

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SYMSONIA WATER)
DISTRICT FOR AN ADJUSTMENT OF RATES) CASE NO. 9364
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On June 12, 1985, Symsonia Water District ("Symsonia") filed with the Commission an application requesting authority to increase its water rates. This application was filed pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). Symsonia stated that the requested increase was necessary to offset losses from operations from the past several years. Though Symsonia's application stated that it was requesting an increase of \$2,965 over normalized revenues, the proposed rates would produce additional operating revenues of approximately \$9,188 annually, an increase of 34 percent. Based upon the determination herein, Symsonia's operating revenue will increase by \$6,391, an increase of 24 percent.

As part of its endeavor to shorten and simplify the regulatory process for small utilities, the Commission chose to perform a limited financial audit and a billing inspection for the test year (calendar year 1984). The Commission's objective was to substantially reduce the need for written data requests, thus reducing the expense to Symsonia. The staff audit report and the billing inspection of Symsonia's financial operations for the

calendar year 1984 were filed as a part of the record in this case on October 4, 1985, and September 16, 1985, respectively.

A hearing was not requested in this matter, and in accordance with the provisions of the ARF, no hearing was conducted. The decision of the Commission is based upon information contained in the application, written submissions, annual reports, staff reports and other documents on file in the Commission offices.

COMMENTARY

Symsonia is a non-profit water utility engaged in the distribution and sale of water to approximately 206 customers in Graves County, Kentucky.

TEST PERIOD

Symsonia proposed and the Commission has accepted the 12-month period ending December 31, 1984, as the test period for determining the reasonableness of the proposed rates.

REVENUES AND EXPENSES

For the test period, Symsonia reported a net loss of \$1,421. Symsonia proposed several pro forma adjustments to revenues and expenses to reflect more current and anticipated operating conditions. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Staff Audit Report Adjustments

In the course of its investigation in this case, the Commission staff performed a limited audit to verify reported test-year expenses and determine what accounting or classification

changes might be appropriate. Based upon the findings contained in the Commission's Audit Report of Symsonia dated October 4, 1985, and the Billing Inspection dated September 16, 1985, the Commission has made the following adjustments to reported test-year operating expenses:

	1983 Actual per <u>Annual Report</u>	<u>Adjustments</u>	Test Year per <u>Staff Audit</u>
Operating Revenues	\$ 26,971	\$ <276>	\$ 26,695
Operating Expenses	<u>25,621</u>	<u><487></u>	<u>25,134</u>
Operating Income	\$ 1,350	\$ 211	\$ 1,561
Other Income	329	-0-	329
Interest on LTD	<u>3,100</u>	-0-	<u>3,100</u>
Net Income	<u>\$ <1,421></u>	<u>\$ 211</u>	<u>\$ <1,210></u>

The Commission has made additional adjustments to the test year, as determined in the audit report, based upon the following findings of fact to reflect more normal and current operating conditions.

General Increase in Costs Adjustment

Symsonia proposed to increase several expense accounts by 10 percent, resulting in a total adjustment of \$1,083. Symsonia stated that these adjustments were based upon estimated increases in expense levels. The Commission notified Symsonia that estimated adjustments of this nature do not meet the known and measurable criteria established by the Commission for pro forma adjustments, and provided Symsonia with an opportunity to respond to this rate-making treatment. Symsonia responded that it agreed with the Commission's policy on this issue. Therefore, the proposed adjustments based on estimated increases have not been allowed herein for rate-making purposes.

Depreciation

The Commission has, in numerous sewer and water utility rate cases, established the practice of disallowing for rate-making purposes depreciation on contributed property. Symsonia did not propose an adjustment to reflect this practice, and was given an opportunity to present evidence as to why this rate-making treatment should not be applied in this instance. Symsonia stated that it agreed with the Commission's practice on this issue.

According to the 1984 Annual Report, the value of gross utility plant in service at the end of the test period was \$193,542. Contributions in Aid of Construction totaled \$91,098 at the end of the test year. Thus, depreciation on contributed property is determined to be \$1,828, based upon the ratio of contributions to gross plant. Therefore, depreciation expense of \$2,056 has been allowed for rate-making purposes.

Interest Expense

Symsonia proposed an adjustment to reduce interest expense by \$100 to reflect an adjusted amount of \$3,000. However, the Commission, after reviewing the 1984 Annual Report's schedule of bond maturities, has determined that actual interest due and payable in 1985 is \$2,888 and, therefore, has used this amount for rate-making purposes.

After consideration of the aforementioned adjustments, the Commission finds Symsonia's test-period operations to be as follows:

	<u>Actual per Audit Report</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 26,695	\$ -0-	\$ 26,695
Operating Expenses	<u>25,134</u>	<u>1,185</u>	<u>23,949</u>
Net Operating Income	\$ 1,561	\$ 1,185	\$ 2,746
Other Income	329	-0-	329
Interest - LTD	<u>3,100</u>	<u>212</u>	<u>2,888</u>
Net Income	<u>\$ < 1,210 ></u>	<u>\$ 1,608</u>	<u>\$ 187</u>

REVENUE REQUIREMENTS

Historically, including Symsonia's last case, the Commission has used the debt-service coverage ratio as the criterion for determining revenues for non-profit water utilities, and it finds no reason to deviate from this established practice in this proceeding. Using a debt-service coverage of 1.2X plus operating expenses, the Commission finds Symsonia's total revenue requirement to be \$33,086. The Commission is of the opinion and finds that the revenue granted herein will produce gross annual revenue sufficient to pay Symsonia's operating expenses, service its debt, and provide a reasonable surplus for equity growth.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are fair, just and reasonable rates for Symsonia and will produce gross annual revenue sufficient to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth.

2. The rates proposed by Symsonia would produce revenue in excess of that found reasonable herein and, therefore, should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that:

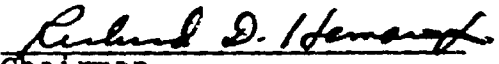
1. The rates in Appendix A be and they hereby are approved for service rendered by Symsonia on and after the date of this Order.

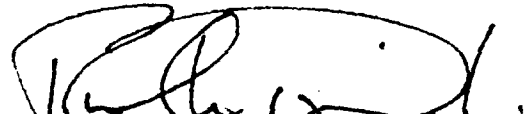
2. The rates proposed by Symsonia be and they hereby are denied.

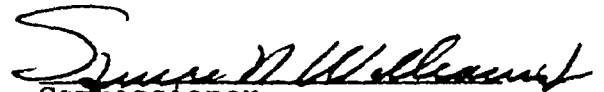
3. Within 30 days from the date of this Order Symsonia shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 20th day of December, 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. 9364 DATED 12/20/85

The following rates and charges are prescribed for the customers in the area served by Symsonia 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.

RATES: Monthly

5/8 x 3/4 Inch Connection

First 2,000 gallons	\$7.05 Minimum Bill
Next 3,000 gallons	1.60 per 1,000 gallons
Next 5,000 gallons	1.50 per 1,000 gallons
Next 10,000 gallons	1.40 per 1,000 gallons

3/4 - Inch Connection

First 5,000 gallons	\$11.85 Minimum Bill
Next 5,000 gallons	1.50 per 1,000 gallons
Over 10,000 gallons	1.40 per 1,000 gallons

1 - Inch Connection

First 10,000 gallons	\$19.35 Minimum Bill
Over 10,000 gallons	1.40 per 1,000 gallons

2 - Inch Connection

First 20,000 gallons	\$33.35 Minimum Bill
Over 20,000 gallons	1.40 per 1,000 gallons