

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT)
FILING OF SOUTH WOODFORD) CASE NO. 7517-1
WATER DISTRICT)

O R D E R

On March 4, 1982, the South Woodford Water District ("South Woodford") filed an application with the Public Service Commission for approval of a purchased water adjustment clause and authority to adjust its rates for service in accordance with the provisions of that clause. On February 1, 1982, South Woodford's supplier, City of Versailles ("City"), notified South Woodford that effective April 3, 1982, the wholesale cost of water would increase from \$.80 to \$1.115 per 1,000 gallons. This represents a 39.38 percent increase over the previous rate charged to South Woodford.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine an applicant's financial condition and determine whether it can absorb any of the increased cost. If there is a potential for absorption, the Commission may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed purchased water adjustment and increase in rates, the Commission has adopted the year ending December 31, 1981, as the test period in this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

REVENUES AND EXPENSES

South Woodford proposed to adjust revenues by \$17,343 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission, after careful examination of South Woodford's financial condition, made the following adjustments to expenses in conformance with its rate-making policy to more fairly represent the actual operating expenses of South Woodford:

Purchased Water Expense

South Woodford proposed to adjust purchased water expenses by \$17,343 to reflect the increased cost of water supplied by the City. The City has increased the wholesale cost of water from \$.80 to \$1.115 per 1,000 gallons which includes \$.025 per 1,000 gallons for repayment of a \$21,263 debt which the City claims is owed by South Woodford for past unpaid water bills.

On March 19, 1982, South Woodford supplied additional information in response to the Commission's request of March 11, 1982. In its response, South Woodford indicated that the

previous city commission had agreed that the \$21,262 unpaid bill had been "wiped clean." However, the new city commission has reinstated the unpaid bill. At the time of this filing an agreement between South Woodford and the City had not been reached.

The primary purpose of the purchased water adjustment clause is to provide a timely rate adjustment to flow through only the increased cost of purchased water in order to preserve the financial integrity of the utility. It is not the purpose of this clause to consider items such as unpaid water bills applicable to prior periods which are normally considered in general rate cases. Therefore, the Commission is of the opinion that the \$.025 included in the wholesale water rates of the City for payment of unpaid water bills should not be included in the cost of purchased water for determining the purchased water adjustment herein, nor should this cost be included in the base cost of water in South Woodford's purchased water adjustment clause.

The line loss experienced by South Woodford for the 12-month period ending December 31, 1981, exceeds the 15 percent maximum line loss allowed by the Commission. After adjusting the line loss to 15 percent and decreasing the purchased water expense by \$1,381 for the debt payment proposed by the City, the total adjusted increase in wholesale water costs to South Woodford will be \$2,080 annually. The pro forma purchased water expense included herein for rate-making purposes is

\$60,197⁽¹⁾ based on the maximum allowable gallons of 55,227,059⁽²⁾ and the adjusted wholesale water rate of \$1.09 per 1,000 gallons.

Depreciation Expense

South Woodford has a depreciation expense for the 1981 calendar year of \$16,377. This reflects depreciation on total plant using a composite rate of approximately 2.5 percent.⁽³⁾ It is policy of the Commission to compute depreciation expense for rate-making purposes on the basis of original cost of the plant in service less contributions in aid of construction. The annual report reflects that the level of contributions in aid of construction at the end of 1981 was \$363,605 which is approximately 56 percent of the total cost of utility plant in service less land and land rights. In determining the pro forma depreciation expense the Commission has utilized the depreciation rates applied by South Woodford and excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$7,126.⁽⁴⁾

Adjustments to the test period operations have produced the following results:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$99,972	\$ -0-	\$ 99,972
Operating Expenses	99,180	(7,171)	92,009
Operating Income	\$ 792	\$ 7,171	\$ 7,963
Interest Income	6,258	-0-	6,258
Total	<u>\$ 7,050</u>	<u>\$ 7,171</u>	<u>\$ 14,221</u>

(1) 55,227.059 X \$1.09 = \$60,197.

(2) 46,943,000 + .85 = 55,227,059.

(3) \$16,377 ÷ \$648,654 = 2.5%.

(4) \$648,654 - \$363,605 = \$285,049 X 2.5% = \$7,126.

REVENUE REQUIREMENTS

South Woodford's annual debt service based on outstanding debt at the end of 1981 is \$10,800.⁽⁵⁾ Using the pro forma operating income established herein and including actual interest income, South Woodford would realize a debt service coverage of 1.32X. The Commission is of the opinion that this coverage is sufficient to enable South Woodford to pay its operating expenses, meet its debt service requirements and maintain an adequate surplus and that no additional revenue is required in this instance.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

(1) The purchased water adjustment clause sought by South Woodford is in compliance with 807 KAR 5:067, Purchased Water Adjustment Clause, is in the best interest of the public, and should be approved.

(2) The City has increased the wholesale cost of water effective April 3, 1982, from \$.80 to \$1.115 per 1,000 gallons, including \$.025 per 1,000 gallons for payment of a debt which the City claims is owed by South Woodford for past unpaid water bills.

(5) Principal (5-year average 1982-1986)	\$ 3,200
Interest	7,600
Debt Service	<u>\$10,800</u>

(3) After taking into consideration the above-mentioned adjustments to expenses, South Woodford should absorb all of the increased cost of water, and an adjustment of rates is not necessary to maintain South Woodford's financial integrity.

(4) The base rate for purchased water for future application of the purchased water adjustment clause should be:

<u>Supplier</u>	<u>Rate</u>
City of Versailles	\$1.09 per 1,000 gallons

(5) The rates proposed by South Woodford would produce revenue in excess of that found fair by the Commission and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the purchased water adjustment and the rates sought by South Woodford be and they hereby are denied.

IT IS FURTHER ORDERED that the purchased water adjustment clause filed by South Woodford be and it hereby is approved effective on and after the date of this order.

IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of South Woodford, the base rate for purchased water shall be:

<u>Supplier</u>	<u>Rate</u>
City of Versailles	\$1.09 per 1,000 gallons

IT IS FURTHER ORDERED that the rates of South Woodford in effect under authority of the Commission prior to the date of this order shall remain in full force and effect.

Done at Frankfort, Kentucky, this 20th day of May, 1982.

PUBLIC SERVICE COMMISSION

Merlin M. Voth
Chairman

Katharine Spudall
Vice Chairman

Sam Casper
Commissioner

ATTEST:

Secretary