

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES)
AND AUTHORITY TO BUILD)
AND FINANCE LINE) CASE NO. 8748
EXTENSION OF HENRY COUNTY)
WATER DISTRICT)

O R D E R

The Henry County Water District ("Henry County") filed its application on December 17, 1982, seeking authority to increase the rates charged for water service by \$64,612 annually. On February 15, 1983, Henry County amended its original application to request approval of a proposed waterworks improvement project in the amount of \$130,330 and approval of its financing for this project. Henry County's financing includes a \$60,000 loan for a period of 10 years at 8 percent annual interest from the Deposit Bank & Trust Company, Pleasureville, Kentucky, and a loan for up to \$60,000 for a period of 10 years at 8 percent annual interest from The Central Bank, Pleasureville, Kentucky. Construction bids were received May 20, 1983, for the proposed project.

The proposed improvements are intended to provide an additional source of water supply to Henry County.

The plans and specifications for the proposed improvements as prepared by Sabak, Wilson, Heiner & Lingo,

Inc., of Louisville, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

A hearing was held April 26, 1983, in the offices of the Public Service Commission, Frankfort, Kentucky. There were no intervenors in this proceeding, and no protests were entered.

In this Order the Commission has allowed the proposed rate increase of \$64,612 annually, granted a certificate of convenience and necessity for the construction of line extensions and approved Henry County's proposed method of financing the line extensions approved herein.

TEST PERIOD

Henry County proposed and the Commission has accepted the 12-month period ending December 31, 1981, as the test period in this proceeding.

REVENUE AND EXPENSES

Henry County proposed several pro forma adjustments to its test period operations which the Commission finds reasonable and has accepted with the following exceptions:

Operating Revenues

The Commission has increased Henry County's test period revenue by \$12,180¹ in order to reflect the annual

¹ 100 customers X average rural bill of \$10.15 per month X 12 months = \$12,180.

revenues under present rates to be collected from additional customers Henry County projected would be served from its new extensions using the current average water usage of 5,359 gallons per month. As the Commission has accepted several pro forma adjustments to Henry County's operating expenses to reflect the cost of serving additional customers, the inclusion of these revenues is a proper adjustment for rate-making purposes.

Miscellaneous Services Revenues

Henry County proposed to increase its miscellaneous service revenues by \$500, generated through a meter connection fee charged to its customers. These funds should properly be recorded in contributions in aid of construction rather than revenue. Therefore, the Commission has eliminated the item from the pro forma revenues.

Meter Connections

Henry County proposed to expense \$6,025 for meter connections. Under the Uniform System of Accounts for Water Utilities, these expenditures should be capitalized. Therefore, the Commission has eliminated this item from Henry County's operating expenses and increased plant in service accordingly.

Upgrading Of Plant In Service

Henry County recorded expenses of \$12,000 used for the general upgrading of its plant. Since these

expenditures will extend the life of Henry County's plant and provide benefit to the ratepayers for more than 1 year, the Commission is of the opinion that these expenditures should be capitalized. Therefore, the Commission has reduced Henry County's pro forma operating expenses by \$12,000.

Architect Fee

Henry County included \$8,000 in architect fees associated with its proposed construction. The Commission is of the opinion that this item should have been included as a part of the cost of Henry County's proposed construction project and has therefore reduced Henry County's pro forma operating expenses by \$8,000.

Depreciation Expense

Henry County proposed to increase its test period depreciation expense of \$10,418 by \$2,800 in order to reflect 1 year's depreciation on its proposed construction project at its average depreciation rate of 2 percent. The Commission has further increased this expense by \$2,659 in order to reflect the adjustments made to Henry County's plants above.²

Henry County does not compute depreciation expense on contributed property. Therefore, no adjustment is necessary in this area.

| | | |
|---|--|----------------|
| 2 | Meter Connections (40-year life) (\$6,025X.025) | \$ 151 |
| | Plant Upgrading (5-year life (\$12,000X.2) | 2,400 |
| | Architect Fee (50-year life) (\$8,000X.02) | 160 |
| | Subtotal | <u>\$2,711</u> |
| | Less: Depreciation on Contribution in Aid of Construction (\$500 + \$26,025 X \$2,711) | 52 |
| | Net Depreciation Adjustment | <u>\$2,659</u> |

Dam Inspection Expense

Henry County included \$9,000 in its operating expenses for a dam inspection required by the Department of Natural Resources. This expenditure is not an annual expense, and the Commission is of the opinion that it should therefore be amortized over a 3-year period. Thus, adjusted test period expenses have been reduced by \$6,000 for rate-making purposes.

Bond and Interest Expense

Henry County included in its pro forma operating expenses the interest expense incurred on its existing bonds and on its financing proposed as part of this case. Inasmuch as the proposed financing is approved herein, the Commission will allow the interest expense in its determination of revenue requirements and evaluation of debt service coverage. However, since interest expense is not an appropriate reduction in the determination of net operating income, the Commission has excluded interest expense in this determination, but has included interest expense in the amount of \$24,030 in the determination of total expenses for rate-making purposes.

