

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF PILOT OAK)
WATER SUPPLY FOR AN ADJUSTMENT)
OF RATES PURSUANT TO THE) CASE NO. 9249
ALTERNATIVE PROCEDURE FOR)
SMALL UTILITIES)

O R D E R

On December 26, 1984, the Pilot Oak Water Supply ("Pilot Oak") filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method in order to minimize the necessity for formal hearings, to reduce the filing requirements, and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and, therefore, results in lower rates to the ratepayer.

Pilot Oak requested rates which would produce an annual increase of \$1,512 from its estimated 42 customers. In the Order, the Commission has allowed rates that would produce an annual increase of \$298. There were no intervenors in this matter and no protests were entered. All information requested by the Commission has been filed.

TEST PERIOD

In order to evaluate the reasonableness of the proposed rates, Pilot Oak has proposed and the Commission has accepted the 12-month period ending December 31, 1983, as the test period in this case.

REVENUE AND EXPENSES

Pilot Oak sustained a net income of \$ 0 for the test period. Pilot Oak proposed only one pro forma adjustment to test period expenses, which the Commission has considered. The Commission has made the following corrections and adjustments to test period expenses to more fairly represent the actual operating condition of Pilot Oak:

Owner/Manager's Salary

Pilot Oak proposed to increase the Owner/Manager's Salary to \$3,151, an increase of \$1,512 over test period actual of \$1,639. In Pilot Oak's previous rate Order in Case No. 8369, Application of Pilot Oak Water Supply for an Adjustment of Rates Pursuant to the Alternative Procedure for Small Utilities, the Commission found that \$150 per month was the fair, just and reasonable compensation for the manager's fee and was comparable to the salaries being paid to managers of similarly-sized utilities under its jurisdiction. No evidence was presented in this case which would alter the previous decision. Therefore, the Commission has adjusted the Owner/Manager's Salary to \$1,800, an increase of \$161 to test period operating expenses.

Depreciation Expense

Pilot Oak's test period depreciation expense was \$736, which reflects depreciation on total plant using a composite rate of approximately 6.6 percent.¹ In Pilot Oak's previous case (Case No. 8639), the Commission found that a composite rate of 3.5 percent would be more appropriate, considering the useful lives of the utility property. Therefore, the Commission is of the opinion that a composite rate of 3.5 percent is fair, just and reasonable and finds that allowable test year depreciation is \$390, a reduction of \$346 from test period operating expenses.

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

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$3,726	-0-	\$ 3,726
Operating Expenses	<u>3,726</u>	<u><185></u>	<u>3,541</u>
Operating Income	<u>-0-</u>	<u>185</u>	<u>\$ 185</u>

REVENUE REQUIREMENTS

The Commission is of the opinion that Pilot Oak's adjusted net income of \$185 is unfair, unjust and unreasonable. The Commission in determining revenue requirements has considered numerous alternatives including the rate of return, debt service coverage, and operating ratio methods. The Commission is of the opinion that the operating ratio method is the appropriate method of determining revenue requirements in this instance because it will most adequately permit Pilot Oak to pay its operating

¹ $\$736 \div \$11,150 = 6.6\%$.

expenses and provide a reasonable return to its owner. The Commission is further of the opinion that a fair, just and reasonable operating ratio is 88 percent in this instance in that the revenue produced should provide sufficient cash flow for Pilot Oak to meet reasonable expenditures which it may incur from future operations. Therefore, the Commission is of the opinion that Pilot Oak is entitled to increase its rates to produce an increase in annual revenue of \$298, which produces a net operating income of \$483.

SUMMARY

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

1. The rates proposed by Pilot Oak 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.

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

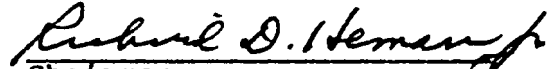
IT IS THEREFORE ORDERED that the rates requested by Pilot Oak be and they hereby are denied.


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 Pilot Oak for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Pilot Oak shall file its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 12th day of March, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9249 DATED 3/12/85

The following rates and charges are prescribed for the customers in the area served by Pilot Oak Water Supply. 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>Customer Class</u>	<u>Rate per Month</u>
Single-Family Residential	\$7.98