

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF THE RATES)
OF KENTUCKY-AMERICAN WATER) CASE NO. 97-034
COMPANY EFFECTIVE ON AND AFTER)
MARCH 30, 1997)

O R D E R

On October 21, 1997, the Attorney General's Office, Utility and Rate Intervention Division ("AG"), filed an application for rehearing of the Commission's September 30, 1997 Order approving new rates for Kentucky-American Water Company ("Kentucky-American") to produce additional revenue of \$1,049,884 annually. The AG seeks rehearing on three issues: (1) the exclusion of amortizations from cash working capital requirements; (2) a reconciliation of Kentucky-American's forecasted net operating income of \$10,899,642 with the Commission's forecast of \$10,945,391; and (3) the reduction to forecasted depreciation expense to reflect the cost savings resulting from the meter testing deviation.

On the first issue, the AG claims that Kentucky-American agreed that amortizations should be excluded from cash working capital requirements, but the Commission's September 30, 1997 Order does not reflect their exclusion. The Commission finds that while the exclusion of amortizations was not specifically discussed in the Order, they were excluded as shown by the worksheets attached hereto as Appendix A.

On the second issue, the AG states that starting with Kentucky-American's forecasted net income of \$10,899,642 and making the adjustments described in the September 30, 1997 Order should result in a Commission forecast of \$10,990,491, as shown in the AG's reconciliation attached to his application for rehearing. However, the AG notes that this amount exceeds the Commission's actual forecast of \$10,945,391 by \$45,100. Based on a review of the AG's reconciliation, it appears that the AG has omitted the \$45,101 reduction attributable to deferred income tax expense as described on page 14 of the September 30, 1997 Order. Including this adjustment in the AG's reconciliation reduces the difference to \$1, which is attributable to rounding the numbers.

On the third issue, the Commission reduced forecasted depreciation expense by \$28,269 to reflect the cost savings due to a meter testing deviation. The \$28,269 amount is the net-of-tax expense reduction. As correctly noted by the AG, the Commission should have utilized the pre-tax amount of \$29,055, which would reduce expenses by an additional \$786. This additional reduction in expenses, after reflecting the effect of income taxes, results in a reduction in revenue requirements of \$790 annually. Due to the de minimis amount of this reduction, it can only be reflected in rates by lowering the meter rates for water consumed.

IT IS THEREFORE ORDERED that:

1. The meter rates set forth in Appendix B, attached hereto, are approved for service rendered on and after the date of this Order.
2. All provisions of the September 30, 1997 Order, except as modified herein and in Appendix B hereto, shall remain in full force and effect.

3. The AG's petition for rehearing, except as discussed above, is denied.

Done at Frankfort, Kentucky, this 5th day of November, 1997.

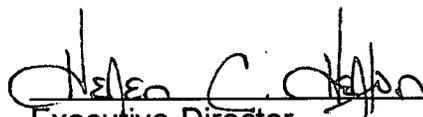
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN CASE NO. 97-034 DATED 11/5/97

