

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT)
FILING OF WHITE HALL WATER) CASE NO. 9314
DISTRICT)

O R D E R

On March 28, 1985, White Hall Water District ("White Hall") filed its application with the Commission requesting approval of its purchased water adjustment clause and authority to adjust its rates in accordance with that clause. White Hall proposed to recover the increased cost of purchased water resulting from an increase in the wholesale rate of its supplier, the City of Richmond ("City"), which became effective April 1, 1985. The additional purchased water expense on an annual basis is \$46,311. The Commission has approved this proposal subject to the absorption test described herein. The Commission has found that White Hall can partially absorb the increased cost of water and has, therefore, allowed an increase in rates calculated to produce additional revenue of \$35,290 per year.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine a utility'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

White Hall filed a detailed statement of water purchased under the base rates for a 12-month period ended within 90 days of the filing date in order to satisfy 807 KAR 5:067, Section 1.1(b). The Commission, therefore, accepts the proposed test period of the calendar year 1984. Adjustments deemed proper and necessary have been included to more accurately reflect current operating conditions.

Subsequent to an information request by the Commission, dated May 9, 1985, White Hall submitted revised financial exhibits in its response. These revisions included changes in revenues resulting from contributions in aid of construction and a clerical error. These revised exhibits have been accepted by the Commission.

REVENUES AND EXPENSES

White Hall did not propose any adjustments to its revised test year statement of operations; however, it did include a calculation of the increase in purchased water costs resulting from the increased rate charged by the City. The Commission, after careful examination of the financial statements of White Hall, has made the following adjustments to its test-year operating statement in accordance with its established rate-making practices:

Purchased Water Expense

White Hall reported purchased water expense of \$84,087. The normalized purchased water expense for White Hall, including the increase from the City effective April 1, 1985, is \$128,071.

This normalized figure reflects the \$46,311 increase for purchased water and includes a reduction for water loss of \$2,327 to reflect a 15 percent water loss which the Commission finds fair, just and reasonable for rate-making purposes as opposed to the actual water loss for the test period of 17 percent. Accordingly, the Commission has increased the test-year operating expenses of White Hall by \$43,984 to appropriately reflect the purchased water expense.

Professional Services

Professional services expense for the test period was \$12,526. Included in this figure were legal fees associated with Case No. 8957¹ of \$7,304, engineering fees associated with Pineur Acres and Shady Hills of \$2,067, and engineering fees of \$1,180 for upgrading the system. Although the legal fees of \$7,304 were incurred by White Hall, to properly account for these fees, the Commission must determine whether or not the fees were of benefit to the consumers. The Commission concurs with Suelflow in that,

if the utility were in error and required legal consultation, or chose to defend a service complaint which is ultimately lost, commission interpretation seems to indicate that these expenses are not beneficial to the consuming public; the company owners would derive any advantage gained, and they should bear the cost.²

¹ The Complaint of Mae Whicker, et al. Vs. White Hall Water District.

² Suelflow, James E., Public Utility Accounting: Theory and Application, 1982, pages 71-72.

However, considering the nature of a water district, the costs ultimately must be borne by the ratepayers as there are no shareholders. Since these costs may have been nonessential and avoidable, it is the opinion of the Commission that the effects of such costs should be mitigated. Therefore, these legal and engineering fees should have been capitalized and depreciated similar to all other overhead costs associated with the Pineur Acres and Shady Hills construction project. This is consistent with the accounting treatment prescribed by the Uniform System of Accounts for Water Utilities. The Commission, therefore, has reduced the professional services expenses by \$10,551. It should be noted that these expenses could have been denied entirely rather than capitalized.

Depreciation Expense

The depreciation expense of White Hall was \$15,203 for the test period. This reflects depreciation on total plant in service with a resulting composite rate of approximately 2.8 percent. It is the precedent of the Commission to compute depreciation expense for rate-making purposes on non-contributed plant only. Such a practice insures that ratepayers pay only for the plant in which the utility has made an investment and not the plant which the utility has acquired through contributions.

The balance sheet of White Hall at the end of the test period reflects contributions in aid of construction of \$276,574 which represents approximately 50.4 percent of the total cost of utility plant in service. In determining the pro forma

depreciation expense, the Commission has utilized the composite depreciation rate and excluded contributed property. The applicable adjustment of \$295³ was made to reflect the additional expense associated with the additional engineering and legal fees which were capitalized in a prior section of this Order. The adjusted depreciation expense for rate-making purposes is \$8,017, reflecting an adjustment of \$7,276.

