission will

hold this record open with respect to the additional construction for the remainder of the ten month limitation period which will give Applicant the opportunity to submit plans and specifications regarding this construction. If within this period the plans are filed, the Commission will rule on the certificate. However, if Applicant for any reason does not supplement the record within this time period, this Order will become the final ruling in this case and Applicant will be required to reapply for the certificate.

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 \$212,100, and are the fair, just and reasonable rates to be charged for water service rendered by the Applicant.

(2) That the gross annual operating revenues in the amount of \$212,100 are necessary and will permit the Applicant to meet its adjusted operating expenses and improve its financial position.

(3) That the request for approval of a purchased water adjustment tariff should be denied at this time without prejudice.

(4) That the record in this case will remain open till October 4, 1981, for consideration of the additional construction project.

(5) That in the event Applicant fails to supplement the record with plans and specifications on the proposed construction by October 4, 1981, this Order will become final.

IT IS THEREFORE ORDERED that the rates sought by East Daviess County Water Association are hereby approved and set forth in

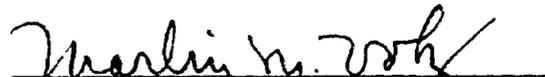
Appendix "A" to this Order to become effective for water service rendered on and after the date of this Order.

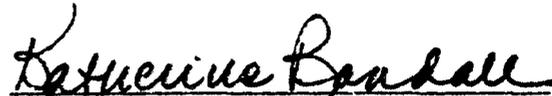
IT IS FURTHER ORDERED that the Purchased Water Adjustment Tariff, be and the same, is hereby denied without prejudice.

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, and its operating rules and regulations.

Done at Frankfort, Kentucky, this the 22nd day of April, 1981.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8091 DATED April 22, 1981

The following rates and charges are prescribed for the customers in the area served by East Daviess County Water Association. 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.

5/8" x 3/4" Meter

First	2,000 Gallons	\$ 7.75 (Minimum Bill)
Next	4,000 Gallons	2.00 per 1,000 Gallons
Next	44,000 Gallons	1.75 per 1,000 Gallons
Over	50,000 Gallons	1.35 per 1,000 Gallons

3/4" Meter

First	3,000 Gallons	\$ 9.75 (Minimum Bill)
Next	3,000 Gallons	2.00 per 1,000 Gallons
Next	44,000 Gallons	1.75 per 1,000 Gallons
Over	50,000 Gallons	1.35 per 1,000 Gallons

1" Meter

First	6,000 Gallons	\$15.75 (Minimum Bill)
Next	44,000 Gallons	1.75 per 1,000 Gallons
Over	50,000 Gallons	1.35 per 1,000 Gallons

1½" Meter

First	10,000 Gallons	\$22.75 (Minimum Bill)
Next	40,000 Gallons	1.75 per 1,000 Gallons
Over	50,000 Gallons	1.35 per 1,000 Gallons

2" Meter

First	20,000 Gallons	\$40.25 (Minimum Bill)
Next	30,000 Gallons	1.75 per 1,000 Gallons
Over	50,000 Gallons	1.35 per 1,000 Gallons