

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

HOWARD WATER COMPANY APPLICATION)
FOR RATE ADJUSTMENT SMALL SEWER) CASE NO. 9774
UTILITY)

O R D E R

On December 1, 1986, Howard Water Company filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation permits utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method ("ARF") to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and, therefore, results in lower rates to the ratepayers.

There were no intervenors in this matter, no information requests issued or hearings held. Staff helped in the preparation of the application and reviewed the financial information at that time. This negated the need for the staff to perform a limited financial review of Howard Water Company's test period financial operations which staff normally performs in an ARF proceeding.

Howard Water Company requested rates which would produce an annual increase of \$2,325 on a test year basis. In this Order, the Commission has granted the increase requested.

COMMENTARY

William Howard purchased the Howard Water Company from Ed and Shirley Howard in May, 1986. Since the purchase Mr. Howard has failed to seek Commission approval of the transfer of ownership. The Commission is of the opinion that failure to seek Commission approval was due to Mr. Howard's unfamiliarity with the Commission's procedures. Mr. Howard has effectively operated the Howard Water Company for approximately 9 months and has improved service to its customers. The Commission is of the opinion that Mr. Howard has the financial, technical and managerial abilities to provide reasonable service to Howard Water Company's customers. Therefore, the Commission grants its approval of the transfer of ownership to Mr. Howard.

TEST PERIOD

Howard Water Company has proposed and the Commission has accepted the 12-month period ending December 31, 1985, as the test period in this matter.

REVENUE AND EXPENSES

Howard Water Company reported a net operating loss of \$441 for the test period. Howard Water Company proposed numerous pro forma adjustments to test period operating revenues and expenses which resulted in a net operating loss of \$1,727 exclusive of the proposed revenue increase of \$2,325. The proposed adjustments are addressed as follows:

Operating Revenue

Howard Water Company proposed pro forma test period operating revenues of \$2,970 based on the present rates and a reduction in

customers from 49 to 33. This reduction was caused by the state constructing a bridge and demolishing approximately 16 of the houses in the utility's service area. The customer loss was to have occurred in January, 1987. The Commission is of the opinion that this adjustment meets the criteria of known and measurable and, therefore, accepts it for rate-making purposes.

Salaries

Howard Water Company proposed to remove salaries of \$968 from test period operating expenses due to the utility not having any future full-time employees. The Commission accepts the reduction as proposed by Howard Water Company.

Depreciation

Howard Water Company proposed a pro forma level of depreciation expense of \$395 based on test period plant replacement and the utility's prior composite depreciation rate of 10.32 percent.¹ The Commission after reviewing the supporting documentation finds it to be reasonable and therefore accepts the proposed adjustment.

Other Adjustments

Howard Water Company proposed the following pro forma expenses based on the financial data maintained by the present owners since May, 1986:

Chemicals	\$835
Administrative and General	67
PSC Assessment	50
Water Testing	132
State Taxes-Property	11

¹ Composite depreciation rate per the 1985 Annual Report.

Mr. Howard has owned and operated the Howard Water Company since May, 1986. The financial information prior to that month was maintained by the previous owner and was not made available to Mr. Howard. Considering the absence of test period financial data the Commission will allow the proposed adjustments in this instance. However, this does not mean the Commission will accept similar adjustments in the future. This decision was reached after reviewing the annual reports on file, examining invoices of the actual expenses incurred and carefully reviewing the financial condition of the utility. It does not constitute a change in the Commission's general policy of allowing only those adjustments which are known and measurable.

Interest Expense

Howard Water Company proposed a pro forma level of interest expense of \$308 for the credit loan used to purchase equipment. However, the interest expense was not included as an operating expense by Howard Water Company when calculating its revenue requirement. The Commission has included this expense in determining required revenue as is normally done when operating ratio is used in calculating the revenue requirement.

Therefore, Howard Water Company's test period operations are as follows:

	Howard Water Company's Adjusted Operations
Operating Revenues	\$ 2,970
Operating Expenses	4,389
Operating Income	\$<1,419>
Interest Expense	308
Net Income <Loss>	<u>\$<1,727></u>

REVENUE REQUIREMENTS

The Commission has used the operating ratio method as the basis for determining water rates in the past for privately owned water companies and has found it to be a fair, just and reasonable method to both the utility and its customers. Howard Water Company's adjusted operations provide the utility with an operating ratio of 1.48 percent, which the Commission is of the opinion is unfair, unjust and unreasonable. Howard Water Company's proposed increase will provide the utility with an operating ratio of 88 percent² which the Commission is of the opinion is fair, just and reasonable in that it will provide Howard Water Company ample opportunity to pay its operating expenses and provide for reasonable growth in equity. Therefore, the Commission grants Howard Water Company the amount requested of \$2,325.

SUMMARY

The Commission, based on the evidence of record and being advised, is of the opinion and finds that:

1. The rate in Appendix A is fair, just and reasonable for Howard Water Company in that it will produce annual operating revenues of \$5,295.

² \$2,970 operating revenues + \$2,325 proposed increase - \$308 interest expense = \$4,987 adjusted operating revenues.
\$4,389 operating expenses ÷ \$4,987 adjusted operating revenues = 88%.

IT IS THEREFORE ORDERED that:

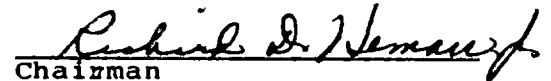
1. The transfer of ownership of Howard Water Company from Ed and Shirley Howard to William Howard be and it hereby is approved.

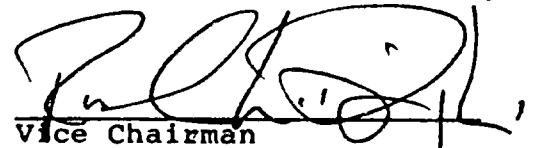
2. The rate in Appendix A be and it hereby is approved for service rendered by Howard Water Company on and after the date of the Order.

3. Within 30 days from the date of this Order Howard Water Company shall file with the Commission its revised tariff sheets setting out the rate approved herein.

Done at Frankfort, Kentucky, this 13th day of February, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9774 DATED 2/13/87

The following rate is prescribed for the customers in the area served by Howard Water 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.

	<u>Monthly Rate</u>
Residential	\$13.50