

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

APPLICATION OF MURRAY NO. 1 WATER)	
DISTRICT FOR AN ADJUSTMENT OF)	CASE NO.
RATES PURSUANT TO THE ALTERNATIVE)	8732
RATE PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On November 24, 1982, Murray No. 1 Water District ("Murray") filed with the Commission an application to increase its rates pursuant to 807 KAR 5:076, the alternative rate filing procedure for small utilities ("ARF"). The application reflected proposed rates that would produce additional annual revenue of approximately \$9,500, an increase of 23 percent. The Commission has granted the full amount requested.

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

COMMENTARY

Murray is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. Murray purchases all of its water from the Murray Water and Wastewater System and serves approximately 365 customers in Calloway County, Kentucky.

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 appropriate known and measurable changes.

REVENUE AND EXPENSES

The ARF was established to provide a simplified and less costly method by which small utilities could apply for rate increases with the Commission. The financial data from the 1981 annual report is used as the basis for determining Murray's revenue requirements. In its application, Murray proposed no adjustments to the test period operating statement; however, in response to a request for additional information, Murray did propose several adjustments to revenues and expenses. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Sales Revenue

Murray proposed an adjustment of \$5,000 to increase revenue based on increased sales since the end of the test

year. It would be improper to base rates on a level of sales other than test year sales without an adjusted billing analysis which reflects the additional sales and adjustments to reflect increased costs associated with those sales. In the absence of such a billing analysis and sufficient data to adjust appropriate expenses, the Commission is of the opinion that actual test year sales and revenue should be used in determining revenue requirements and setting rates.

Purchased Water

Murray proposed an adjustment of \$5,400 to increase purchased water expense based on increased purchases since the end of the test year. In order to be consistent with the use of actual test year results, as addressed in the previous section, the Commission will not accept the proposed adjustment to purchased water expenses.

Based on the test year level of water purchases, the Commission has determined that an adjustment of \$2,698 to increase purchased water expense is necessary to reflect the increased cost of water from Murray's wholesale water supplier. This adjustment reflects the rate increase by the Murray Water and Wastewater System, effective October 1, 1982.

Depreciation

Murray reported actual depreciation expense for the test year of \$7,336. The Commission is of the opinion that for rate-making purposes depreciation expense should be computed on the original cost of plant in service less

contributions in aid of construction. Contributions provided to the utility for capital expenditures reduce the capital requirements from investors. The plant provided through these contributions is cost-free, and, therefore, the utility has no cost to recover by depreciating its contributed property and should not expect its ratepayers to provide this recovery.

The record herein reflects that the level of contributions in aid of construction at the end of the test period was \$162,900 which is approximately 44.4 percent of the total cost of utility plant in service. Therefore, the Commission has reduced depreciation expense by \$3,258, or 44.4 percent, to exclude depreciation on plant provided through contributions in aid of construction.

After consideration of the accepted adjustments, the Commission finds Murray's test period operations to be as follows:

	<u>Actual Test Period</u>	<u>Pro forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 40,597	\$ - 0 -	\$40,597
Operating Expenses	<u>38,352</u>	<u>5,393</u>	<u>43,745</u>
Operating Income	\$ 2,245	\$ <5,393>	\$ <3,148>
Interest Expense	7,253	<130>	7,123
Interest Income	2,466	900	3,366
Net Income	<u>\$ <2,542></u>	<u>\$ <4,363></u>	<u>\$ <6,905></u>

REVENUE REQUIREMENTS

Murray's adjusted test period reflects a loss in operating income of \$3,148, which does not provide adequate coverage on the annual debt service requirement. The

Commission is of the opinion that additional revenue of \$9,500, which is the full amount requested, is required to improve Murray's debt service coverage to an adequate level. Based on the adjusted test year results, the increase granted herein will produce operating revenue of \$50,097. This level of revenue will produce net operating income of \$6,352 which together with interest income of \$3,366 will be sufficient to allow Murray to pay its operating expenses and meet its debt service requirements.

