

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF TRIMBLE COUNTY WATER)
DISTRICT NO. 1, OF TRIMBLE COUNTY,)
KENTUCKY, FOR (1) A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER)
DISTRICT TO CONSTRUCT A WATERWORKS)
CONSTRUCTION PROJECT, CONSISTING OF)
EXTENSIONS, ADDITIONS AND IMPROVEMENTS) CASE NO.
TO THE EXISTING WATERWORKS SYSTEM OF) 9150
THE DISTRICT; (2) APPROVAL OF THE)
PROPOSED PLAN OF FINANCING OF SAID)
PROJECT; AND (3) APPROVAL OF THE)
INCREASED WATER RATES PROPOSED TO BE)
CHARGED BY THE DISTRICT TO CUSTOMERS)
OF THE DISTRICT)

O R D E R

The Trimble County Water District No. 1 ("Trimble Water") filed its application on September 28, 1984, for approval of adjustments to its water service rates, authorization to construct a \$260,000 waterworks improvement project and approval of its plan of financing for this project. The planned financing includes a \$79,000 grant from the Farmers Home Administration ("FmHA"), an FmHA loan of \$147,000, and a local contribution of \$34,000 from Trimble Water. The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 9 1/8 percent per annum.

The proposed construction will provide service to 21 additional customers and improve hydraulic flow and service

reliability to customers north of Bedford, Kentucky. Drawings and specifications for the proposed improvements as prepared by Sieco, Inc., Consulting Engineers, of Columbus, Indiana, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

On November 2, 1984, the Commission granted limited intervention status to a group of customers of Trimble Water. The Commission granted full intervention status to the West Carroll Water District on December 18, 1984. A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on February 5, 1985. The intervenors were present or represented and their protests were entered.

The rates found reasonable herein will produce additional gross revenues on an annual basis of \$34,580.

COMMENTARY

Trimble Water is a non-profit water utility engaged in the distribution and sale of water to approximately 720 customers in Trimble County, Kentucky. Daily water usage of Trimble Water averages 185,000 gallons per day, and the district has an existing 100,000-gallon water storage tank near Bedford. 807 KAR 5:066, Section 5, states in part:

Each utility shall provide water storage to insure a minimum of one (1) days supply of its average daily water usage or such minimum amount deemed adequate by the commission.

Trimble Water's existing water storage tank does not meet this requirement.

TEST PERIOD

Trimble Water proposed and the Commission has accepted the 12-month period ending June 30, 1984, as the test period in this matter.

REVENUES AND EXPENSES

Trimble Water showed a net income on its books for the test period of \$7,509. Trimble Water proposed several pro forma adjustments to its test period operating revenues and expenses to more accurately reflect current operating conditions. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Purchased Power Expense

The Commission has reduced Trimble Water's adjusted purchased power expense for the test period of \$25,801 by \$1,115. Trimble Water made a 5 percent pro forma adjustment to its purchased power cost based on an anticipated increase in the electric rates of its supplier. It is the practice of this Commission to allow only known and measurable changes to actual test year expenses; inflationary or other unsupported changes are not allowed. Therefore, the Commission has included adjusted purchased power expense of \$24,686 in test year expenses.

Outside Services Employed

The Commission has reduced Trimble Water's adjusted cost related to outside services employed for the test period of \$4,600 by \$1,000. In response to the Commission's request for additional information dated October 30, 1984, Trimble Water stated that the

estimated legal fees, recording fees and filing fees of \$1,000 were deleted as these services were being provided by the County Attorney. The remaining \$3,600 represents provision for annual accounting services provided the water district by Sherman, Sherman and Barber, Certified Public Accountants, which the Commission considers an allowable operating expense for rate-making purposes.

Depreciation Expense

At the end of the test period, Trimble Water had annual depreciation expense of \$26,025 to which it made a pro forma adjustment of \$7,054 based on new construction as set out in its application for total proposed depreciation expense of \$33,079. It has been the Commission's practice in recent years 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 of that portion of plant which has been provided at zero cost. Trimble Water's composite depreciation rate for plant in service at the end of the test period was 3.027 percent.¹ Trimble Water's balance sheet dated June 30, 1984, shows contributions in aid of construction of \$118,924. Moreover, the Commission is of the opinion that depreciation expense associated with the proposed construction of

¹Computation of Composite Rate:
$$\frac{\text{Test period depreciation}}{\text{Gross Plant less Land}} = \frac{\$ 26,025}{\$859,798} = 3.027\%.$$

\$260,000 and the contributions of \$86,500 related to the proposed construction are a "known and measurable" expense. The Commission has used Trimble Water's composite depreciation rate in determining the allowable depreciation expense for rate-making purposes related to the present gross plant and the proposed construction project. Thus, the net adjustment to test period depreciation expense is a decrease of \$5,401.² Therefore, the Commission's reasonable adjusted depreciation expense for the test period is \$27,678.

