

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF NORTH MERCER WATER )  
DISTRICT, OF MERCER COUNTY, KENTUCKY, )  
FOR (1) A CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY, AUTHORIZING )  
AND PERMITTING SAID WATER DISTRICT TO )  
CONSTRUCT A WATERWORKS CONSTRUCTION )  
PROJECT, CONSISTING OF EXTENSIONS, )  
ADDITIONS, AND IMPROVEMENTS TO THE ) CASE NO. 9912  
EXISTING WATERWORKS SYSTEM OF THE )  
DISTRICT; (2) APPROVAL OF THE PROPOSED )  
PLAN OF FINANCING OF SAID PROJECT; )  
AND (3) APPROVAL OF THE INCREASED )  
WATER RATES PROPOSED TO BE CHARGED BY )  
THE DISTRICT TO CUSTOMERS OF THE )  
DISTRICT )

O R D E R

On April 13, 1987, North Mercer Water District ("North Mercer") filed an application requesting approval of a construction project, financing of the construction project, and authority to increase rates. The proposed construction would result in 172 additional customers. Section 3 of KRS 278.190 requires the Commission to decide a rate case within 10 months from the date of filing. North Mercer has been unable to meet the letter of conditions from the Farmers Home Administration ("FmHA") in regard to its proposed construction and financing. This in turn does not allow the Commission sufficient time to render a final decision concerning the construction, financing, and required rate increase.

As of the date of this Order neither North Mercer nor the Commission staff has sought a hearing in this proceeding.

On June 9, 1987, the Commission staff conducted a field review of North Mercer's test period financial records. In the report filed on August 5, 1987, staff recommended that North Mercer be granted its requested increase in rates of \$94,098. This increase was based upon North Mercer's revenue requirement including the costs associated with the proposed construction project which would add 172 customers. North Mercer's proposed rates would generate revenue of \$398,502 from existing customers, an increase of 27.38 percent. As of the date of this Order, North Mercer has not filed any comments regarding the staff report.

The Commission staff has revised North Mercer's revenue requirement based upon the exclusion of the proposed construction, financing, and the 172 additional customers. Staff is of the opinion that a 1.2X Debt Service Coverage ("DSC") is reasonable and would allow North Mercer sufficient revenue to meet its operating expenses, service its debt, and provide for sufficient equity growth. Staff has, therefore, determined North Mercer's revised revenue requirement from rates to be \$331,994, an increase of 6.12 percent.<sup>1</sup>

<sup>1</sup>	Revised Operating Expenses		\$267,324
	Existing Debt:		
	5-year average of		
	principal & interest	\$73,800	
	DSC	X 1.2	88,560
	Less: Interest Income		<17,897>
	Other Operating Income		<5,993>
	Required Revenue from Rates		<u>\$331,994</u>

Based upon the record in this proceeding, the Commission is of the opinion that a decision regarding the proposed construction and plan of financing cannot be rendered at this time. After careful review and investigation of staff's initial and revised recommendations, the Commission affirms staff's revised recommended increase of \$19,141 over test year revenue from rates of \$312,853. The Commission advises North Mercer that upon filing for Commission approval of its proposed construction and financing, it should seek the required additional revenues.

#### RATES AND RATE DESIGN

North Mercer did not propose to change its rate design. Based upon review of customer usage patterns and revenue distribution, staff found that no change in rate design is indicated at this time. The Commission accepts staff's findings.

The rates proposed by North Mercer will produce revenue in excess of that found reasonable herein, and should be denied. The rates in Appendix A will produce revenues of \$331,994 are fair, just, and reasonable and should be approved.

#### FINDINGS

1. The rates and charges proposed by North Mercer would produce revenues in excess of those found reasonable herein and should be denied.

2. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by North Mercer in that they should produce annual revenues from rates of \$331,994.

3. Within 30 days of the date of this Order, North Mercer should file with this Commission its revised tariff sheets setting out the rates approved herein.

4. Upon satisfactory completion of its FmHA filing requirements, North Mercer should file a motion to reopen this case and seek a Commission Order based on the facts already in the record.

IT IS THEREFORE ORDERED that:

1. The rates and charges requested by North Mercer be and they are hereby denied.

2. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by North Mercer for service rendered on and after the date of this Order.

3. Within 30 days of the date of this Order, North Mercer shall file with this Commission its revised tariff setting out the rates approved herein.

4. North Mercer's application regarding the proposed construction and financing is hereby dismissed without prejudice.

Done at Frankfort, Kentucky, this 4th day of February, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Wenzel  
Chairman

Robert M. Davis  
Vice Chairman

James N. Wilkerson  
Commissioner

ATTEST:

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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 9912 DATED 2/4/88

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

<u>USAGE BLOCKS</u>	<u>MONTHLY RATES</u>
First 1,000 gallons	\$7.50 Minimum
Next 2,000 gallons	3.10 per 1,000 gallons
Next 2,000 gallons	2.90 per 1,000 gallons
Next 5,000 gallons	2.70 per 1,000 gallons
Over 10,000 gallons	2.50 per 1,000 gallons
Truck Loading Stations	\$ .50 per 160 gallons