

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF REID)
VILLAGE WATER DISTRICT UNDER)
PURCHASE WATER ADJUSTMENT) CASE NO. 7765-1
CLAUSE)

O R D E R

On March 31, 1982, Reid Village Water District ("Reid Village") 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 March 29, 1982, Reid Village's supplier, Mt. Sterling Water and Sewer System ("Mt. Sterling"), notified Reid Village that effective March 1, 1982, the wholesale cost of water would increase.

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 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

Reid Village proposed to adjust revenues by \$5,063 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission, after careful examination of Reid Village's financial condition, made the following adjustment to expenses in conformance with its rate-making policy to more fairly represent the actual operating expenses of Reid Village:

Depreciation Expense

Reid Village has a depreciation expense for the 1981 calendar year of \$2,598. This reflects depreciation on total plant using a composite rate of approximately 2 percent.^{1/} It is the 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

$$\frac{1}{2,598 \div 129,923 = 1.999\%}$$

contributions in aid of construction at the end of 1981 was \$57,423 which is approximately 44.2 percent of the total cost of the utility plant in service. In determining the pro forma depreciation expense the Commission has utilized the depreciation rates applied by Reid Village and excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$1,450.^{2/}

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

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$60,814	\$ -0-	\$60,814
Operating Expenses	42,043	3,915	45,958
Operating Income	<u>\$18,771</u>	<u>\$ (3,915)</u>	<u>\$14,856</u>

REVENUE REQUIREMENTS

Reid Village's annual debt service based on outstanding debt at the end of 1981 is \$3,800.^{3/} Using the pro forma operating income established herein, Reid Village would realize a debt service coverage of 3.86X. The Commission is of the opinion that this coverage is considerably more than sufficient to enable Reid Village 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.

^{2/} $\$129,923 - \$57,423 = \$72,500 \times 2\% = \$1,450.$

^{3/} Principal (5-year average 1982-1986)	\$1,400
Interest	2,400
Debt Service	<u>\$3,800</u>

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 Reid Village 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. Mt. Sterling has increased the wholesale cost of water effective March 1, 1982.

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

4. The base rates for purchased water for future application of the purchased water adjustment clause should be:

Supplier

Mt. Sterling Water and Sewer System

Water Usage (Monthly)

Rates

First	100 cu. ft. used/month	\$3.40 minimum monthly charge
Next	600 cu. ft. used/month	1.40 per 100 cu. ft.
Next	1,300 cu. ft. used/month	1.35 per 100 cu. ft.
Next	1,300 cu. ft. used/month	1.20 per 100 cu. ft.
Next	3,400 cu. ft. used/month	1.00 per 100 cu. ft.
Next	6,600 cu. ft. used/month	.80 per 100 cu. ft.
Next	13,000 cu. ft. used/month	.60 per 100 cu. ft.
Next	26,700 cu. ft. used/month	.55 per 100 cu. ft.
All over	53,300 cu. ft. used/month	.50 per 100 cu. ft.

5. The rates proposed by Reid Village 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 Reid Village be and they hereby are denied.

IT IS FURTHER ORDERED that the purchased water adjustment clause filed by Reid Village 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 Reid Village, the base rates for purchased water shall be:

Supplier

Mt. Sterling Water and Sewer System

Water Usage (Monthly)

Rates

First	100 cu. ft. used/month	\$3.40 minimum monthly charge
Next	600 cu. ft. used/month	1.40 per 100 cu. ft.
Next	1,300 cu. ft. used/month	1.35 per 100 cu. ft.
Next	1,300 cu. ft. used/month	1.20 per 100 cu. ft.
Next	3,400 cu. ft. used/month	1.00 per 100 cu. ft.
Next	6,600 cu. ft. used/month	.80 per 100 cu. ft.
Next	13,000 cu. ft. used/month	.60 per 100 cu. ft.
Next	26,700 cu. ft. used/month	.55 per 100 cu. ft.
All Over	53,300 cu. ft. used/month	.50 per 100 cu. ft.

IT IS FURTHER ORDERED that the rates of Reid Village 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 1st day of June, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katharine Randall
Vice Chairman

Sam Carrigan
Commissioner

ATTEST:

Secretary