

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH LOGAN WATER)	
DISTRICT NO. 1 FOR RATE INCREASE)	
PURSUANT TO ALTERNATIVE RATE)	CASE NO. 8637
ADJUSTMENT PROCEDURE FOR SMALL)	
UTILITIES)	

O R D E R

On September 2, 1982, North Logan Water District No. 1 ("North Logan") filed an application with the Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates would produce additional revenue of \$24,000 annually, an increase of 41 percent. Based on the determination herein, the revenue of North Logan will increase by \$11,854 annually, an increase of 20 percent.

A hearing was not requested in this matter and in accordance with the provisions of the ARF no hearing was conducted. Therefore, the decision of the Commission is based on information contained in the application, written submissions, and the annual reports and other documents on file in the Commission's offices.

COMMENTARY

North Logan is a nonprofit water distribution system

organized and existing under the laws of the Commonwealth of Kentucky, and serves approximately 345 customers in Logan County.

TEST PERIOD

The Commission has adopted the 12-month period ending December 31, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

The ARF was established to provide a simplified and less expensive method for small utilities to apply for rate increases with the Commission. Therefore, the financial data from the 1981 annual report is used as the basis for determining the revenue requirements. North Logan proposed no specific adjustments to the test period operating statement but made general statements in its application concerning increases in expenses. In accordance with the Commission's normal rate-making policies, the following adjustments have been made to North Logan's test period operating statement to reflect actual and anticipated operating conditions:

Purchased Water

The Commission has determined that North Logan's purchased water costs should be increased by \$17,520 to reflect the increased cost of purchased water from the City of Russellville, effective July 1, 1982.

North Logan's 1981 annual report shows that line loss for this period was 22 percent. The Commission has an established policy for rate-making purposes of disallowing the cost associated with line loss in excess of 15 percent. North Logan has failed to present a reasonable explanation for the excess line loss, and no indication has been given that action will be taken to reduce line losses in the future. Therefore, the Commission has determined that an adjustment of \$3,965 should be made to exclude the cost associated with the line loss in excess of 15 percent.

After examination of the monthly water bills the Commission has determined that the actual expense for the test period based on the gallons purchased during that period should have been \$31,239. The cumulative effect of these three adjustments is to increase the test period purchased water expense by \$13,334.

Purchased Power Cost

The 1981 annual report of North Logan indicated that the purchased power cost for that period was \$3,397. Upon examination of North Logan's utility bills charged to Fuel or Power Purchased for Pumping, Account 622, it was found that both the electric and telephone expense had been included in this account. It was also determined that the electric expense included 13 months rather than the 12 months of 1981. In computing the purchased power cost for North Logan, the Commission has determined the actual level

of KWH usage from the actual test year electric bills and has applied the most current rates in effect to these usage levels. Based on this analysis the Commission has determined North Logan's pro forma purchased power cost to be \$3,284 which results in a decrease of \$113 from the expense shown in the annual report. In accordance with the Uniform System of Accounts for Class C water utilities, North Logan should begin charging telephone expense to Account 921, Office Supplies.

Accounting and Collecting Labor

In response to an information request North Logan provided the calculation used in determining the payment to be made to Mrs. Victor Brady for performing the monthly billing. The compensation paid to Mrs. Brady is \$65 per month and \$1 per bill per month. In order to reflect the current cost of this service the Commission has calculated the annual cost based on the 345 customers stated in the application. This results in an annual expense of \$4,920, which is an increase of \$720 above the test year expense.

Office Supplies

The 1981 annual report reflected an expense for office supplies of \$742. In response to an information request North Logan filed a breakdown of Office Supplies, Account 921, which listed an expense of \$116 for rock and rock hauling. Although this is a proper operating expense it has been improperly assigned and should be placed in Maintenance of

Services, Account 652. This breakdown of Account 921 listed FICA taxes of \$67 on wages that were paid in 1980. This expense is also improperly assigned and should have been classified as Taxes Other than Income Taxes in Account 408. Moreover, this expense is not allowable for rate-making purposes in this case because it was not an expense of the test period but of a previous period.

The cumulative effect of these two adjustments is to decrease the test period office supplies expense by \$183.

Depreciation Expense

In response to an information request North Logan filed a depreciation schedule which revealed that depreciation expense had been charged on land during the test period. The Commission finds that an adjustment to reduce depreciation expense for rate-making purposes is necessary to reflect proper depreciation accounting in accordance with generally-accepted accounting principles. Moreover, North Logan should make the appropriate adjustments to the depreciation schedules to discontinue this practice for accounting purposes.

