

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

NOTICE OF CUMBERLAND FALLS HIGHWAY)
WATER DISTRICT OF ADJUSTMENT OF WATER)
RATES ON DECEMBER 21, 1981, FOR)
AUTHORITY TO BORROW \$13,000 AND FOR) CASE NO. 8393
AUTHORITY TO REAMORTIZE EXISTING)
BOND INDEBTEDNESS)

O R D E R

PROCEDURAL BACKGROUND

On November 30, 1981, Cumberland Falls Highway Water District ("Cumberland Falls") filed its Notice with the Commission seeking approval of an increase in rates charged for water service rendered on and after December 21, 1981, authority to borrow \$13,000, authority to establish a revised amortization program with reference to the existing bond indebtedness, and permission to adopt a purchased water adjustment clause.

The Commission suspended the proposed rates and charges for a period of 5 months after December 21, 1981.

A public hearing was held in this matter on January 14, 1982, in the Commission's offices at Frankfort, Kentucky. The entire matter is now submitted for final determination by this Commission.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending August 31, 1981, has

been accepted as the test year. Adjustments found significant and reasonable have been included to reflect more current operating conditions.

REVENUES AND EXPENSES

Cumberland Falls proposed several pro forma adjustments to actual operating revenues and expenses as reflected in its comparative income statement for the 12 months ended August 31, 1981.⁽¹⁾ The Commission finds these adjustments reasonable and has accepted them for rate-making purposes. The Commission has, moreover, made one adjustment to Cumberland Falls' actual recorded expenses.

The Commission is of the opinion that depreciation expense should be computed on the basis of original cost of utility plant in service less contributions in aid of construction. Cumberland Falls' ratepayers should not be required to pay for plant granted free of cost to the utility, as the primary purpose of recording depreciation expense is to allocate the cost of the asset to operations over its useful life, not to provide funds for the replacement of the asset as Cumberland Falls' states. The allowable depreciation expense adjustment of \$6,763 has been computed by the Commission as follows:

Plant in Service August 31, 1981	\$609,730
Less: Land and Land Rights	7,044
Contributions in Aid of Construction	358,705
Depreciable Plant in Service	<u>\$243,981</u>
Composite Depreciation Rate ⁽²⁾	X 2,772%
Allowable Depreciation Expense	<u><u>\$ 6,763</u></u>

⁽¹⁾ Notice, Exhibit No. 9.

⁽²⁾ \$16,705 (depreciation expense) ÷ \$602,686 (plant in service) = 2.772%

Therefore, Cumberland Falls' adjusted operations at the end of the test period are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 80,007	\$ -0-	\$ 80,007
Operating Expenses	114,792	(772)	114,020
Net Operating Income	<u>\$(34,785)</u>	<u>\$ 772</u>	<u>\$(34,013)</u>
Other Income	\$ 15,591	\$(15,000)	\$ 591
Interest Expense	15,003	(3,981)	11,022
Net Income	<u>\$(34,197)</u>	<u>\$(10,247)</u>	<u>\$(44,444)</u>

OPERATING REVENUE INCREASE

To meet the requirements of its lenders, the Commission finds that Cumberland Falls is entitled to operating revenues equal to 1.2 times its annual debt service cost plus operating expenses including depreciation. Therefore, the increase in operating revenues is computed as follows:

Debt Service Coverage x 1.2	\$ 38,409
Add: Adjusted Operating Expenses	114,020
Subtotal	<u>\$152,429</u>
Less: Adjusted Operating Revenue	80,007
Other Income	591
Increase in Gross Revenue	<u>\$ 71,831</u>

RATE DESIGN

Cumberland Falls has proposed to change its rate structure by adjusting the usage levels in the various rate blocks to more accurately reflect the actual usage levels of its customers. The Commission is of the opinion that the proposed usage levels are reasonable, will enable Cumberland Falls to achieve a fairer allocation of usage and billing, will benefit the utility and its customers and should, therefore, be approved.

FINDINGS AND ORDER

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

1. The rates and charges in Appendix A should produce gross annual revenues from water sales of approximately \$150,874 and are the fair, just and reasonable rates and charges to be charged for water service rendered by Cumberland Falls on and after the date of this Order.

2. Gross annual revenues in the amount of \$151,838 are necessary and should permit Cumberland Falls to meet its adjusted operating expenses and provide a 1.2 coverage of its annual debt service cost.

3. The rates and charges proposed by Cumberland Falls would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

4. Cumberland Falls' proposal to borrow an additional \$13,000 for the purpose of paying certain past due accounts, funding the estimated costs of this rate case, and reamortizing its present bond indebtedness with the Farmers Home Administration is in the public interest and should be allowed. The revised loan amortization in the principal amount of \$273,000 is computed at an interest rate of 4.75 percent per year.

5. The purchased water adjustment clause sought by Cumberland Falls is in compliance with 807 KAR 5:067 - Purchased Water Adjustment Clause, is in the best interest of the public and Cumberland Falls, and should be approved.

6. The base rate for purchased water for the future application of the purchased water adjustment clause should be:

<u>Supplier</u>	<u>Rate</u>
City of Williamsburg	\$0.65 per 1,000 gallons
City Utilities Commission, Corbin, Kentucky	\$0.98 per 1,000 gallons + \$50.00 service charge

IT IS THEREFORE ORDERED that Cumberland Falls Highway Water District is hereby authorized to place into effect the rates and charges in Appendix A for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates and charges proposed by Cumberland Falls, insofar as they differ from the rates and charges in Appendix A, are hereby denied.

IT IS FURTHER ORDERED that the revised rate structure sought by Cumberland Falls is fair, just and reasonable and in the public interest and is therefore approved.

IT IS FURTHER ORDERED that Cumberland Falls is hereby authorized to borrow an additional sum in the amount of \$13,000 and establish a revised amortization program in the principal amount of \$273,000 at an interest rate of 4.75 percent per year with the Farmers Home Administration.

IT IS FURTHER ORDERED that the purchased water adjustment clause requested by Cumberland Falls is hereby 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 Cumberland Falls, the base rate for purchased water shall be:

<u>Supplier</u>	<u>Rate</u>
City of Williamsburg	\$0.65 per 1,000 gallons
City Utilities Commission, Corbin, Kentucky	\$0.98 per 1,000 gallons + \$50.00 service charge

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Cumberland Falls shall file its tariffs setting out the rates and charges approved herein.

Nothing contained herein shall be deemed a finding of value for any purpose whatsoever, nor construed as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 12th day of February, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Bohy
Chairman

Katherine Randall
Vice Chairman

Jim Carney
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8393
DATED FEBRUARY 12, 1982

The following rates and charges are prescribed for all customers in the area served by Cumberland Falls Highway 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

First 1,000 gallons	\$ 9.75 (Minimum Bill)
Next 4,000 gallons	3.00 per 1,000 gallons
Next 5,000 gallons	2.25 per 1,000 gallons
Over 10,000 gallons	1.75 per 1,000 gallons

Minimum Monthly Charges

5/8 or 3/4 inch meter	\$ 9.75
1 inch meter	21.75
2 inch meter	59.25

Purchased Water Adjustment Clause

<u>Supplier</u>	<u>Rate</u>
City of Williamsburg	\$ 0.65 per 1,000 gallons
City Utilities Commission	0.98 per 1,000 gallons
Corbin, Kentucky	+50.00 service charge