

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

THE APPLICATION OF HICKORY)
WATER DISTRICT, OF GRAVES)
COUNTY, KENTUCKY, FOR (1))
A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING)
SAID WATER DISTRICT TO CON-)
STRUCT A WATERWORKS CON-)
STRUCTION PROJECT, CONSISTING)
OF EXTENSIONS, ADDITIONS, AND)
IMPROVEMENTS TO THE EXISTING)
WATERWORKS SYSTEM OF THE)
DISTRICT; (2) APPROVAL OF THE)
PROPOSED PLAN OF FINANCING OF)
SAID PROJECT; AND (3) APPROVAL)
OF THE INCREASED WATER RATES)
PROPOSED TO BE CHARGED BY THE)
DISTRICT TO CUSTOMERS OF THE)
DISTRICT)

CASE NO. 8355

O R D E R

On September 28, 1981, Hickory Water District ("Hickory") filed its application seeking a certificate of public convenience and necessity authorizing extensions, additions and improvements to the existing waterworks system; approval of its proposed plan of financing; and approval of the rates proposed to be charged to its customers. The rates proposed by Hickory should produce additional revenues of \$17,802 on an annual basis.

In this order Hickory's petition for a certificate of public convenience and necessity and the proposed method of financing, as set out in the application, have been approved. The amount of additional revenues allowed herein is \$17,802.

In order to determine the reasonableness of Hickory's petition, a public hearing was held at the Commission's offices in Frankfort, Kentucky, on December 22, 1981. There were no intervenors in this proceeding.

A copy of a letter from the Sanitary Engineering Division of the Kentucky Department for Natural Resources and Environmental Protection approving Hickory's plans and specifications for the proposed project is on file with this Commission.

COMMENTARY

The Commission wishes to express its displeasure with the quality of Hickory's filing. Many of the exhibits were inadequate and replete with contradictions. A billing analysis was never filed and ultimately had to be prepared by the Commission's staff. Hickory's response to several requests for a billing analysis was that it would require too much time and trouble to prepare.

Under unusual circumstances, certain requirements of 807 KAR 25:010 may be waived, but failure to comply with those filing requirements simply because it is inconvenient is not considered to be a valid reason for noncompliance by this Commission.

As stated, the Commission has performed its own analysis of Hickory's present and proposed rates to determine the level of revenue to be produced by each. This analysis revealed substantial differences between the level of revenue determined

by the Commission and determined by Hickory. In determining the revenue requirements of Hickory the Commission has used the results of its own analysis.

TEST PERIOD

Hickory has proposed and the Commission has accepted the 12-month period ending June 30, 1981, as the test period in this matter.

REVENUES AND EXPENSES

Hickory proposed several adjustments to its income statement to reflect current operating conditions and the effect of the proposed construction project. The Commission has accepted these adjustments with the following exceptions.

Revenues

Hickory proposed a normalized level of gross operating revenues of \$122,466.⁽¹⁾ The Commission has determined through the use of its own billing analysis of Hickory's operations that present rates on a test period basis should produce revenues of only \$97,932. This amount has been increased by \$8,385⁽²⁾ to include the effect on present revenues of the additional 74 customers to be served following the completion of the proposed construction project.

(1) Revised Exhibit M.

(2) 74 additional customers with average residential usage of 5,154 gallons.

The Commission has also included \$3,744⁽³⁾ of other revenue derived from forfeited discounts to reflect the recurring nature of this item on Hickory's operations. Therefore, the Commission has reduced Hickory's gross operating revenues by \$12,405 for a total of \$110,061.

Depreciation Expense

In its calculation of depreciation expense Hickory included depreciation on contributed property. 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, Hickory's pro forma depreciation expense has been reduced by \$17,172.⁽⁴⁾

The adjusted revenues and expenses are as follows:

	<u>Hickory Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$122,466	(\$12,405)	\$110,061
Operating and Maintenance Expenses	95,026	17,172	77,854
Operating Income/(Loss)	<u>\$ 27,440</u>	<u>\$ 4,767</u>	<u>\$ 32,207</u>

(3) Determined by an analysis of the actual billings of Hickory for the test period.

