

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT OF)
NORTH LOGAN WATER DISTRICT #1) CASE NO. 9153
OF LOGAN COUNTY)

O R D E R

On October 1, 1984, the North Logan Water District #1 of Logan County ("North Logan") 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 October 5, 1984, North Logan's supplier, the City of Russellville, Logan County, Kentucky, ("City") increased its wholesale price of water by approximately 15 percent, an increase of \$8,956 on an annual test-period basis. In this proceeding the Commission has found that North Logan can partially absorb the increased cost of water and has, therefore, allowed an increase of \$8,564.

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-month period ended September 30, 1984, 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

The rates proposed by North Logan will increase revenues by \$8,929 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 policies to more fairly represent the actual operating expenses of North Logan:

Depreciation Expense

North Logan's test period depreciation expense was \$5,016, which reflects depreciation on total plant using a composite rate of approximately 1.47 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 North Logan shows contributions in aid of construction at the end of the test

¹ $\$5,016 \div \$341,163 = 1.47\%$.

period to be \$182,085. This amount is approximately 53.3 percent of the total cost of the utility plant in service. In determining the pro forma depreciation expense the Commission has utilized the depreciation rate applied by North Logan and has excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$2,346,² a reduction of \$2,670.

Purchased Water

North Logan's test period water purchases and sales were 69,674,000 gallons and 56,729,060 gallons, respectively. This reflects water loss of 18.57 percent, which is in excess of the maximum of 15 percent allowed by the Commission for rate-making purposes. Thus, the Commission has determined the allowable gallons of purchased water for rate-making purposes to be 66,740,070 gallons.³ This results in a test-period allowable purchased water expense of \$65,964,⁴ which reflects an increase of \$6,259 over test-period actual purchased water expenses.

Therefore, the Commission finds that North Logan's adjusted test period operations are as follows:

²	Total Plant	\$341,667
	Less: Contributions in aid of construction	<u>182,085</u>
	Non-contributed Plant	\$159,582
	Times: Composite Rate	<u>1.478</u>
	Depreciation Allowed for Rate-making Purposes	\$ 2,346
³	56,729,060 gallons (Water Sold) ÷ 0.85 = 66,740,070 gallons.	
⁴	5,561,673 gallons (average monthly usage) X new rate schedule = \$5,497 X 12 = \$65,964.	

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 89,653	-0-	\$ 89,653
Operating Expenses	<u>87,654</u>	<u>\$ 3,589</u>	<u>91,243</u>
Operating Income <Loss>	<u>\$ 1,999</u>	<u>\$ <3,589></u>	<u>\$ <1,590></u>

REVENUE REQUIREMENTS

North Logan's annual debt service based on outstanding debt at the end of the test period is \$6,850.⁵ North Logan's adjusted operating loss of \$1,590 plus interest income from operations of \$1,246 results in a loss for rate-making purposes of \$344. To achieve a debt service coverage ("DSC") of 1.2X, which the Commission is of the opinion is the fair, just and reasonable coverage for North Logan to pay its operating expenses and to meet the requirements of its lenders, North Logan would require a net operating income of \$8,220. Accordingly, the Commission has determined that additional revenue of \$8,564 is necessary to provide the 1.2X DSC which will ensure the financial stability of North Logan.

SUMMARY

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

1. The purchased water adjustment clause filed by North Logan is in compliance with 807 KAR 5:067, Purchased Water Adjustment Clause and should be approved.

5	Bonds (5-year average principal 1985-1989)	\$2,200
	Interest (5-year average 1985-1989)	<u>4,650</u>
	Debt Service	<u>\$6,850</u>

2. North Logan has the potential to absorb a portion of the increase in purchased water cost.

3. The rates proposed by North Logan 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.

4. The rates and charges in Appendix A are the fair, just and reasonable rates to be charged by North Logan in that they should produce the revenue required by North Logan.

IT IS THEREFORE ORDERED that the purchased water adjustment clause filed by North Logan is approved effective for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates requested by North Logan be and they hereby are denied.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates and charges to be charged by North Logan for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that for purposes of future applications of the purchase water adjustment clause of North Logan the base rate for purchased water shall be:


<u>Supplier</u>		<u>Rate</u>
City of Russellville	First 2,000 gallons	3.74/1,000 gallons
	Next 5,000 gallons	1.86/1,000 gallons
	Next 15,000 gallons	1.70/1,000 gallons
	Next 25,000 gallons	1.50/1,000 gallons
	Next 53,000 gallons	1.29/1,000 gallons
	Over 100,000 gallons	.98/1,000 gallons

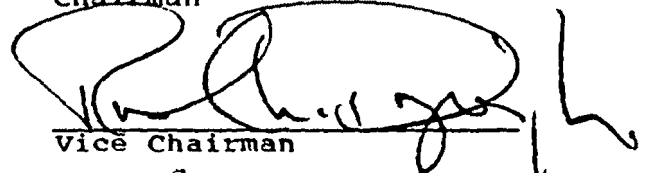
IT IS FURTHER ORDERED that, within 30 days of the date of this Order, North Logan shall file with the Commission its revised

tariff sheets setting out the purchased water adjustment clause and the rates approved herein.

Done at Frankfort, Kentucky, this 17th day of January, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9153 DATED 1/17/85

The following rates are prescribed for the customers receiving water service from North Logan Water District No.

1. 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.

RATES: Monthly

First	2,000 gallons	\$6.60 Minimum Bill
Next	2,000 gallons	2.90 per 1,000 gallons
Next	6,000 gallons	1.45 per 1,000 gallons
Next	15,000 gallons	1.30 per 1,000 gallons
Over	25,000 gallons	1.15 per 1,000 gallons