

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT OF )  
GRAYSON COUNTY WATER DISTRICT ) CASE NO. 9323  
OF GRAYSON COUNTY )

O R D E R

On April 15, 1985, the Grayson County Water District ("Grayson County") 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 May 8, 1985, Grayson County's supplier, the City of Leitchfield, Grayson County, Kentucky, increased its wholesale price of water by approximately 4 percent from \$.95 to \$.988 per 1,000 gallons, resulting in an increased cost to Grayson County of \$2,014 on an annual basis. In this proceeding the Commission has found that Grayson County has the potential to fully absorb the increased cost of water.

COMMENTARY

Prior to approving increased rates resulting from a purchased water cost increase 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 January 31, 1985, as the test period in this matter.

### REVENUES AND EXPENSE

The rates proposed by Grayson County will increase revenues by \$2,014 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission has made the following adjustments to expenses, in conformance with its rate-making practices to more fairly represent the actual operating expenses of Grayson County:

#### Depreciation Expense

Grayson County's test period depreciation expense was \$32,939, which reflects depreciation on total plant using a composite rate of approximately 1.94 percent.<sup>1</sup> It is the Commission's practice 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 Grayson County shows contributions in aid of construction at the end of the test period to be \$651,718. This amount is approximately 38.3 percent of the total cost of the utility plant in service. In determining the pro forma depreciation expense, the Commission has utilized the depreciation

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<sup>1</sup>  $\$32,939 \div \$1,694,257 = 1.94\%$

rate applied by Grayson County and has excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$20,365,<sup>2</sup> a reduction of \$12,574.

Purchased Water

Grayson County's test period water purchases and sales were 53,443,710 gallons and 45,063,969 gallons, respectively. This reflects water loss of 15.68 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 53,016,434 gallons.<sup>3</sup> This results in a test-period allowable purchased water expense of \$52,380, which includes additional water cost of \$2,014. The net effect of the Commission's adjustment for water loss and the increased water cost is \$1,608.

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

|                         | <u>Actual</u>    | <u>Adjustments</u>      | <u>Adjusted</u>  |
|-------------------------|------------------|-------------------------|------------------|
| Operating Revenues      | \$196,761        | -0-                     | \$196,761        |
| Operating Expenses      | <u>144,167</u>   | <u>\$&lt;10,966&gt;</u> | <u>133,201</u>   |
| Operating Income <Loss> | <u>\$ 52,594</u> | <u>\$ 10,966</u>        | <u>\$ 63,560</u> |

<sup>2</sup>

|   |                |
|---|----------------|
| Total Plant                                   |                |
| Less: Contributions in aid of construction    | \$1,701,448    |
| Non-contributed Plant                         | <u>651,718</u> |
| Times: Composite Rate                         | \$1,049,730    |
| Depreciation Allowed for Rate-making Purposes | <u>1.948</u>   |
|   | \$ 20,365      |

<sup>3</sup> 45,063,969 gallons (Water Sold) ÷ 0.85 = 53,016,434 gallons.

REVENUE REQUIREMENTS

Grayson County's annual debt service based on outstanding debt at the end of the test period is \$54,488.<sup>4</sup> Grayson County's adjusted operating income of \$63,560 plus interest income from operations of \$5,821 provides a debt service coverage ("DSC") of 1.27X. The Commission is of the opinion that a DSC of 1.2X is fair, just and reasonable and that a DSC of 1.27X is more than adequate to enable Grayson County to pay its operating expenses and to meet the requirements of its lenders. Therefore, the Commission is of the opinion that Grayson County has the potential to fully absorb its increased cost of water.

SUMMARY

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

1. Grayson County has the potential to fully absorb the increase in purchased water cost.

2. The rates of Grayson County 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 Grayson County be and they hereby are denied.

IT IS FURTHER ORDERED that the rates that Grayson County has in effect under authority of the Commission prior to the date of this Order shall continue in effect.

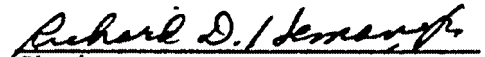
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<sup>4</sup> \$919,000 (Total Amount of Bonds) X 0.05929 (Amortization Factor) = \$54,488.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, Grayson County shall file its revised tariff sheet(s) setting out the changed rate charged by its wholesale supplier, and such changed rate shall be the base rate for purposes of future application of the purchased water adjustment clause of Grayson County.

Done at Frankfort, Kentucky, this 19th day of June, 1985.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary