

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT)
OF BOSTON WATER DISTRICT) CASE NO. 9214
OF NELSON COUNTY)

O R D E R

On November 14, 1984, the Boston Water District of Nelson County ("Boston") filed an application with the Commission for approval of its purchased water adjustment clause and authority to increase the rates charged to its customers in accordance with the provisions of that clause. Effective December 1, 1984, Boston's supplier, the City of Bardstown, Nelson County, Kentucky, ("City") increased its wholesale price of water by approximately 20 cents per 1,000 gallons, an increase of \$11,837 on a test-period basis. In this proceeding the Commission has found that Boston can partially absorb the increased cost of water and has, therefore, allowed an increase of \$9,731.

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 Boston will increase revenues by \$11,837 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission has made the following adjustments to expenses to more fairly represent the actual operating expenses of Boston:

Income

Boston's test-period income included "turn-on fees" of \$795. It is the Commission's opinion that these turn-on or tap fees should be reflected on the balance sheet and would more appropriately be included in Contributions in Aid of Construction. Thus, the Commission has reduced test-period income by the entire amount of \$795.

Interest Expense

Boston's test-period operating expenses included interest expense of \$8,533. It is the Commission's opinion that interest expense should not be included in operating expenses to arrive at operating income. However, interest expense is allowed in computing net income as a below-the-line expense. Thus, test-period

operating expenses have been reduced by the entire amount of interest expense of \$8,533.

Depreciation Expense

Boston's test-period depreciation expense was \$20,492, which reflects depreciation on total plant using a composite rate of approximately 2.6 percent.¹ It has been the practice of the Commission in previous decisions 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 Boston shows contributions in aid of construction at the end of the test period to be \$504,082. This amount is approximately 64.7 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 Boston and has excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$7,148,² a reduction of \$13,344 from test-period actual depreciation expense.

Purchased Water

Boston's test-period water purchases and sales were 66,178,000 gallons and 50,209,000 gallons, respectively. This

1 $\$20,492 \div \$778,633 = 2.6\%$

2

Total Plant	\$779,007
Less: Contributions in Aid of Construction	504,082
Non-Contributed Plant	<u>\$274,925</u>
Times: Composite Rate	2.6%
Depreciation Allowed for Rate-Making Purposes	<u>\$ 7,148</u>

reflects a line loss of 24.1 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 59,069,412 gallons.³ This results in a test-period allowable purchased water expense of \$44,302,⁴ which reflects an increase of \$7,105 over test-period actual purchased water expense.

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

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 88,802	\$ <795>	\$88,007
Operating Expenses	<u>102,773</u>	<u><14,772></u>	<u>88,001</u>
Operating Income	<u>\$<13,971></u>	<u>\$ 13,977</u>	<u>\$ 6</u>

REVENUE REQUIREMENTS

Boston's annual debt service based on outstanding debt at the end of the test period is \$14,238.⁵ Boston's adjusted net operating income of \$6 plus interest and other income from operations of \$7,349 provides a debt service coverage ("DSC") of approximately 0.52X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. To achieve a DSC of 1.2X, which the Commission is of the opinion is the fair, just and

³ 50,209,000 gallons (Water Sold) \times 0.85 = 59,069,412 gallons.

⁴ 59,069,412 gallons \times \$0.75 per 1,000 gallons (New Rate) = \$44,302.

⁵

Bonds (5-year average principal 1985-89)	\$ 6,400
Interest (5-year average 1985-89)	7,838
Debt Service	<u>\$14,238</u>

reasonable coverage necessary for Boston to pay its operating expenses and to meet the requirements of its lenders, Boston would require a net operating income of \$17,086. Accordingly, the Commission has determined that additional revenue of \$9,731 is necessary to provide the 1.2X DSC which will ensure the financial stability of Boston.

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 proposed by Boston is in compliance with 807 KAR 5:067, Purchased Water Adjustment Clause, and should be approved.

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

3. The rates proposed by Boston 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 and charges to be charged by Boston in that they should produce the revenue required by Boston.

IT IS THEREFORE ORDERED that the purchased water adjustment clause filed by Boston be and it hereby is approved for service rendered on and after the date of this Order.

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

IT IS FURTHER ORDERED that the rates and charges in Appendix A are the fair, just and reasonable rates and charges to

be charged by Boston for water service rendered on and after the date of this Order.

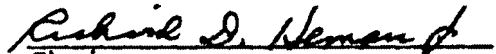
IT IS FURTHER ORDERED that for the purpose of future application of Boston's purchased water adjustment clause, the base rate for wholesale water shall be:


<u>Supplier</u>	<u>Rate</u>
City of Bardstown	First 2,500,000 gallons \$1,875.00 Minimum
	Over 2,500,000 gallons .75 per 1,000 gallons

IT IS FURTHER ORDERED that within 30 days of the date of this Order Boston shall file its revised tariff sheets setting out the purchased water adjustment clause and the rates approved herein.

Done at Frankfort, Kentucky, this 23rd 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. 9214 DATED 1/23/85

The following rates are prescribed for customers of Boston 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.

CLASS C - 3/4" METER

<u>Usage Block</u>	<u>Monthly Rate</u>
First 2,000 gallons	\$ 7.13 Minimum
Next 1,000 gallons	1.79 per 1,000 gallons
Next 2,000 gallons	1.39 per 1,000 gallons
Over 5,000 gallons	1.17 per 1,000 gallons

CLASS B - 3/4" METER

<u>Usage Block</u>	<u>Monthly Rate</u>
First 4,000 gallons	\$ 8.51 Minimum
Next 11,000 gallons	1.39 per 1,000 gallons
Over 15,000 gallons	1.17 per 1,000 gallons

CLASS A - 1" METER

<u>Usage Block</u>	<u>Monthly Rate</u>
First 15,000 gallons	\$17.85 Minimum
Over 15,000 gallons	1.17 per 1,000 gallons

SPECIAL CONTRACT - 2" METER

<u>Usage Block</u>	<u>Monthly Rate</u>
First 25,000 gallons	\$30.75 Minimum
Over 25,000 gallons	1.17 per 1,000 gallons

TRUCK STATION

All Usage	\$3.19 per 1,000 gallons
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