The depreciation schedule submitted by North Logan further reflected that depreciation expense for the test period was based on the total utility plant in service of \$295,895. It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of the original cost of the plant in service less contributions in aid of construction. The Commission has determined

that the contributions in aid of construction represent approximately 55 percent of the total cost of utility plant in service. Therefore, depreciation expense has been reduced by \$2,457 for the test period to exclude depreciation on assets purchased with contributions in aid of construction.

The net effect of these adjustments on annual depreciation expense results in pro forma depreciation expense of \$1,974.

Property Insurance

In response to an information request North Logan filed a breakdown of the expenses included in the property insurance account. Upon examination by the Commission of this breakdown it was found that \$260 of unemployment insurance and \$78 of workmen's compensation had been included in this account. Although the Commission considers these expenses to be proper operating expenses for rate-making purposes it should be noted that for accounting purposes the proper classification of unemployment insurance expense is Account 408, Taxes Other Than Income Taxes, and workmen's compensation payments should be charged to Account 925, Injuries and Damages, as prescribed by the Uniform System of Accounts for Class C Water Utilities.

Interest Expense

Interest expense has been reduced by \$100 to reflect the annual interest expense on long-term debt outstanding at the end of the test period.

After consideration of the aforementioned adjustments the Commission finds that North Logan's test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenue	\$58,359	\$ -0-	\$58,359
Operating Expense	<u>51,225</u>	<u>11,549</u>	<u>62,774</u>
Operating Income	\$ 7,134	\$(11,549)	\$(4,415)
Interest on Long-term Debt	5,150	(100)	5,050
Interest Income	<u>1,022</u>	<u>-0-</u>	<u>1,022</u>
Net Income	<u>\$ 3,006</u>	<u>\$(11,449)</u>	<u>\$(8,443)</u>

REVENUE REQUIREMENTS

North Logan's annual debt service requirement is \$7,050. The adjusted test period operating statement reflects a net loss of \$8,443 which provides no coverage on North Logan's debt service. The Commission is of the opinion that the adjusted operating loss will adversely affect the financial condition of North Logan. To improve North Logan's debt service coverage to a reasonable level of 1.2, additional revenues of \$11,854 are required. Based on adjusted test period results, total operating revenues of \$70,212 will produce net operating income of \$7,438 which after considering interest income of \$1,022 will be sufficient to allow North Logan to pay its operating expenses and meet its debt service requirements.

RATE DESIGN

The rates shown by North Logan in its application filed September 2, 1982, as its present rates differed from

the rates approved by the Commission in Case No. 5298 dated May 27, 1970. Upon further investigation, it was determined by Commission staff that North Logan has actually been charging rates that differ from both the application and the Commission's approved rates, resulting in undercharges to customers using 13,000 gallons or more. Although, based on the billing analysis, the revenue difference is minimal, the Commission is concerned that North Logan has not billed its customers according to its authorized rates and is in violation of KRS 278.160. North Logan is hereby cautioned that such violation should not recur.

North Logan has proposed to change its rate structure by eliminating various steps in its rate blocks. North Logan's present rate structure includes a minimum charge for 2,000 gallons and four rate steps. North Logan proposed to eliminate the last two rate steps and charge a rate of \$2 per 1,000 gallons for all usage over 4,000 gallons. The Commission is of the opinion that the proposed change in North Logan's rate structure would place an excessive burden on large users and is therefore unfair, unjust and unreasonable, and is therefore denied.

SUMMARY

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

1. The rates in Appendix A are fair, just and reasonable rates for North Logan in that they will produce annual

operating revenues of approximately \$70,212 and should be approved. This revenue will be sufficient to meet North Logan's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

2. The rates proposed by North Logan would produce revenue in excess of that found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by North Logan on and after the date of this Order.

IT IS FURTHER ORDERED that the rate design and the rates proposed by North Logan be and they hereby are denied.

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

Done at Frankfort, Kentucky, this 22nd day of December, 1982.

PUBLIC SERVICE COMMISSION

Sam Shuck
Chairman

Katharine Randall
Vice Chairman

Don Canyon
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8637
DATED December 22, 1982.

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

RATES: Monthly

First	2,000 gallons	\$6.30 Minimum Bill
Next	2,000 gallons	2.75 per 1,000 gallons
Next	6,000 gallons	1.30 per 1,000 gallons
Next	15,000 gallons	1.15 per 1,000 gallons
Over	25,000 gallons	1.00 per 1,000 gallons