COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BARKLEY LAKE WATER DISTRICT FOR A CERTIFICATE THAT PUBLIC CONVENIENCE AND NECESSITY REQUIRES THE CONSTRUCTION OF NEW PLANT FACILITIES AND FOR AN ORDER AUTHORIZING ADJUSTMENT OF WATER SERVICE RATES AND CHARGES	)	CASE NO. 8264

O R D E R

On June 22, 1981, Barkley Lake Water District ("Barkley Lake") filed its petition requesting a certificate of public convenience and necessity authorizing the construction of new plant facilities and permission to increase the rates charged its customers. The request for approval of the construction of new plant facilities was later withdrawn. The increased rates requested by Barkley Lake would provide $206,233 in additional revenues or a 72 percent increase above the test period level. In this order, the Commission has allowed Barkley Lake to increase its revenues by $7,367.

In order to determine the reasonableness of the requested rates, a hearing was held on November 10, 1981, in the Commission's offices in Frankfort, Kentucky. The Department of Parks, represented by counsel, was the only party to intervene in the matter.

All information requested has been filed, and the entire matter is now submitted for final determination by the Commission.

COMMENTARY

KRS 278.190(3) states that the burden of proof to show that a proposed increased rate or charge is just and reasonable is on the utility. Barkley Lake failed to meet its burden of proof to justify the requested increase in rates in this proceeding. Although it met the minimum filing requirements of the Commission's regulations, Barkley Lake did not provide sufficient documentation of known and measurable changes to allow the Commission to approve any significant increase in rates.

Because of the lack of proof offered by Barkley Lake, the Commission must deny approximately $33,536 of Barkley Lake's pro forma adjustments to operating expenses.

The Commission recognizes that small utilities frequently require assistance in the preparation of a rate case. Therefore, the Commission makes its staff available on a limited basis to discuss generally-accepted techniques of rate case preparation and necessary documentation requirements prior to the filing of an application. The Commission advises Barkley Lake that prior to filing another rate case it should familiarize itself with rate-making requirements to avoid the needless waste of time and expense to both it and the Commission.

TEST PERIOD

Barkley Lake proposed and the Commission has accepted the 12-month period ending March 31, 1981, as the test period in this case.

OPERATING REVENUES AND EXPENSES

Barkley Lake proposed numerous adjustments to its test year operations. These adjustments included estimates and projections of increased costs based solely on expected inflation rates without any documentation to support specific cost increases. Since Barkley Lake did not provide documentation or evidence to support these cost increases, the Commission has rejected all proposed adjustments to actual operation maintenance expenses.

The Commission will, however, permit an adjustment of $4,800 to Barkley Lake's account for maintenance of resources and standpipes. This represents amortization for 1 year of capital expenditures appropriately amortized over a 5-year period. Moreover, the Commission has made an adjustment of $3,500 to include amortization for 1 year of Barkley Lake's expenses incurred in connection with this rate case appropriately amortized over a 3-year period.

Further, Barkley Lake proposed an adjustment of $60,072 to depreciation expense to make up for inadequate provisions to its depreciation fund required under its bond ordinance

for the past several years. As the Commission establishes rates for the future, it must reject this adjustment in its entirety as it represents retroactive rate-making designed to require present customers to pay for management's past deficient policies.

Finally, it is the policy of the Commission to compute depreciation expense on the basis of the original cost of the plant, less contributions in aid of construction, as ratepayers should not be required to provide recovery on that portion of the plant that has been provided at zero cost. Therefore, Barkley Lake's depreciation expense has been reduced from the test year level by $45,061 to an annual expense of $27,935.[1/]

Therefore, the Commission finds that Barkley Lake's adjusted operations are as follows:

	Barkley Lake Pro Forma	Commission Adjustments	Commission Adjusted
Operating Revenues	$ 285,487	$ 0	$ 285,487
Operating Expenses	328,968	(126,194)	202,774
Operating Income (Loss)	$ (43,481)	$ 126,194	$ 82,713

REVENUE REQUIREMENTS

The Commission is of the opinion that Barkley Lake's debt service coverage of 1.10X is inadequate to allow it to

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1/ Plant in Service ($3,413,679) - Contributions in Aid of Construction ($2,296,316) = Depreciable Plant ($1,117,363) x 2.5% Depreciation Rate = Depreciation Expense ($27,935).

meet its operating expenses and debt obligations. The Commission is of the opinion that the fair, just and reasonable debt service coverage is 1.2X as it will permit Barkley Lake to pay its expenses and meet its debt obligations. Therefore, the Commission finds that Barkley Lake is entitled to increase its rates to produce an increase in annual revenues of $7,367 calculated as follows:

1.2X Debt Service Coverage	$ 90,080
Add: Adjusted Operating Expenses	202,774
Subtotal	$292,854
Less: Adjusted Operating Revenues	285,487
Revenue Requirement	$ 7,367

Barkley Lake, moreover, requested increased revenues to cover two additional requests for operating funds. First, Barkley Lake proposed that the Commission increase rates to produce revenues of $70,000 to permit it to upgrade its pumping plant to meet peak demand during the summer months. While the Commission recognizes the necessity of the upgrading, it is of the opinion that construction projects should be financed by capital funds with the resultant financing costs and recovery of the capital expenditure paid by the ratepayers over the life of the asset.

