

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE ELKHORN)
WATER DISTRICT (1) FOR A CERTIFICATE)
OF CONVENIENCE AND NECESSITY TO)
CONSTRUCT A WATER STORAGE TANK AND) CASE NO. 9896
ADDITIONAL LINES; (2) FOR APPROVAL)
OF FINANCING PLAN FOR SAID PROJECT;)
AND (3) FOR APPROVAL OF WATER RATES)
AND CHARGES)

O R D E R

On February 10, 1988, the Commission issued its final Order in this proceeding wherein it granted Elkhorn Water District ("Elkhorn") additional revenues of \$19,960. On February 29, 1988, Elkhorn filed for rehearing on the following issues:

1. Increased operating expenses based on new customers;
2. Bad debt expense;
3. Rate case expense;
4. Revenue requirement;
5. Cost of delivery of water;
6. Rate design; and
7. Recalculation of customer bills for refunds.

The Commission's findings regarding Elkhorn's petition for rehearing are addressed as follows.

1. Increased Operating Expenses Based on New Customers

In its Petition Elkhorn stated that the Commission increased revenues 23 percent to allow for new customer sales, but did not increase the appropriate operating expenses by that same

percentage. Staff addressed this issue in its report and was cross-examined at the hearing in this case on Elkhorn's objections. No new evidence was provided by Elkhorn substantiating that its proposed increases met the criteria of being known and measurable. Accordingly, this issue was not addressed in the final Order.

The Commission, therefore, denies rehearing on this issue.

2. Bad Debt Expense

Elkhorn requested in its petition that the proposed adjustment to increase bad debt expense be included in the determination of revenue requirements. This adjustment was addressed and disallowed in the staff report dated September 21, 1987. The issue was discussed at the November 30, 1987, informal conference at which time Elkhorn agreed that bad debt expense would no longer be an issue in the case. For this reason, as well as the immateriality of total bad debt expense (\$34), the proposed increase was not discussed in the final Order.

The Commission, therefore, denies rehearing on this issue.

3. Rate Case Expense

In its petition Elkhorn indicated that the Commission failed to grant reasonable rate case expenses in the determination of expenses allowable for rate-making purposes. An adjustment was made in the final Order to allow total rate case expense of \$2,369.25 to be amortized over a 3-year period. This expense was based on those costs to Elkhorn which met the criteria of being known and measurable.

The Commission maintains its position that the rate case expense, as discussed in the final Order, should be accepted and included in the determination of revenue requirements.

The Commission, therefore, denies rehearing on this issue.

4. Revenue Requirement

Elkhorn indicated, in its petition, that the Commission did not allow a sufficient increase in revenues. As a result, the District will be operating at a deficit of approximately \$4,000 on an annual basis.

Based on the following calculation, the rates approved by the Commission will allow Elkhorn to meet its operating expenses determined reasonable for rate-making purposes, service its debt, and provide an adequate cash flow to allow for future equity growth.

Adjusted Test Year Operations	\$ <10,990 >
Add: Revenue Increase Granted	19,960
Depreciation	14,392
Less: 1988 Debt Service Requirement	<7,625 >
Net Cash Flow	<u>\$ 15,737</u>

The Commission, therefore, denies rehearing on this issue.

5. Cost of Delivery of Water

In its petition, Elkhorn questioned the staff's revised finding that the basic cost of delivered water is approximately \$1.06 per 1,000 gallons and states it did not have adequate opportunity to cross-examine or challenge this water cost. The record shows that testimony at the hearing provided a detailed explanation of the adjustments and expenses considered in arriving at this cost figure and that there was extensive

cross-examination.¹ On January 26, 1988, pursuant to a request at the hearing, a schedule showing the actual calculations was filed. Elkhorn has not questioned any specific element of the calculations nor has it presented calculations of its own to controvert this water cost level. The Commission is of the opinion Elkhorn has had ample opportunity to cross-examine and to present evidence in this regard and that rehearing should be denied on this issue.

6. Rate Design

Elkhorn's petition questions the rate design only as it relates to the mobile home parks. Elkhorn makes no claim that the rates will not produce the revenue found reasonable by the Commission, only that the amount necessary to produce an additional \$4,000 in revenue should be added to the final rate step, which is the rate discussed primarily in conjunction with mobile home park usage. In support, Elkhorn states that Mr. Duvall, owner of Elkhorn Mobile Home Park, has increased the rent by \$10 per month per space, which is more than the amount that would have been charged if each were considered as an individual customer of the District.

In a letter dated September 10, 1987, filed by Elkhorn in response to a complaint from Mr. Duvall,² numerical paragraph 2 states: "Whether or not Mr. Duvall has to increase his rental fee should not be a factor in determining the revenue requirements of

¹ T.E., pp. 133-163, January 14, 1988.

² T.E., Cross-Examination Exhibit 2, January 14, 1988.

E.W.D." The Commission agrees that the rental fees charged by mobile home park owners have no bearing on the rates and revenues of the District and should not be considered.

Elkhorn also sets out its calculations showing that, based on the rates established by the Commission, 3,000 gallons of water would cost a mobile home park resident \$3.52 less than a general residential customer, and indicates that the additional \$4,000 requested should be generated by adding \$.36 to the last rate step. The Commission has found that no additional revenue should be granted. Therefore, further consideration of this requested change to the rate design is unnecessary.

7. Recalculation of Customer Bills for Refunds

In its petition, the District requested that it not be required to recalculate customer bills for the purpose of making refunds except for large users of 10,000 gallons of water per month or more. While the Commission recognizes that refunds to small volume users will be minimal, the overcharges to large volume users are substantial and cannot be ignored. Further, the size of the refund due does not justify discrimination between customers in ordering a refund. Therefore, Elkhorn's request for rehearing on this issue should be denied and refunds should be made in accordance with the February 10, 1988, Order.

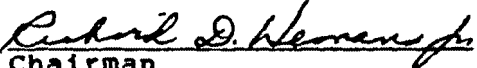
SUMMARY

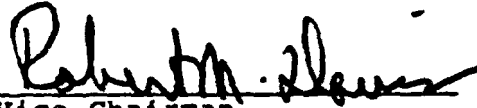
The Commission, after consideration of the petition for rehearing, and being otherwise advised, is of the opinion and finds that rehearing should be denied on all issues addressed in Elkhorn's petition for rehearing.

IT IS THEREFORE ORDERED that Elkhorn's petition for rehearing
be and it hereby is denied.

Done at Frankfort, Kentucky, this 18th day of March, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director