

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH SHORE WATER)
WORKS COMPANY FOR A GENERAL RATE) CASE NO. 9330
INCREASE)

ORDER ON REHEARING

On January 13, 1986, the Commission entered its Order granting South Shore Water Works Company ("South Shore") rates which would produce an additional \$34,870 annually. On January 24, 1986, South Shore petitioned the Commission for rehearing requesting further consideration on 10 items. The Commission, after reviewing these issues, granted reconsideration of the following items:

1. Salary expense for two new employees.
2. Chemical charges.
3. Rate case expenses.
4. Sales tax.
5. (a) Non-operating income not included in the determination of revenue requirements.
(b) The level of non-operating income.
6. Disallowed non-recurring charges.
7. Depreciation expense on contributed property.

After further consideration of these issues, the Commission grants South Shore an increase in rates which should produce additional revenue of \$2,058 per year, for a total of \$36,928 per year.

DISCUSSION

The Commission reviewed the test period operating expenses allowed in its Order of January 13, 1986, with the evidence presented by South Shore, and has made the following additional adjustments to operating expenses for rate-making purposes:

South Shore requested a review of its 1985 labor expense, with emphasis on labor cost associated with its construction projects. It asserted that a factor of 40 percent, rather than the 70 percent found reasonable in the Commission's Order, would be more representative for allocating labor and other expenses to capital projects. South Shore presented a schedule showing the number of man-weeks for the calendar year related to work performed by the two new employees. However, in response to the Commission's request on rehearing, South Shore agreed that the man-weeks devoted to capital projects for the months of October, November and December were abnormally low because there was a very limited amount of work performed during these months. After excluding these months as not representative, capitalized wages of the first 9 months of the calendar year are 50.64 percent.¹ This recalculation of capital cost allows an increase in reasonable expenses of \$4,313 (including associated payroll taxes).

¹ 39.5 man-weeks + 78 man-weeks = 50.64 percent.

South Shore asserted that it had inadvertently understated its pro forma adjustment for chemical expense and requested that this item be increased by \$1,540, to represent additional chemicals purchased during the test year. The Commission has reviewed the invoices presented and finds the additional adjustment reasonable.

The Commission allowed \$11,123 depreciation expense. In its reevaluation of this account, the Commission finds the net straight-line depreciation expense of \$14,723, exclusive of depreciation expense on contributed property, reasonable as shown in South Shore's schedule, with the exception of annual depreciation expense on non-utility property in the amount of \$693. In addition, depreciation expense applicable to capitalized labor and payroll tax of new employees has been adjusted to conform to the revised allocation found reasonable earlier in this Order, for a reduction in depreciation expense of \$446. Thus, adjusted depreciation expense is \$16,293, an increase of \$5,170.

South Shore asked for restoration of sales tax expense disallowed in the Order of January 13, 1986, in the amount of \$523 because it was the result of out-of-state equipment purchases. However, South Shore's response disclosed that South Shore paid a late filing fee of \$10 and penalty and interest on two returns of \$174 for a total of \$184. The Commission has disallowed these "penalty" payments as an operating expense for rate-making purposes. Thus, sales tax expense has been allowed in the amount of \$339.

In its response to the Commission's request for information dated February 27, 1986, item number five shows a recomputation of rate case expenses with a revised total of \$9,393 requiring an annual amortization of \$3,131 over a 3-year period. An additional adjustment of \$1,569 has been allowed by the Commission to subsidize the allowance for rate case expense made in its Order of January 13, 1986. While allowing these rate case expenses of \$9,393, the Commission considers them abnormally high. However, some duplication of services may have occurred in the preparation of the rate case due to a change in legal representation during pendency of the case and the necessity to reexamine the financial statements. Rate case expense will be closely reviewed in future cases.

In its January 13, 1986, Order, the Commission determined income from non-utility operations to be \$11,420. South Shore proposed that this be reduced by \$1,250 to recognize the sale of a pickup truck. However, South Shore was unable to show this as being included in income during the test period, and thus is disallowed for rate-making purposes.

South Shore contended that operating income should be reduced by \$1,762 to recognize the elimination of non-recurring charges in the Commission's Order. Moreover, South Shore pointed out that the Order failed to recognize non-utility income in its determination of revenue requirements. The Commission concurs on both issues and has appropriately reduced the revenue requirement by \$9,658.

In its Order of January 13, 1986, the Commission found South Shore's net investment rate base to be \$331,788. As a consequence of the additional information presented in the petition for rehearing, the end of period plant in service has been increased by \$18,000 and its related depreciation reserve by \$900 to recognize South Shore's office building, which was improperly classified as non-utility property. However, allowance for pro forma plant in service has likewise been reduced by the \$18,000. In addition, the capitalized labor and related payroll tax pertaining to the two new employees has been reduced by \$4,313 in accordance with the Commission's adjusted capital allocation percentage of 50.64 percent. Further, working capital has been increased by \$879 as a result of an increase in operating expenses allowed by the Commission in other sections of this Order. Thus, the net investment rate base, as adjusted by the above adjustments, is \$327,454.

Federal and state income taxes of \$5,631 were allowed in the Commission's Order of January 13, 1986. Due to the adjustments allowed in this Order on Rehearing, income taxes have been reduced by \$632.

SUMMARY

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

1. The Commission's Order of January 13, 1986, should be modified to reflect an adjustment as follows:

Labor and Associated Payroll Taxes	\$4,313
Chemical	1,540
Depreciation Expense	5,170
Sales Tax	339
Amortization of Rate Case Expense	1,569
Federal and State Income Taxes	<632>
Income From Non-Utility Operations	<9,667> •
Required Net Operating Income	<u><574></u>
Total	\$2,058

* Includes other income of \$9.

2. The rates as set out in the Commission's Order entered January 13, 1986, should be modified by the rates in Appendix A of this Order to reflect an increase in annual revenues from water sales of \$2,058 based on the adjustments in Finding No. 1.

IT IS THEREFORE ORDERED that:

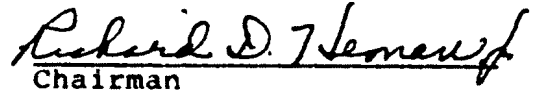
1. The Commission's Order entered January 13, 1986, be and it hereby is modified in accordance with Findings No. 1 and 2 and affirmed in all other respects.

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

3. Within 30 days of the date of this Order, South Shore shall file with the Commission its tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 7th day of May, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9330 DATED 5/7/86

The following rates and charges are prescribed for the customers in the area served by the South Shore Water Works Company. 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

First 1,000 gallons	\$2.70 Minimum Bill
Next 9,000 gallons	1.30 per 1,000 gallons
Next 20,000 gallons	1.00 per 1,000 gallons
Next 20,000 gallons	.90 per 1,000 gallons
Over 50,000 gallons	.85 per 1,000 gallons

Fire Hydrant Charge \$5.50 per month

Nonrecurring Charges

Return Check Fee	\$ 6.00
Reconnect Fee	10.00
New Account Charge	3.00
Meter Test Fee	11.50
Meter Transfer Charge	10.00
Water Deposit	
Residential	15.00
Commercial	25.00
Service Call	7.50
Late Penalty	10% of amount owed