APPENDIX A
CASE NO. 97-034
CALCULATION OF CASH WORKING CAPITAL

Line No.	Description	Days	Amount
1			
2			
3	Total Operating Funds		<u>\$35,226,797</u>
4			
5	Average Daily Operating Funds		\$96,512
6			
7	Composite Average Days Interval Between:		
8			
9	(A) Date Service Furnished and Date Collections Deposited	35.84	
10			
11	(B) Date Expenses Incurred and Date of Payment	<u>25.91</u>	
12			
13	(C) Net Interval	<u>9.93</u>	
14			
15	Total Working Capital		<u>\$956,364</u>
16			
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18	Use		<u>\$956,000</u>
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Line No.	DESCRIPTION	Ky-American's Forecasted Amounts	Commission Adjustments	Commission Adjusted Amount	Post Payment or (Lead) Days	Dollar Days
1						
2	Payrolls Charged to Exp - Union/AST Group	\$3,295,934	0	\$3,295,934	9.50	\$31,311,373
3	Payrolls Charged to Expense - Salaried	1,823,927	(58,851)	1,765,076	6.00	10,590,456
4	Fuel, Power and Electric	1,629,110	0	1,629,110	35.76	58,256,974
5	Chemicals	899,678	14,115	913,793	30.49	27,861,549
6	Service Company Charges	1,492,100	(89,066)	1,403,034	-5.56	(7,800,869)
7	Group Insurance	638,065	(13,801)	624,264	-5.72	(3,570,790)
8	Opel	546,564	(84,320)	462,244	(0.50)	(231,122)
9	Insurance Other than Group	306,034	0	306,034	-47.19	(14,441,744)
10	Transportation Expense	265,980	0	265,980	20.14	5,356,837
11	Rents	79,928	0	79,928	-0.61	(48,756)
12	Telephone Expense	129,848	0	129,848	12.27	1,593,235
13	Postage Expense	395,585	0	395,585	23.47	9,284,380
14	Stock E	49,318	0	49,318	28.03	1,382,384
15	Maintenance Expense	774,213	(92,609)	681,604	36.33	24,762,673
16	Amortization	572,494	(44,617) *	527,877	0.00	0
17	Uncollectibles	92,396	0	92,396	0.00	0
18	Pensions	215,902	(42,571)	173,331	0.00	0
19	Other Operating Expenses	1,618,544	(4,372)	1,614,172	21.44	34,607,848
20	Total O & M Expenses	14,825,620	(416,092)	14,409,528		178,914,428
21						
22						
23	Depreciation and Amortization	4,405,413	(28,269)	4,377,144	0.00	0
24	Taxes, Other than Income					
25	Payroll - FUTA	6,943	(129)	6,814	75.29	513,026
26	Payroll - SUTA	5,504	(94)	5,410	75.14	406,507
27	Payroll - FICA	384,689	(4,431)	380,258	11.08	4,213,259
28	OTHER	1,177,629	(9,411)	1,168,218	69.86	81,611,709
29	Income Taxes - Current - SIT	434,826	39,603	474,429	54.25	25,737,773
30	Income Taxes - Current - FIT	1,943,820	154,150	2,097,970	38.50	80,771,845
31	Deferred Income Taxes	815,052	45,080	860,132	0.00	0
32	Interest Expense - Long - Term Debt	5,379,517	152,950	5,532,467	90.45	500,411,640
33	Interest Expense - Short - Term Debt	274,199	47,505	321,704	45.63	14,679,354
34	Preferred Dividends	561,454	0	561,454	45.49	25,540,542
35	Net Income	4,684,472	346,797	5,031,269	0.00	0
36						
37	Net Operating Funds	\$34,899,138	0	\$35,226,797		\$912,800,083
38						\$888,400,241
39						
40	Average Days Interval between Date Expenses are Incurred and Date of Payment				25.91	
41						
42						
43	* AG's Adjustment to Amortizations - Henkes Prefiled Testimony pages 12 through 24.					(\$37,503)
44	Commission Adjustment to Deferred Maintenance Amortizations					(7,114)
45						(\$44,617)
46	Total Amortization Adjustment Lead/Lag Study					
47						
48						
49						
50						

Average Days Interval between Date Expenses are Incurred and Date of Payment

* AG's Adjustment to Amortizations - Henkes Prefiled Testimony pages 12 through 24.
 Commission Adjustment to Deferred Maintenance Amortizations
 Total Amortization Adjustment Lead/Lag Study

Line No.		Ky-American's Forecasted Amounts	Commission Adjustments	Commission Adjusted Amount	Ky-American's Median Service Days	Commission Dollar Days
1						
2						
3	Monthly - Arrears Full Bills	\$31,448,207	21,698	\$31,469,905	15.21	\$478,657,255
4						0
5						
6	Monthly - Arrears Partial/Final Bi	446,083	0	446,083	7.60	3,390,231
7						0
8						
9	Fire Service	2,257,181	0	2,257,181	-15.26	(34,444,582)
10						
11	Total	\$34,151,471		\$34,173,169		\$447,602,904
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Average Median Service Days 13.10

Number of Days between the Reading Date and the Billing Date 0.00

Number of Days between the Billing Date and the Date the Bills are Paid 0.00

Total Average Days' Interval between Number of Days from Date Services are Furnished to Date Collections are Received 35.84

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-034 DATED NOVEMBER 5, 1997

The following rates and charges are prescribed for the customers in the area served by Kentucky-American 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.

SERVICE CLASSIFICATION NO. 1

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided herein.

<u>Customer Category</u>	<u>Rate Per 1,000 Gallons All Consumption</u>	<u>Rate Per 100 Cubic Feet All Consumption</u>
Residential	\$2.07293	\$1.55470
Commercial	1.95612	1.46709
Industrial	1.56641	1.17481
Municipal and Other Public Authority	1.87384	1.40538
Sales for Resale	1.79261	1.34446