(4) Contributed property of \$300,302 x weighted depreciation rate of 3.38 percent = \$10,150.

Contributed property on proposed construction of \$380,600 x 2 percent = \$7,612. Exhibit N, Note 2c.

REVENUE REQUIREMENTS

The Commission is of the opinion that the adjusted operating income of Hickory is unfair, unjust and unreasonable in that it will not allow Hickory to pay its adjusted operating expenses and meet the requirements of its present and prospective bond ordinances. Therefore, the Commission has allowed the increase of \$17,802 which the Commission has determined to be the increase in revenues to be produced under the rates proposed by Hickory. This increase will allow Hickory to pay its adjusted operating expenses, including depreciation, and provide sufficient revenues to improve its financial position.

SUMMARY

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

1. Public convenience and necessity require construction of Hickory's proposed waterworks system project in Lowes, Kentucky, as set forth in the application.
2. Any construction deviations from the contract plans and specifications herein approved which could adversely affect service to any customer, should be subject to the prior approval of this Commission.
3. The financing of this project is composed of \$127,000 in water revenue bonds, a \$359,000 grant from FmHA and \$21,600 of future customers' contributions in aid of construction. This financing is for lawful objects within the corporate purposes of Hickory, is necessary and appropriate for and consistent with the proper performance by Hickory of its service to the public and will not impair its ability to perform that service.

4. Any deviations from the financing approved herein must receive prior approval of the Commission.

5. Hickory should furnish the Commission with duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

6. The contract between Hickory and the engineer should require the engineer to provide general engineering supervision and full time resident inspection to insure that the construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

7. Within 60 days of the date of substantial completion of this construction, Hickory should require the engineer to furnish this Commission with a copy of the as-built plans and a certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

8. The rates proposed by Hickory and in Appendix A are the fair, just and reasonable rates to be charged by Hickory for water service rendered to its customers on and after the date of this order and should produce gross revenues of \$119,478.

IT IS THEREFORE ORDERED that Hickory be and it hereby is granted a certificate of public convenience and necessity to construct additions to its existing water distribution system to serve additional residents in Lowes, Kentucky, in accordance with contract plans and specifications filed in this matter.

IT IS FURTHER ORDERED that any construction deviations from the contract plans and specifications herein approved, which could adversely affect service to any customer, shall be subject to the prior approval of this Commission.

IT IS FURTHER ORDERED that Hickory be and it hereby is authorized to finance this construction project with \$21,600 of contributions in aid of construction from applicants for service, an FmHA grant of \$359,000 and the issuance of \$127,000 in revenue bonds at an interest rate not to exceed 5 percent. Further, this \$507,600 in project funds shall be used only for the lawful objects set forth in the application.

IT IS FURTHER ORDERED that Hickory shall file with this Commission duly verified documentation which shows the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that the contract between Hickory and the engineer shall require the engineer to provide general engineering supervision and full-time resident inspection to insure that the contractor's construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that Hickory shall require the engineer, within 60 days of substantial completion of the proposed construction, to furnish this Commission with a copy of

the as-built plans and a certification that the construction has been satisfactorily completed and was done in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that Hickory shall file with this Commission all contracts for services subject to the Commission's approval.

IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are the fair, just and reasonable rates to be charged by Hickory for service rendered on and after the date of this order.

IT IS FURTHER ORDERED that Hickory shall file within 30 days of the date of this order its revised tariff sheets setting out the rates and charges approved herein.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 16th day of April, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katherine Laudal
Vice Chairman

Tom Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8355
DATED APRIL 16, 1982

The following rates and charges are prescribed for all customers served by Hickory 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.

<u>Consumption</u>		<u>Monthly Rate</u>
First	2,000 gallons	\$4.50 (Minimum Bill)
Next	3,000 gallons	1.90 per 1,000 gallons
Next	5,000 gallons	1.40 per 1,000 gallons
Next	10,000 gallons	1.15 per 1,000 gallons
Next	30,000 gallons	.85 per 1,000 gallons
Next	50,000 gallons	.60 per 1,000 gallons
Over	100,000 gallons	.50 per 1,000 gallons