Long-Term Debt Coverage

The Commission, in its approval of the overall long term debt in this case related to the present and proposed investment, notes that the debt service requirements of Trimble Water will be substantially lower in the future. An examination of the amortization schedule for bonds outstanding at December 31, 1983, shows that in the year 1990 and thereafter the annual debt service requirement would be some \$15,000 less than the present level. The Commission advises Trimble Water that the Commission will

²Computation of depreciation expense:

Gross plant in Service:			
Existing plant, June 30, 1984	\$859,798	\$	
Proposed new addition	<u>260,000</u>		1,119,798
Less: Contributions in aid of construction:			
Existing plant, June 30, 1984	\$118,924		
Pro. new addition(\$79,000 + \$7,500)	<u>86,500</u>		205,424
Non-contributed plant in service		\$	<u>914,374</u>
Composite rate			<u>3.027%</u>
Commission allowable depreciation expense			<u>27,678</u>
Trimble Water's adjusted depreciation expense			<u>33,079</u>
Commission adjustment		\$	<u>< 5,401 ></u>

continue to review its long-term debt and may find a debt service requirement different from that found in this case at some later date.

Therefore, Trimble Water's adjusted operations at the end of the test period are as follows:

	<u>Trimble Water Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 130,790	\$	\$ 130,790
Operating Expenses	<u>117,583</u>	<u>(7,516)</u>	<u>110,067</u>
Net Operating Income	\$ 13,207	\$ 7,516	\$ 20,723
Other Income	1,000		1,000
Interest Expense	<u>36,196</u>		<u>36,196</u>
Net Income	<u>\$ <21,989></u>	<u>\$ 7,516</u>	<u>\$ <14,473></u>

REVENUE REQUIREMENTS

The Commission has used the debt service coverage method to determine appropriate revenue requirements for Trimble Water. Trimble Water's average debt service for the next 5 years is approximately \$51,408. Trimble Water's adjusted operating income of \$20,723 plus other income of \$1,000 provides a debt service coverage ("DSC") of approximately 0.42X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. The Commission is also of the opinion that the rates proposed by Trimble Water will produce an increased net operating income of \$55,303 and when combined with other income of \$1,000 will produce a DSC of 1.1X which is the coverage necessary for Trimble Water to pay its operating expenses and to meet the requirements of its lenders. Accordingly, the Commission has determined that the

requested increase in gross revenues of \$34,580 is proper and will insure the financial stability of Trimble Water.

FINDINGS AND ORDERS

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

1. 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.

2. The approved construction includes about 4.2 miles of water mains, a 123,000-gallon water storage tank, a booster pumping station, and miscellaneous appurtenances thereto. The low bids received for the proposed work totaled \$197,998, which will require about \$260,000 after allowances are made for fees, contingencies and other indirect costs.

3. Any deviations from the approved construction which could adversely affect service to any customer should be subject to prior approval of this Commission.

4. The financing proposed by Trimble Water for this project will be needed to pay for the work herein approved. Trimble Water's financing plan should, therefore, be approved.

5. Trimble Water should file with the Commission duly verified documentation which shows the total costs of construction including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is

substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

6. Trimble Water'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. The supervision and inspection should insure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Trimble Water should require the Engineer to furnish a copy of the record drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract drawings and specifications within 60 days of the date of substantial completion of this construction.

8. Trimble Water should file with the Commission a copy of all contractual agreements for the provision of services or the purchase of services which are subject to the approval of this Commission.

9. The rates in Appendix A are fair, just and reasonable rates for Trimble Water in that they will produce annual operating revenues of approximately \$165,370 including other miscellaneous operating revenues and should be approved. These revenues will be sufficient to meet Trimble Water's operating expenses found

reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

IT IS THEREFORE ORDERED that Trimble Water be and it hereby is granted a certificate of public convenience and necessity to proceed with the waterworks improvements projects set forth in the drawings and specifications of record hereby approved.

IT IS FURTHER ORDERED that Trimble Water shall comply with all matters set out in Findings 3 through 8 as if the same were individually so ordered.

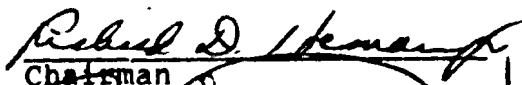
IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by Trimble Water on and after the date of this Order.


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

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 4th day of April, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9150 DATED APRIL 4, 1985

The following rates and charges are prescribed for the customers in the area served by Trimble County Water District No.

1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

<u>Usage Increment</u>	<u>Monthly Rate</u>
First 1,000 gallons	\$ 6.00 (Minimum Bill)
Next 2,000 gallons	3.40
Next 3,000 gallons	2.30
Next 6,000 gallons	1.70
Over 12,000 gallons	1.25
Sales to tank truck	\$ 3.00 per 1,000 gallons
Wholesale sales	1.25 per 1,000 gallons
Reconnection charge	\$15.00