RATE DESIGN

Murray's present rate structure consists of seven rate blocks ranging from the first 2,000-gallon usage level to an over 100,000-gallon usage level. Murray proposed to reduce the number of rate blocks to five by combining the last three steps so that all usage over 20,000 gallons would be billed at the same rate. This would affect three customers now being billed for usage in the sixth and seventh rate blocks. Murray also proposed to increase the rates in the first two rate blocks; however, no increase was proposed for the third, fourth and fifth blocks. In its response to Items 8 and 9 of the Commission's Order of February 23, 1983, Murray stated that omission of an increase in these rate blocks was in error. The Commission is of the opinion that this error should be corrected and that the rates for all usage levels should be considered in determining the reasonable rates to be charged.

Murray's last rate increase was granted in Case No. 6243, Application of Murray No. 1 Water District, Calloway County, Kentucky, in the Order dated May 19, 1975. Since that time, Murray's supplier has increased the cost of purchased water three times to the present rate of \$.60 per 1,000 gallons. The Commission has allowed an adjustment herein of \$2,698 to reflect the increased cost of purchased water. This increase is relevant to all water usage and should be applied uniformly to all rate blocks.

The Commission is of the opinion that the proposed change in rate design will provide cost savings by simplifying the usage calculation and billing process, thus, benefiting both Murray and its customers. Moreover, it will allow a more equitable distribution of the remaining revenue requirements, thereby balancing the impact of the rate adjustment on customers at all usage levels. The proposed change in rate design should be approved.

CONNECTION CHARGES

Murray proposed to increase its connection charges by adding \$50 to the present charge for 5/8-inch and 3/4-inch meter sizes. No increase was proposed for the larger meters. In response to the Commission's Order of February 15, 1983, Murray filed cost data showing average connection expenses for each size meter. These cost data show that the connection expenses are greater than the charges proposed, except for the 2-inch meter. The connection charge is a

nonrecurring expense attributable to a request by a specific customer. The Commission is of the opinion that such charges should be compensatory rather than subsidized through the rates. Further, the costs involved in the installation of a 2-inch meter are variable in that the type of meter and related materials expense are dependant upon the usage pattern of the particular customer. Therefore, the connection charges as proposed by Murray should be denied. The charges in Appendix A are compensatory based on cost data filed in this case, are fair, just and reasonable and should be approved.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The change in rate design proposed by Murray will benefit both the utility and its customers and should be approved.

2. The rates and charges proposed by Murray are unfair, unjust and unreasonable and should be denied.

3. The rates and charges in Appendix A are the fair, just and reasonable rates for Murray and will produce gross annual revenue sufficient to pay its operating expenses, service its debt and provide a reasonable surplus.

IT IS THEREFORE ORDERED that the change in rate design proposed by Murray be and it hereby is approved for service rendered on and after the date of this Order.


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

IT IS FURTHER ORDERED that the rates and charges proposed by Murray be and they hereby are denied.

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

Done at Frankfort, Kentucky, this 6th day of May, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8732 DATED May 6, 1983.

The following rates are prescribed for customers of Murray No. 1 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 effective date of this Order.

<u>GALLONAGE BLOCK</u>	<u>RATE</u>
First 2,000 gallons	\$5.90 minimum
Next 3,000 gallons	1.90 per 1,000 gallons
Next 5,000 gallons	1.50 per 1,000 gallons
Next 10,000 gallons	1.15 per 1,000 gallons
Next 20,000 gallons	.85 per 1,000 gallons

Minimum Bills for Large Meters

<u>Meter Size</u>	<u>Usage</u>	<u>Minimum Bill*</u>
5/8-inch	2,000 gallons	\$ 5.90
3/4-inch	3,000 gallons	7.80
1-inch	5,000 gallons	11.60
1 1/2-inch	10,000 gallons	19.10
2-inch	16,000 gallons	26.00

*Usage in excess of that allowed by the minimum bill shall be charged in accordance with the approved rate schedule.

Connection Charges

<u>Meter Size</u>	<u>Charge</u>
5/8-inch meter	\$460
3/4-inch meter	490
1-inch meter	540
1 1/2-inch meter	655
2-inch meter	Actual Cost