Second, Barkley Lake proposed to "retire" its deficit in retained earnings over a 10-year period and requested that the Commission grant revenues and increase rates to produce $29,015 per year to eliminate this past loss. The Commission sets rates for the future and has, therefore, not provided for recovery of

the operating deficit. The Commission has allowed Barkley Lake rates to maintain its existing plant in good operating condition, to provide sufficient cash flow to meet obligations and to provide income adequate to assure present and future lenders that Barkley Lake, with adequate management, is stable and credit-worthy.

RATE STRUCTURE

Barkley Lake has proposed to change its present rate structure by reducing the number of blocks in the present declining block rate schedule from seven to three blocks. The Commission, in the past, has favored the reduction of the number of blocks in a rate schedule, but, in this case the reduction of the number of blocks and the usage allowed within the proposed blocks would cause some customers to receive large rate increases while others would receive reductions. Therefore, the Commission will reject the proposed change in the rate design.

SUMMARY

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

(1) The rates proposed by Barkley Lake will produce revenues in excess of those found to be fair, just and reasonable herein and therefore should be denied upon application of KRS 278.030.

(2) The rates in Appendix A are the fair, just and reasonable rates to charge for water service and should be approved.

IT IS THEREFORE ORDERED that the rates proposed by Barkley Lake will provide revenues in excess of those found reasonable herein and are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates to charge for water service on and after the date of this Order and are hereby approved.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, Barkley Lake shall file with the Commission its revised tariff sheets setting forth the rates approved herein.

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

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8264 DATED MARCH 10, 1982.

The following rates are prescribed for all customers served by Barkley Lake Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Rates: Western portion of Barkley Lake Water District

5/8" x 3/4" Meter	Monthly Rate
First 2,000 gallons	$5.00 minimum bill
Next 3,000 gallons	1.65 per 1,000 gallons
Next 5,000 gallons	1.45 per 1,000 gallons
Next 40,000 gallons	1.25 per 1,000 gallons
Next 50,000 gallons	1.05 per 1,000 gallons
Next 400,000 gallons	1.00 per 1,000 gallons
Over 500,000 gallons	.93 per 1,000 gallons

Eastern portion of Barkley Lake Water District
(1975 Expansion Project)

5/8" x 3/4" Meter

First 2,000 gallons	$7.40 minimum bill
Next 3,000 gallons	1.65 per 1,000 gallons
Next 5,000 gallons	1.45 per 1,000 gallons
Next 40,000 gallons	1.25 per 1,000 gallons
Next 50,000 gallons	1.05 per 1,000 gallons
Next 400,000 gallons	1.00 per 1,000 gallons
Over 500,000 gallons	.93 per 1,000 gallons

Minimum rates for all other meter sizes would reflect the rates also.

Western portion

Meter Size	Minimum Consumption	Monthly Rate
3/4"	3,000 gallons	$6.65 minimum charge
1"	5,000 gallons	9.95 minimum charge
1-1/2"	10,000 gallons	17.20 minimum charge
2"	20,000 gallons	29.70 minimum charge
2-1/2"	30,000 gallons	42.20 minimum charge
3"	50,000 gallons	67.20 minimum charge
4"	100,000 gallons	119.70 minimum charge

Eastern portion

Meter Size	Minimum Consumption	Monthly Rate
3/4"	3,000 gallons	$ 9.05 minimum charge
1"	5,000 gallons	12.35 minimum charge
1-1/2"	10,000 gallons	19.60 minimum charge
2"	20,000 gallons	32.10 minimum charge
2-1/2"	30,000 gallons	44.60 minimum charge
3"	50,000 gallons	69.60 minimum charge
4"	100,000 gallons	122.10 minimum charge

Lake Barkley State Park

	Monthly Rate
First 500,000 gallons	$ 522.10 minimum bill
All over 500,000 gallons	0.93 per 1,000 gallons

Minimum Annual Billing: $9,000.00 with actual billing versus annual minimum to be reconciled in July of each year.

Christian County Water District

Rate: Ninety-three cents ($0.93) per 1,000 gallons