Adjustments to the test-period operations produced the following results:

	<u>Actual</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$187,321	0	\$187,321
Operating Expenses	<u>178,605</u>	<u>\$26,157</u>	<u>204,762</u>
Operating Income (Loss)	<u>\$ 8,716</u>	<u><\$26,157></u>	<u><\$17,441></u>

REVENUE REQUIREMENTS

The average annual debt service of White Hall for the next 5 years is \$16,540. The adjusted operating loss of \$17,441 plus interest income from operations of \$1,891 results in a loss for rate-making purposes of \$15,542. The Commission is of the opinion that a debt-service coverage ("DSC") of 1.2X is a fair, just and reasonable coverage for White Hall to maintain in that it meets the requirements of its lenders and provides an adequate surplus for equity growth. In order for White Hall to maintain a 1.2X DSC, it requires a net operating income of \$19,740. Accordingly, the Commission has determined that additional revenue of \$35,290

³ \$10,551 x 2.8% = \$295.

is necessary to provide the 1.2X DSC which will insure the financial stability of White Hall. The Commission, therefore, finds that White Hall should increase its rates to produce additional annual revenues as follows:

Adjusted Operating Expenses	\$204,762
1.2X DSC	19,740
Total Revenue Requirement	<u>\$224,502</u>
Less Actual Other Income	1,891
Revenue Requirement from Rates	<u>\$222,611</u>
Less Actual Operating Revenue	187,321
Increase Required	<u>\$ 35,290</u>

Thus, the Commission is of the opinion and finds that White Hall can absorb \$11,021 of the increase in its purchased water cost.

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 White Hall is in compliance with 807 KAR 5:067 and should be approved.
2. White Hall has the potential to absorb \$11,021.
3. The rates as proposed by White Hall are unfair, unjust and unreasonable and should be denied upon application of KRS 278.030.
4. A purchased water adjustment in the amount of 41 cents per 1,000 gallons⁴ and the rates in Appendix A will provide the additional revenues granted herein and are fair, just and reasonable and, therefore, should be approved.

⁴ \$35,282 ÷ 86,165,112 M gal.

5. The base rate for future application of the purchased water adjustment clause of White Hall from the City should be:

<u>Number of Cubic Feet Per Month</u>		<u>Price Per 100 Cubic Feet</u>
First	300 Cubic Feet per month (minimum)	\$5.65
Next	400 Cubic Feet per month (per 100 cubic feet)	1.65
Next	5,000 Cubic Feet per month (per 100 cubic feet)	1.50
Next	5,000 Cubic Feet per month (per 100 cubic feet)	1.25
Over	10,700 Cubic Feet per month (per 100 cubic feet)	.94

IT IS THEREFORE ORDERED that the purchased water adjustment clause filed by White Hall be and it hereby is approved effective on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by White Hall be and they hereby are denied.

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

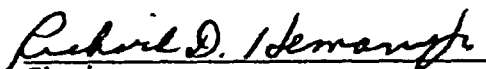
IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of White Hall the base rate for purchased water from the City should be:

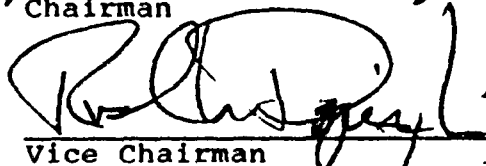
<u>Number of Cubic Feet Per Month</u>		<u>Price Per 100 Cubic Feet</u>
First	300 Cubic Feet per month (minimum)	\$5.65
Next	400 Cubic Feet per month (per 100 cubic feet)	1.65
Next	5,000 Cubic Feet per month (per 100 cubic feet)	1.50
Next	5,000 Cubic Feet per month (per 100 cubic feet)	1.25
Over	10,700 Cubic Feet per month (per 100 cubic feet)	.94

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

Done at Frankfort, Kentucky, this 27th day of June, 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. 9314 DATED JUNE 27, 1985

The following rates and charges are prescribed for the customers receiving water services from White Hall Water District. 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 2,100 gallons	\$ 8.46 Minimum
Next 3,000 gallons	2.07 per 1,000 gallons
Next 3,750 gallons	1.87 per 1,000 gallons
Over 8,850 gallons	1.67 per 1,000 gallons