Therefore, Henry County's operations are as follows:

| | <u>Actual</u> | <u>Adjustments</u> | <u>Adjusted</u> |
|--|---------------|--------------------|-----------------|
| Operating Revenues | \$68,909 | \$12,180 | \$ 81,089 |
| Operating Expenses | <u>59,566</u> | <u>43,728</u> | <u>103,294</u> |
| Operating Income <Loss> | 9,343 | <\$31,548> | <\$ 22,205> |
| Interest Income | <u>3,658</u> | <u><600></u> | <u>3,058</u> |
| Net Revenue Prior to Interest Expense | \$13,001 | <\$32,148> | <\$ 19,147> |

Revenue Requirement

Henry County has a pro forma debt service requirement of \$47,030.³ The Commission is of the opinion that Henry County's adjusted operating loss is clearly unreasonable and will not permit Henry County to pay its operating revenues and service its debt. The Commission is further of the opinion that Henry County should be allowed to increase its rates to produce the full annual revenue increase of \$64,612 requested as this will enable Henry County to pay its operating expenses and improve its financial position.

RATE DESIGN

The billing analysis has been adjusted by \$21,576⁴ in order to reflect the revenues to be collected from additional customers Henry County projected would be served from its new extensions. Henry County proposed no changes in its rate structure. The Commission has therefore allocated the revenue increase to the existing rate structure.

FINDINGS AND ORDERS

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

| | | |
|---|----------------|-----------------|
| 3 | Bond Principal | \$11,000 |
| | Bond Interest | 14,430 |
| | Loan Principal | 12,000 |
| | Loan Interest | <u>9,600</u> |
| | Debt Service | <u>\$47,030</u> |

4 100 customers X average rural bill of \$17.98 per month X 12 months = \$21,576.

1. The rates proposed by Henry County should be denied upon application of KRS 278.030.

2. The rates in Appendix A are the fair, just, and reasonable rates to be charged by Henry County for service rendered on and after the date of this Order.

3. Public convenience and necessity require that the construction proposed in the application and record be performed and that a certificate of public convenience and necessity be granted.

4. The proposed project includes construction of about 22,400 feet of 6-inch pipeline along U.S. Highway 421 from Highway 55 to Henry County's existing water treatment plant. The estimated cost for this work totaled \$117,930, which will require about \$130,330 after allowances are made for fees, contingencies and other indirect costs.

5. Any construction deviations from the contract plans and specifications herein approved which could adversely affect service to any customer should be subject to prior approval of this Commission.

6. The proposed borrowing of \$120,000 is for lawful objects within the corporate purposes of Henry County, is necessary and appropriate for and consistent with the proper performance of services to the public by Henry County, will not impair its ability to perform these services and is reasonably necessary and appropriate for such purposes.

7. Henry County should furnish 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.

8. Henry County's contract with its Engineer should require the provision of construction inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering. This supervision and inspection should insure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

9. Henry County should require the Engineer to furnish to the Commission a copy of the as-built plans and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications, within 60 days of the date of substantial completion of this construction.

10. The expenditures specifically mentioned in the revenue and expense section of this Order which were inappropriately expensed during the test period should be capitalized in accordance with the Uniform System of Accounts for Water Utilities as prescribed by this Commission.

IT IS THEREFORE ORDERED that the rates and charges proposed by Henry County be and they hereby are denied upon application of KRS 278.030.

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 Henry County for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Henry County be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the plans and specifications of record herein.

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

IT IS FURTHER ORDERED that Henry County's plan for financing its construction work in the amount of \$117,300 with a \$60,000 loan for 10 years at 8 percent interest from the Deposit Bank & Trust Company, Pleasureville, Kentucky, and a loan for up to \$60,000 for 10 years at 8 percent interest from The Central Bank, Pleasureville, Kentucky, be and it hereby is approved.

IT IS FURTHER ORDERED that Henry County shall file with the Commission duly verified documentation which shows the total costs of the construction herein certificated including all 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 Henry County and its Engineer shall require the provision of construction inspection under the general supervision of a

professional engineer with a Kentucky registration in civil or mechanical engineering. This supervision and inspection shall insure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

IT IS FURTHER ORDERED that Henry County shall require the Engineer to furnish this Commission with as-built drawings and a signed statement that the construction has been satisfactorily completed and has been done in accordance with the contract plans and specifications, within 60 days of the date of substantial completion of the proposed construction.

IT IS FURTHER ORDERED that expenditures inappropriately expensed during the test period shall be capitalized on the books of account and that within 30 days of the date of this Order Henry County shall file journal entries reflecting these transactions.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 27th day of June, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8748 DATED
JUNE 27, 1983

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

RATES: Monthly

Town-Residential

and Business

| | | |
|-------|---------------|------------------------|
| First | 2,000 gallons | \$ 7.70 Minimum Bill |
| Over | 2,000 gallons | 1.70 per 1,000 gallons |

Rural - Residential

| | | |
|-------|---------------|------------------------|
| First | 2,000 gallons | \$10.70 Minimum Bill |
| Next | 3,000 gallons | 2.20 per 1,000 gallons |
| Next | 3,000 gallons | 1.90 per 1,000 gallons |
| Over | 8,000 gallons | 1.70 per 1,000 gallons |