COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF MUHLENBERG COUNTY WATER DISTRICT NO. 3	))	CASE NO. 9990

O R D E R

On August 7, 1987, Muhlenberg County Water District No. 3 ("Muhlenberg") filed an application seeking approval for an increase in rates for water service effective August 25, 1987. In order to determine the reasonableness of the request, the Commission suspended the rates until February 6, 1988. The proposed rates would generate additional revenues of $83,362 annually, an increase of 26.77 percent over reported test period operating revenues from rates.

Neither Muhlenberg nor the Commission sought a hearing in this proceeding. There were no intervenors and all requested information has been filed.

From September 30 through October 2, 1987, the Commission staff conducted a financial review of Muhlenberg's test period operations, the 12 months ending April 30, 1987. The Commission staff issued a report containing findings and recommendations related to Muhlenberg's proposed increase on November 4, 1987.

On November 23, 1987, Muhlenberg filed its response to the staff report and provided additional information regarding several issues.

The staff report included several recommendations concerning the rate-making issues presented in Muhlenberg's application and determined Muhlenberg's revenue requirement from rates to be $348,574, an increase of $37,178 above Muhlenberg's reported test period revenues from rates. In its response, Muhlenberg contested several of the findings contained in the staff report. These and other issues are addressed in the following paragraphs.

Proposed Construction

Muhlenberg proposed to include the depreciation expense and financing costs of the proposed construction in revenue requirements. The Commission staff asserted in the staff report that a Certificate of Public Convenience and Necessity and approval of the financing plan were required. Muhlenberg disagreed with this recommendation and filed additional information in this regard on November 23, 1987. In addition, Muhlenberg stated that they have rejected the possibility of financing any portion of the construction project and, thus, plan to finance the total proposed construction from Muhlenberg's Depreciation Fund.

Subsequent review of the additional information indicates that a Certificate of Public Convenience and Necessity should not be required in this case and, thus, the pro forma depreciation adjustment should be allowed. The Commission has calculated the allowed depreciation expense adjustment to be $4,848.[1]

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[1] The depreciation expense adjustment was calculated using the total construction cost of $130,723, a 40-year life for the pipe, a 10-year life for the enlargement of the pumping station, and pro-rating the remaining costs over the 40-year and 10-year lives.

Purchased Water Expense

For the past several years Muhlenberg was underbilled for its purchased water by its supplier, the City of Central City ("Central City"). The Commission staff excluded Muhlenberg's proposed adjustment to increase the purchased water expense to the correct amount since at the time of the review the master meters had not been corrected. Per a letter dated November 20, 1987, Central City informed Muhlenberg that the meters were tested and repaired. Therefore, the Commission is of the opinion that Muhlenberg's proposed purchased water expense adjustment of $15,885 should be allowed.

Additional Labor Expenses

Per the application, Muhlenberg proposed to hire an additional employee with an estimated annual salary of $9,491 plus the related increases in taxes and employee benefits. The Commission staff denied this proposed adjustment stating that it had not been justified. Per a letter filed on November 13, 1987, Muhlenberg has hired an additional employee at a rate of $4.00 per hour. Currently this employee averages 39 hours per week. Therefore, it is the Commission's opinion that the additional operation labor expense of $8,112 and the related increases in employee benefits and workmen's compensation expense of $1,568 should be allowed.

Taxes Other Than Income Taxes

As of January 1, 1988, the employer's and employee's share of the FICA tax increased from 7.15 percent to 7.51 percent. Therefore, the Commission has increased taxes other than income

taxes per the staff report of $7,685 by $903 to reflect the increased percentage and the employer's share of additional employee's salary.

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

	Per the Commission Staff Report	Commission Adjustments	Adjusted Test Period
Operating Revenues	$ 318,630		$ 318,630
Operating Expenses	305,403	$ 31,316	336,719
Net Operating Income <Loss>	$ 13,227	$ <31,316>	$ <18,089>
Other Income	9,325		9,325
Other Deductions	<33,450>		<33,450>
Net Loss	$ <10,898>	$ <31,316>	$ <42,214>

REVENUE REQUIREMENTS

Based on the adjusted test period operations, Muhlenberg's debt service coverage ("DSC") is <.18>.[2] The Commission is of the opinion that a 1.2X DSC is fair and reasonable and will allow Muhlenberg sufficient funds to meet its operating expenses, service its debt, and provide adequate equity growth. Therefore, the Commission has determined Muhlenberg's total revenue

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[2] 5-year average bond principal and interest payments:

1967 Bonds	$22,505
1978 Bonds	27,270
	$49,775

Income available for debt service $<8,764> ÷ $49,775 = <.18>

requirement to be $396,449 and, thus, an increase in annual revenues of $68,494 from sales of water will be sufficient.[3]

RATE DESIGN

Muhlenberg's current rate design consists of five steps ranging from a minimum usage level of 2,000 gallons to an over 50,000 gallon category. No change in rate design was requested.

Staff has compared the percentage distribution of test year bills, usage, and revenue through the rate schedule. This comparison showed that the usage patterns of customers follow the usage increments of the current rate design in a reasonably consistent manner. Likewise, the revenue generated by the existing rate increment indicates an equitable distribution of both fixed and variable costs. Each rate step was increased by approximately the same percentage to arrive at proposed rates which would generate the required revenue, thus, maintaining the revenue distribution pattern. The rates in the attached appendix will produce $379,890 annually.

SUMMARY

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

1. The rates and charges proposed by Muhlenberg should be denied upon application of KRS 278.030.

3

Total Revenue Requirement	$396,449
Less: Operating Revenues	<318,630>
Other Income	<9,325>
Amount of increase allowed	$ 68,494

2. The rates and charges in Appendix A are fair, just and reasonable for Muhlenberg and should produce gross annual revenues of $379,890.

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

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Muhlenberg are hereby denied.

2. The rates and charges in Appendix A are approved for service rendered by Muhlenberg on and after the date of this Order.

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

Done at Frankfort, Kentucky, this 22nd day of January, 1988.

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. 9990 DATED 1/22/88

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District No. 3. 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 Per Month

Residential/Commercial	
First 2,000 gallons	$8.85 Minimum Bill
Next 8,000 gallons	2.95 per 1,000 gallons
Next 10,000 gallons	2.45 per 1,000 gallons
Next 30,000 gallons	1.85 per 1,000 gallons
Over 50,000 gallons	1.40 per 1,000 gallons
Resale - City of Sacramento	
All usage	$1.40 per 1,000 gallons