

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN APPLICATION OF OAK HILL WATER)
ASSOCIATION, INC., ADJUSTMENT FOR) CASE NO. 9297
SMALL UTILITIES PURSUANT TO 807)
KAR 5:076)

O R D E R

On March 12, 1985, Oak Hill Water Association, Inc., ("Oak Hill") filed its application requesting an increase in rates pursuant to 807 KAR 5:076. This regulation allows utilities with fewer than 400 customers or less than \$200,000 in gross annual revenues to apply for expedited rate relief. The proposed rates would provide additional revenues of approximately \$2,506 annually, an increase of 12 percent. The Commission has herein granted Oak Hill rates to produce annual revenues of approximately \$2,044.

The Attorney General's Office was granted intervention in this proceeding as provided in 807 KAR 5:076, Section 5.

TEST PERIOD

Oak Hill proposed to use the 12 months ending December 31, 1984, as the test period in this proceeding, which the Commission has accepted in accordance with 807 KAR 5:076.

REVENUE AND EXPENSES

Oak Hill proposed to use its Annual Report for the 12 months ending December 31, 1984, as the basis for the financial data to be used in determining the reasonableness of its request

in the proceeding. The Commission has accepted this financial data with the exception of depreciation expense.

Oak Hill's depreciation expense for 1984 included an allowance for depreciation on contributed property. In numerous past cases the Commission has established a precedent in rate-making procedures for the disallowance of depreciation on contributed property and therefore using Oak Hill's composite depreciation rate of 3.8 percent has reduced the actual test period expense of \$3,029 by \$1,731 to \$1,298.¹

Therefore the revised operations of Oak Hill can be stated as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 39,115	\$ -0-	\$ 39,115
Operating Expenses	44,620	<\$ 1,731>	42,889
Operating Income Gross	<\$ 5,505>	\$ 1,731	<\$ 3,774>
Interest Income	3,865	-0-	3,865
Net Income/<Loss>	<\$ 1,640>	\$ 1,731	\$ 91

REVENUE REQUIREMENTS

Oak Hill's adjusted operations result in a debt service coverage ("DSC") of .05X based on annual debt service of \$1,779. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable and that a DSC of 1.2X is a fair, just and reasonable coverage in that it will allow Oak Hill to pay its normal debt and operating expenses and provide a reasonable return

¹ Utility Plant in Service	\$80,012
Less Contributions in Aid of Construction	45,860
Net Plant	<u>\$34,152</u>
Composite depreciation rate	3.8%
Allowable Depreciation	<u>\$ 1,298</u>

on investment. Therefore, Oak Hill should be allowed to increase its rates and charges by \$2,044.²

RATE DESIGN

Oak Hill's current rate design consists of one rate schedule with five rate steps ranging from the first 1,500 gallons to an over 25,000 gallon category. All customers are billed under this rate schedule except for one wholesale customer, Pleasant Hill Water Association ("Pleasant Hill"), which is billed at 110 percent of Oak Hill's purchased water cost. Oak Hill proposed to change its rate design by combining the last two rate steps and redistributing the percentage of revenue generated by each rate step.

Oak Hill purchases water from Kentucky Water Service Company, Inc., at a rate of \$1.25 per 1,000 gallons, which became effective in April, 1982. Oak Hill's last three rate steps are currently \$1.20, \$1.00, and \$.75 per 1,000 gallons, respectively, as established in its last rate case, dated September 22, 1970.³ Thus, since April, 1982, usage in excess of 5,000 gallons has been billed at substantially less than the cost of water. This is clearly unfair, unjust and unreasonable, and the rates should be adjusted to reflect the cost of purchased water plus a reasonable allowance for overhead.

² $\$1,779 \times 1.2 = \$2,135 - \$91 = \$2,044.$

³ Case No. 5371, Application for Certificate of Convenience and Necessity, Approval of Financing, and Rates, September 22, 1970.

Oak Hill had one customer during the test year whose average usage exceeded 15,000 gallons of water per month (43,992 gallons average per month), and who would be affected by the elimination of the last rate step as proposed. Under the rates determined appropriate herein, this change would make no significant difference in the annual revenue to be realized by Oak Hill, nor would it result in any benefit to other customers. However, it would result in an additional 4 percent increase for this customer.⁴ This change should, therefore, be denied.

