

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF)
RATES OF FANCY) CASE NO. 8685
FARM WATER DISTRICT)

O R D E R

On October 19, 1982, Fancy Farm Water District ("Fancy Farm") filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method in order to minimize the necessity for formal hearings, to reduce filing requirements, and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and therefore results in lower rates to the ratepayers.

Fancy Farm requested rates which would produce an annual increase of \$26,771. Fancy Farm provided evidence of funds invested in excess of bond restrictions, as well as sufficient revenues to meet operating expenses and provide sufficient debt service coverage. Accordingly, the Commission in this Order has granted no increase in Fancy Farm's rates for water service.

All information requested by the Commission has been received. The Fancy Farm Concerned Citizens for Lower Sewer Rates Committee

requested to intervene in the case and objected to the proposed increase.

A public meeting for Fancy Farm's customers was held on December 10, 1982, at the Fancy Farm School Cafeteria in Fancy Farm, Kentucky. In addition to discussion of the water rates, there was much testimony about operations of the Fancy Farm Sewer District. The Commission is pleased with the response to this meeting and has given due consideration to testimony presented at the meeting. Only the water operations of Fancy Farm will be addressed in this Order. The Commission will investigate the reasonableness of the rates for sewer service rendered by Fancy Farm in another case (Case No. 8760). The Commission has scheduled an evidentiary hearing for March 1, 1983, to consider the complaints and inquiries concerning these rates. Customers of the sewer division will be given the opportunity to provide information in addition to that already provided at the public meeting of December 10 which has been made a part of the record in the sewer case.

TEST PERIOD

Fancy Farm has proposed and the Commission has accepted the 12-month period ending December 31, 1981, as the test period in this case.

REVENUES AND EXPENSES

Fancy Farm had net operating income of \$7,284 for the test period. Fancy Farm proposed no specific adjustments to reflect current operating conditions but instead based its request

solely on inflationary trends. Fancy Farm failed to provide sufficient documentation to support any known and measurable cost increases. The Commission advises Fancy Farm that prior to filing future rate cases it should familiarize itself with the Commission's policy concerning pro forma adjustments.

In accordance with Commission policy, the only adjustment made to Fancy Farm's operations is a reduction of test period depreciation expense. It is the Commission's policy to compute depreciation expense on the basis of original cost of the plant in service less contributions in aid of construction, as a utility should not be allowed recovery on that portion of the plant which has been provided at zero cost. Using the composite depreciation rate of 3 percent⁽¹⁾ from Fancy Farm's 1981 annual report, the Commission finds that reasonable depreciation expense for rate-making purposes is \$6,076,⁽²⁾ a reduction of \$5,312 from Fancy Farm's booked test period depreciation expense.

Therefore the Commission finds that Fancy Farm's adjusted test period operations are as follows:

	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$ 38,281	\$ -	\$ 38,281
Operating Expenses	<u>30,997</u>	<u>(5,312)</u>	<u>25,685</u>
Net Operating Income	<u>\$ 7,284</u>	<u>\$ 5,312</u>	<u>\$ 12,596</u>

(1) $\$11,391 + \$379,490 = 3$ percent.

(2) Utility Plant in Service \$379,490
 Contributions in Aid of Construction 176,948
 Non-Contributed Plant \$202,542 X 3% = \$6,076

REVENUE REQUIREMENTS

Fancy Farm's annual debt service based on outstanding debt at the end of 1981 is \$14,160.⁽³⁾ Fancy Farm's adjusted net operating income of \$12,596 plus interest income from water operations of \$8,376⁽⁴⁾ provides a debt service coverage of 1.48X. The Commission is of the opinion that this coverage is sufficient to enable Fancy Farm to pay its operating expenses and to meet the requirements of its lenders under its bond resolution. Therefore the Commission finds that no additional revenue is required at this time.

OTHER MATTERS RAISED IN THE PUBLIC MEETING

Two other issues were presented at the public meeting relating to Fancy Farm's water operations.

Wholesale Water Rates

Fancy Farm currently sells water to Milburn Water District ("Milburn") at a wholesale rate. This wholesale rate was negotiated in March 1967 in the original water purchase contract and approved in Case No. 5003.

After analyzing the wholesale rate the Commission is of the opinion that Fancy Farm should determine the cost of producing

(3) Bonds (Water Operations)	
Principal (5-year average 1983-1987)	\$ 8,000
Interest	6,160
	<u> \$14,160</u>

(4) Of the \$12,745 total interest income, \$4,370 was found to be related to sewer operations.

water for Milburn and consider whether the wholesale rate should be revised. Fancy Farm should provide the Commission with a copy of its calculations and conclusion within 30 days from the date of this Order. The Commission may then determine that Fancy Farm's rates should be revised.

Company-Owned Assets

According to testimony in the public meeting, Fancy Farm purchased a backhoe in 1982. While this purchase was subsequent to the test period and therefore had no effect on the adjusted operating figures determined herein, concern was raised regarding the rental of this equipment to outside parties. The Commission advises Fancy Farm that in future cases rental fees on equipment it owns should include a return on the equipment as well as all pertinent expenses so that Fancy Farm's ratepayers will not be required to pay non-utility costs. If the rental fees are insufficient, the Commission will adjust Fancy Farm's expenses and debt service requirements to insure that the ratepayers are not required to bear any costs not related to utility operations.

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 Fancy Farm will produce revenues in excess of those found to be fair, just and reasonable herein and should be denied upon application of KRS 278.030.

(2) The rates of Fancy Farm in effect under authority of the Commission prior to this date are the fair, just and reasonable rates for water service.

(3) Fancy Farm should review its wholesale rate and determine the cost of producing water for Milburn and should provide the Commission with a copy of its calculations and conclusion.


IT IS THEREFORE ORDERED that the rates requested by Fancy Farm be and they hereby are denied.

IT IS FURTHER ORDERED that the rates of Fancy Farm in effect under authority of the Commission prior to the date of this Order shall remain in full force and effect.

IT IS FURTHER ORDERED that Fancy Farm shall review its wholesale rate and determine the cost of producing water for Milburn and shall provide the Commission with a completed copy of its calculations and conclusions within 30 days from the date of this Order.

Done at Frankfort, Kentucky, this 14th day of February, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary