

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION FOR CHANGE IN BASE)
RATE PURSUANT TO 807 KAR 5:067)
FOR A PURCHASED WATER ADJUSTMENT)
INCREASE TO THE RATES OF THE) CASE NO. 8191-A
SOUTH ANDERSON WATER DISTRICT)
ORGANIZED PURSUANT TO KRS CHAPTER)
273 OF THE KENTUCKY REVISED STATUTES)

O R D E R

On December 15, 1983, South Anderson Water District ("South Anderson") filed an application with the Commission for approval to increase the rates charged to its customers in accordance with the provisions of its purchased water adjustment clause on file with the Commission. Effective December 1, 1983, South Anderson's supplier, the City of Lawrenceburg, Anderson County, Kentucky, ("City") increased the wholesale price of water by \$.23 per thousand gallons. The increase in water costs for water purchased by South Anderson directly from the City is \$5,919 on an annual basis.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine an applicant's financial condition to determine whether it can absorb any of the increased cost. If there is potential for absorption, the Commission may adjust rates to

offset only that portion of the increased water cost which cannot be absorbed.

TEST PERIOD

In order to determine the reasonableness of the proposed purchased water adjustment and the increase in rates, the Commission has adopted the 12 months ending October 31, 1983, as the test period in this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

REVENUES AND EXPENSES

South Anderson proposed to adjust revenues by \$5,919 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission has made the following adjustments to expenses in conformance with its rate-making policy, to more fairly represent the actual operating expenses of South Anderson:

Depreciation Expense

South Anderson had depreciation expense of \$7,894 for the test period. This reflects depreciation on total plant using a composite rate of approximately 1.25 percent.^{1/} The Commission's policy is to compute depreciation expense for rate-making purposes on the basis of original cost of the plant in service less contributions in aid of construction. The balance sheet filed by South Anderson reflects that contributions in aid of construction at the end of the test period were \$375,590, which is approximately 59.6 percent of the total cost of the utility plant in service. In determining the pro forma depreciation expense the

Commission has utilized the depreciation rates applied by South Anderson and has excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$3,186.^{2/}

The Commission has further adjusted operating expenses to reflect the increase in purchased water cost of \$5,919 from South Anderson's supplier, and to remove from operating expenses interest expense of \$12,450, which has been included in the debt service calculation herein. Therefore, the Commission finds that South Anderson's adjusted test period operations are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 77,260	\$ -0-	\$ 77,260
Operating Expenses	<u>51,994</u>	<u>1,211</u>	<u>53,205</u>
Operating Income	\$ 25,266	\$ (1,211)	\$ 24,055

REVENUE REQUIREMENTS

South Anderson's annual debt service based on outstanding debt at the end of the test period is \$15,550.^{3/} South Anderson's adjusted net operating income of \$24,055 plus interest income from water operations of \$2,433 provides a debt service coverage of approximately 1.70X. The Commission is of the opinion that this coverage is sufficient to enable South Anderson to pay its operating expenses and to meet the requirements of its lenders. Therefore the Commission finds that no additional revenue is required at this time as the Commission is of the opinion that South Anderson can absorb the full increase of \$5,919 in purchased water costs from its supplier.

SUMMARY

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

1. South Anderson has the potential to absorb the full increase in purchased water cost of \$5,919.

2. The rates proposed by South Anderson 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.


3. The rates of South Anderson in effect under authority of the Commission prior to this date are the fair, just and reasonable rates for water service.


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

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

Done at Frankfort, Kentucky, this 17th day of February, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

FOOTNOTES

1. \$7,894 ÷ 629,727 = 1.254 percent.

2. \$629,727
-375,590
254,137 x 1.254% = \$3,186

3.	Bonds (5-year average principle 1984-1988)	\$ 2,600
	Notes (5-year average principle 1984-1988)	500
	Interest (5-year average principle 1984-1988)	<u>12,450</u>
	Debt Service	\$15,550