Oak Hill's rate for water sold to Pleasant Hill for purposes of resale is to be an amount equal to 110 percent of the cost of purchased water, resulting in a current rate of \$1.38 per 1,000 gallons. A rate calculated in this manner provides for an automatic increase in the wholesale rate each time the cost of purchased water is increased without benefit of review. It is the opinion of the Commission that the wholesale rate should be established and any adjustment made in the same manner as other rates. The current rate of \$1.38 per 1,000 gallons is reflective of the costs shown by the data filed herein, is fair, just, and reasonable, and should remain the rate to be charged for wholesale

4	Cost of 43,992 gallons at current rate:	\$ 47.54
	Cost of 43,992 gallons at allowed rate under current rate design:	68.29
	Cost of 43,992 gallons at allowed rate under proposed rate design:	70.19
	Difference	1.90 per month
	$\$1.90 \div \$47.54 = 4\%$ increase in customer's bill	
	$\$1.90 \times 12 \text{ months} = \22.80 increase in annual utility revenue	

water until such time as an adjustment may be applied for and approved in accordance with the procedure prescribed by the Commission's regulations.

OTHER CHARGES

Oak Hill proposed to establish special charges for disconnection and reconnection other than change of occupancy, meter reading recheck, special meter readings on request, customer-requested meter-testing and returned checks. The proposed charges are reasonable and should be approved.

TARIFF PROVISIONS

In addition to the above special charges, Oak Hill proposed numerous changes to sheets 7 through 10 of its rules and regulations. The following specific sections are not in compliance with the Commission's administrative regulations and should be denied:

<u>Tariff Section</u>	<u>Applicable Regulation</u>
IX(A)	807 KAR 5:006, Section 10(1)
IX(D)	807 KAR 5:006, Section 7
XI(D)(1)	807 KAR 5:006, Section 11(3)(b)
XI(E)	807 KAR 5:006, Section 11(5)
XII(C)	807 KAR 5:006, Section 19

It is also noted that Sheets 1 through 8 of Oak Hill's current rules and regulations contain provisions which are in conflict with the proposed special charges or are not in compliance with the Commission's administrative regulations. Oak

Hill should review its rules and regulations in their entirety and file revised tariff sheets in compliance with the administrative regulations and orders herein.

FINDINGS AND ORDERS

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

1. The changes in rate design proposed by Oak Hill should be approved as to the redistribution of revenue generation to more accurately reflect costs and denied as to the elimination of the last rate block.

2. The rate for water for resale should be an established amount and any adjustments thereto should be applied for and approved in accordance with the Commission's administrative regulations.

3. The proposed tariff provisions specified herein are not in compliance with the Commission's administrative regulations and should be denied. Further, Oak Hill should review its entire tariff and file revised rules and regulations eliminating any conflicts with the administrative regulations, Commission policy or other utility rules.

4. The non-recurring charges proposed by Oak Hill are fair, just and reasonable and should be approved.

5. The rates proposed by Oak Hill should be denied as not fair, just and reasonable within the meaning of KRS 278.030.

6. The rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged for water service rendered on and after the date of this Order.

IT IS THEREFORE ORDERED that the rates proposed by Oak Hill are hereby denied upon application of KRS 278.030.

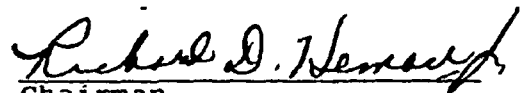
IT IS FURTHER ORDERED that the rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged by Oak Hill.

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

IT IS FURTHER ORDERED that Oak Hill shall file revised tariff sheets setting out its rules and regulations in accordance with Finding No. 3 herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 14th day of August, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

did not participate
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9297 DATED AUGUST 14, 1985

The following rates and charges are prescribed for customers of Oak Hill Water Association. 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 BLOCKS</u>	<u>MONTHLY RATES</u>
First 1,500 gallons	\$ 6.50 Minimum
Next 3,500 gallons	1.90 per 1,000 gallons
Next 5,000 gallons	1.55 per 1,000 gallons
Next 15,000 gallons	1.45 per 1,000 gallons
Over 25,000 gallons	1.35 per 1,000 gallons
Sales for Resale	\$ 1.38 per 1,000 gallons

NON-RECURRING CHARGES

Disconnection or reconnection	
other than change of occupancy	\$ 10.00
Meter reading recheck	10.00
Special meter readings on request	10.00
Meter testing-customer requested	10.00
Returned check	10.00