

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT OF)
WEST OLDHAM UTILITIES, INC.,) CASE NO. 9284
OF OLDHAM COUNTY)

O R D E R

On February 25, 1985, the West Oldham Utilities, Inc., of Oldham County ("West Oldham") 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 January 1, 1985, West Oldham's supplier, the Louisville Water Company, Jefferson County, Kentucky, increased its wholesale price of water by approximately 8.6 percent, for an increased cost to West Oldham of \$3,936 on an annual basis. In this proceeding the Commission has found that West Oldham has the potential to fully absorb the increased cost of water.

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 adjustment and the increase in rates, the Commission has adopted the 12-month period ended December 31, 1984, as the test period in this matter.

REVENUES AND EXPENSES

The rates proposed by West Oldham will increase revenues by \$6,398 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission has made the following adjustments to the purchase water expense and income tax expense to more fairly represent the actual operating expenses of West Oldham.

Purchased Water Expense

West Oldham's proposed increase of \$6,398 to the test period purchased water expense reflects the current rate increase and the prior increase which occurred January 1, 1984. The 1984 test period purchased water expense includes the effect of the January 1, 1984, increase. Therefore, the Commission has adjusted operating expenses to reflect only the increase in purchased water cost of \$3,701 from West Oldham's supplier effective January 1, 1985.

Income Tax Expense

West Oldham reported income taxes of \$3,674 for the test period. The Commission has reduced the income tax expense by \$522 based on increased operating expenses due to the increased cost of

water. This results in an adjusted test period income tax expense of \$3,152 which includes federal and state income taxes.

The Commission finds that West Oldham's adjusted test period operations are as follows:

	<u>Actual</u>	<u>Adjustment</u>	<u>Adjusted</u>
Operating Revenue	\$107,679	-0-	\$107,679
Operating Expenses	<u>83,901</u>	<u>\$ 3,179</u>	<u>87,080</u>
Operating Income	<u>\$ 23,778</u>	<u>\$ <3,179></u>	<u>\$ 20,599</u>

REVENUE REQUIREMENTS

West Oldham's annual debt service based on outstanding debt at the end of the test period was \$17,866.¹ West Oldham's adjusted operating income of \$20,599, plus interest income of \$3,524 and miscellaneous income of \$3,334, provides a debt service coverage of 1.54X. The Commission is of the opinion that a debt service coverage of 1.2X is fair, just and reasonable.

In addition West Oldham had net investment of \$165,116 for the end of the test period, which included a cash working capital of \$9,480. West Oldham's adjusted operations, including interest income and miscellaneous income, yields a return on net investment of 16.63 percent. In West Oldham's last rate case, Case No. 7405,² a return on net investment of 9.3 percent was found fair, just and reasonable. The Commission is of the opinion that a debt

¹ \$125,000 (Original Amount of Loan) X 0.14293 (Annual Amortization Factor) = \$17,866.

² Case No. 7405, An Application of the Adjustment of Rates of West Oldham Utilities, Inc.

service coverage of 1.54X and a 16.63 percent return on Net Investment is more than adequate to enable West Oldham to pay its operating expenses and to meet the requirements of its lenders. Therefore, the Commission is of the opinion that West Oldham has the potential to fully absorb its increased cost of water. Furthermore, the Commission advises West Oldham that its debt service coverage and return on net investment will be closely monitored in the future to assure that West Oldham's earnings do not become excessive.

SUMMARY

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

1. West Oldham has the potential to fully absorb the increase in purchased water cost.
2. The rates of West Oldham in effect under authority of the Commission prior to the date of this Order should continue in effect.

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

IT IS FURTHER ORDERED that the rates of West Oldham in effect under authority of the Commission prior to the date of this Order should continue in effect.

Done at Frankfort, Kentucky, this 6th day of June, 1985.

PUBLIC SERVICE COMMISSION

Richard A. Deman, Jr.
Chairman

Paul H. Payne, Jr.
Vice Chairman

Sam Shell
Commissioner

ATTEST:

Secretary