

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

THE APPLICATION OF HARDIN COUNTY WATER )  
DISTRICT NO. 1, A WATER DISTRICT ORGANIZED )  
PURSUANT TO CHAPTER 74 OF THE KENTUCKY )  
REVISED STATUTES, OF HARDIN COUNTY, ) CASE NO. 8173  
KENTUCKY, FOR APPROVAL OF THE INCREASED )  
WATER RATES TO BE CHARGED BY THE DISTRICT )

O R D E R

PROCEDURAL BACKGROUND

On September 21, 1981, the Public Service Commission issued an order granting Hardin County Water District No. 1 ("Hardin") increased annual operating revenue of \$177,621 which was sufficient to provide a debt service coverage on parity bonds proposed to be sold at an interest rate of 12 percent. On October 8, 1981, Hardin filed a petition for rehearing maintaining that the bonds could not be sold at an interest rate of 12 percent and that the rate could be as high as 15 percent. Hardin petitioned the Commission to grant rates to generate revenues sufficient to meet the coverage requirements at an interest rate of 15 percent.

On October 28, 1981, the Commission issued an order acknowledging that an interest rate greater than 12 percent and up to 15 percent could be required in order to issue Hardin's parity bonds. Hardin was ordered to notify the Commission of the actual interest rate at which the bonds could be sold prior to consummation of the sale. In addition Hardin was authorized to adjust the rates allowed

in the September 21, 1981, order upon proper notification to the Commission, in order to maintain the allowed coverage requirements based on an interest rate of up to 15 percent at consummation of the sale.

On March 18, 1982, Hardin notified the Commission that the average annual interest rate at which the bonds could be issued was 13.9 percent. Hardin requested additional annual revenue of \$89,373 based on the increased debt service. This order addresses Hardin's request for this additional revenue.

#### COMMENTARY

The history of this case appears in the Commission's order of September 21, 1981. Hardin's test period for determining the reasonableness of the proposed rates remains the same as in its original application, the 12 months ended December 31, 1980.

#### REVENUES AND EXPENSES

In its order of September 21, 1981, the Commission included an operating statement which reflected the pro forma adjustments to Hardin's test year revenues and expenses. The following revised operating statement includes those adjustments plus the adjusted level of interest expense resulting from the 13.9 percent interest rate. The net effect of the accepted adjustments is as follows:

|                                      | <u>Actual<br/>Test Year</u> | <u>Adjustments</u> | <u>Adjusted<br/>Test Year</u> |
|--------------------------------------|-----------------------------|--------------------|-------------------------------|
| Operating Revenues                   | \$765,434                   | \$ 11,323          | \$ 776,757                    |
| Operating Expenses                   | 456,660                     | (68,159)           | 388,501                       |
| Net Operating Income                 | \$308,774                   | \$ 79,482          | \$ 388,256                    |
| Interest on Long-Term Debt           | 95,969                      | 402,375            | 498,344                       |
| Other Income and<br>(Deductions)-Net | 22,741                      | -0-                | 22,741                        |
| Net Income                           | <u>\$235,546</u>            | <u>\$(322,893)</u> | <u>\$ (87,347)</u>            |

REVENUE REQUIREMENTS

Hardin determined its additional revenue requirement of \$89,373 based on an average annual debt service requirement of \$523,815 which includes the proposed bond issue. As stated in the Commission's order of September 21, 1981, Hardin did not take into consideration the bond ordinance provision which allows a reduction of gross annual debt service requirements for net annual cash flow of \$25,709 from the invested sinking fund. Having considered this provision of the bond ordinance, the Commission has determined that Hardin's revenue should be increased as follows:

|                                     |                    |
|-------------------------------------|--------------------|
| Gross Income and Revenue            | \$ 802,466         |
| Operating Expenses                  | 388,501            |
| Net Revenue                         | <u>413,965</u>     |
| Net Annual Debt Service Requirement | 498,106            |
| .3 Coverage Requirement             | 149,432            |
| Revenue Deficiency                  | <u>\$(233,573)</u> |

The current revenue deficiency of \$233,573 compared to the previous deficiency of \$177,621 results in the need for additional revenue of \$55,952. This increase over test year revenue will result in gross annual income and revenue of \$1,036,039 and will provide sufficient revenue to allow Hardin to pay its operating expenses, service its debt, and meet the parity requirements of its bond ordinance.

RATE DESIGN

Hardin indicated on Attachment I to its supplemental filing of March 11, 1982, that the proposed rates would produce \$89,373 of revenue in addition to the revenue granted in the order of September 21, 1981. In determining the proposed rates, Hardin applied a percentage increase to each rate step based on the percentage of

revenue requested (\$89,373) to the additional revenue allowed (\$177,621) by the Commission's order issued on September 21, 1981. Hardin failed to apply these rates to its billing analysis. When the Commission applied these rates to the billing analysis it found that the additional revenue generated by these rates is \$55,952. The amount of revenue produced by the proposed rates is the amount of increase deemed reasonable herein. However, if Hardin had actually needed \$89,373 in additional revenue, the rates it filed would have been short by \$33,421.

#### SUMMARY

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

1. The rates in Appendix A are the fair, just and reasonable rates for Hardin and will produce annual revenues from water sales of approximately \$926,987 which combined with investment and other revenue of \$109,052 will result in gross annual revenues of \$1,036,039.
2. The rates approved herein are necessary and will be sufficient to meet the parity provisions of Hardin's bond ordinance.
3. Provisions of the order of September 21, 1981, not specifically changed herein shall remain the same.

IT IS THEREFORE ORDERED that the rates in Appendix A are approved for service rendered by Hardin after the date of this order.

IT IS FURTHER ORDERED that within 30 days from the date of this order Hardin shall file with the Commission its revised tariff sheets setting out the rates approved herein.

IT IS FURTHER ORDERED that provisions of the Commission's order of September 21, 1981, not specifically changed or amended herein shall remain in full force and effect.

Done at Frankfort, Kentucky, this 10th day of May, 1982.

PUBLIC SERVICE COMMISSION

Wesley M. Voth  
Chairman

Katherine Randall  
Vice Chairman

Tom Carver  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8173 DATED MAY 10, 1982

The following rates are prescribed for all customers served by Hardin 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.

Monthly Rates

Applicable to entire area served

General Customers

|  | <u>Rate</u>            |
|--|------------------------|
| First 2,000 gallons used per month         | \$4.76 Minimum         |
| Next 8,000 gallons used per 1,000 gallons  | 1.15 per 1,000 gallons |
| Next 15,000 gallons used per 1,000 gallons | .95 per 1,000 gallons  |
| Next 15,000 gallons used per 1,000 gallons | .78 per 1,000 gallons  |
| Over 40,000 gallons of water used          | .65 per 1,000 gallons  |

Multi-Family Rate (trailer parks, apartment buildings, etc.)

Available to customers that serve three or more units through one water meter.

The minimum bill shall be the residential monthly minimum (\$4.76) times the number of units available per customer. The monthly minimum shall entitle the customer to not less than 2,000 gallons of water, times the number of units available per month. The balance of the monthly usage shall be at the general customers rates.