

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AUTHORIZATION PER 278 KRS )  
TO INCREASE THE DISTRICT )  
WATER RATES FROM THE )  
CURRENT RATES WHICH )  
WERE AUTHORIZED ON JUNE 21, ) CASE NO. 8300  
1978, TO THE RATES CONTAINED )  
IN THE DISTRICT'S LETTER OF )  
JUNE 18, 1981, TO THE )  
COMMISSION )

O R D E R

On July 31, 1981, Ledbetter Water District ("Ledbetter") filed an application with the Commission requesting to increase its water rates. The requested rates would produce an annual increase in revenues of \$11,184. On November 12, 1981, Ledbetter amended its application to revise its proposed customer rates and requested the Commission's approval to amortize the retired plant in service in excess of accumulated depreciation over a period of time deemed fair and reasonable by the Commission. The amended water rates would produce \$20,230 additional annual revenues or a 21 percent increase above the test period level.

The matter was set for hearing on October 22, 1981, at the Commission's offices in Frankfort, Kentucky. Ledbetter filed its amendment to the application subsequent to the hearing, thus necessitating subsequent hearings to determine the reasonableness of the additional request, which were held on December 22, 1981, January 28, 1982, and March 4, 1982.

### COMMENTARY

Ledbetter, in case number 7097, was granted a certificate of public convenience and necessity to construct major additions to and perform the much needed renovation of its existing plant. As a result, Ledbetter retired \$64,806 of its assets. These retirements were charged against the balance in accumulated depreciation as required by the Uniform System of Accounts for Water Utilities. As the original cost of the retired assets exceeded the balance in accumulated depreciation, Ledbetter carried the remainder as a deferred debit for bookkeeping purposes until permission from this Commission could be secured to amortize the balance over an appropriate period of time.

### TEST PERIOD

For the purpose of determining fair and reasonable rates, Ledbetter proposed and the Commission has accepted the 12-month period ending June 30, 1981, as the test period in this matter.

### REVENUES AND EXPENSES

Ledbetter proposed no pro forma adjustments to its test year operations. However, the Commission is of the opinion that the following adjustments to expenses are necessary to reflect normalized operations for rate-making purposes:

Depreciation - It is the Commission's policy that depreciation expense be computed on the basis of original cost of the plant less contributions in aid of construction, as the utility should not be permitted cost recovery on that portion of the plant

that is provided to it free of cost. Therefore, Ledbetter's depreciation expense has been reduced by \$8,191 to an annual expense of \$12,116. (1)

Amortization - The Commission has adjusted this expense to \$1,300 to reflect the Commission's approval to amortize the balance of the retired plant in service in excess of accumulated depreciation over a period of 3 years.

Therefore, Ledbetter's adjusted test period revenues and expenses are as follows:

	<u>Actual</u>	<u>Adjustment</u>	<u>Adjusted</u>
Operating Revenues	\$97,906	\$ 0	\$97,906
Operating Expenses	<u>79,115</u>	<u>(6,891)</u>	<u>72,224</u>
Net Operating Income	<u>\$18,791</u>	<u>\$ 6,891</u>	<u>\$25,682</u>

#### REVENUE REQUIREMENTS

The Commission is of the opinion that the adjusted net operating income is inadequate to allow Ledbetter to meet its current debt obligations. For this reason the Commission has adopted the 1.2X debt service coverage method in this case. Ledbetter's average debt service is \$37,321. Using the adjusted test period results, Ledbetter's debt service coverage is .69X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. Moreover, the Commission is of the opinion that the revenues generated by Ledbetter's proposed rates

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(1) Plant in Service (\$1,013,795) - Contributions in Aid of Construction (\$407,994) = Depreciable Plant (\$605,801) X Depreciation Rate (2%) = Depreciation Expense (\$12,116).

would provide revenues in excess of those normally found to be fair, just and reasonable. Therefore, the Commission has determined that Ledbetter is in need of \$19,104 of additional revenues to meet its operating expenses as well as provide adequate coverage for the current portion of its long-term debt obligations and return necessary for equity growth.

SUMMARY

After reviewing the evidence of record and being advised, the Commission is of the opinion and finds that:

1) The revised rates proposed by Ledbetter would provide revenues in excess of those found to be fair, just and reasonable and 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 Ledbetter be and they hereby are denied upon application of KRS 278.030.

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

IT IS FURTHER ORDERED that Ledbetter shall file with this Commission within 30 days of the date of this Order its tariff sheet setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 17th day of March, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohz  
Chairman

Katharine Landall  
Vice Chairman

Lew L. Carver  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8300 DATED MARCH 17, 1982

The following rates and charges are prescribed for all customers in the area served by Ledbetter 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: Monthly

5/8" x 3/4" Meter

First 2,000 gallons	\$ 7.00 Minimum Bill
Next 3,000 gallons	3.20 per 1,000 gallons
Next 5,000 gallons	2.50 per 1,000 gallons
Next 5,000 gallons	1.90 per 1,000 gallons
Next 5,000 gallons	1.25 per 1,000 gallons
Over 20,000 gallons	1.00 per 1,000 gallons

3/4" Meter

First 2,000 gallons	\$10.20 Minimum Bill
Next 3,000 gallons	3.20 per 1,000 gallons
Next 5,000 gallons	2.50 per 1,000 gallons
Next 5,000 gallons	1.90 per 1,000 gallons
Next 5,000 gallons	1.25 per 1,000 gallons
Over 20,000 gallons	1.00 per 1,000 gallons

1" Meter

First 5,000 gallons	\$16.60 Minimum Bill
Next 5,000 gallons	2.50 per 1,000 gallons
Next 5,000 gallons	1.90 per 1,000 gallons
Next 5,000 gallons	1.25 per 1,000 gallons
Over 20,000 gallons	1.00 per 1,000 gallons

1½" Meter

First 10,000 gallons	\$29.10 Minimum Bill
Next 5,000 gallons	1.90 per 1,000 gallons
Next 5,000 gallons	1.25 per 1,000 gallons
Over 20,000 gallons	1.00 per 1,000 gallons

2" Meter

First 15,000 gallons	\$38.60 Minimum Bill
Next 5,000 gallons	1.25 per 1,000 gallons
Over 20,000 gallons	1.00 per 1,000 gallons

Connection Charges

5/8" x 3/4" Meter	\$300.00
3/4" Meter	300.00
1" Meter	350.00
1½" Meter	550.00
2" Meter	800.00