

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE HICKORY WATER)
DISTRICT FOR (1) ISSUANCE OF A CERTIFICATE)
OF CONVENIENCE AND NECESSITY FOR)
CONSTRUCTION OF THE 1998 INDUSTRIAL PARK)
WATER SYSTEM IMPROVEMENTS; (2))
AUTHORIZATION TO BORROW \$528,000 FROM)
KENTUCKY INFRASTRUCTURE AUTHORITY; AND)
(3) AUTHORIZATION TO RAISE RATES TO PAY)
FOR THE ADDITIONAL INDEBTEDNESS)

CASE NO. 99-084

ORDER

On April 15, 1999, Hickory Water District (Hickory) filed an application with the Public Service Commission (Commission) for a Certificate of Public Convenience and Necessity to construct a \$1,090,000 waterworks improvement project, for approval of its plan to finance the project, and to increase rates for water service to produce annual operating revenues from water sales of \$324,157. On May 14, 1999, the Commission issued an Order approving the proposed construction and financing plan. The Commission deferred ruling on the proposed rates until Commission Staff (Staff) had performed a review of Hickory s financial condition.

To perform its review Staff conducted a field inspection of Hickory s books and records. After completion of the review, Staff summarized its findings and recommendations in a Staff Report that was issued on June 17, 1999. In its report Staff agreed that \$324,157 in annual water sales revenue was sufficient for Hickory to operate; however, Staff s cost-of-service study revealed that Hickory s proposed rate structure was not cost based and needed adjusting. Staff formulated cost-based rates

and recommended their approval in its report. All parties of record were given 10 days to comment on the report or request a hearing or informal conference.

Pursuant to Hickory's request, a telephone conference between Staff and representatives of Hickory was held on July 6, 1999. During the conference Hickory stated that it had concerns with Staff's recommended rate structure. In particular, Hickory was concerned that the proposed rate structure placed an inordinate financial burden on low and high end users. Hickory was instructed to submit its comments to the Commission in written form.

Hickory submitted its written comments to the Commission on July 16, 1999. Hickory explained that Staff's proposed rates would increase the first and last rate blocks 42 and 123 percent, respectively. Hickory concurred that the rates approved in this case should be cost based but stated that the percentage increases in these rate blocks would adversely affect fixed income customers and economic growth in the area. Hickory's position is that a more gradual transition should be made from its current rate structure to cost-based rates. Hickory requested that, when approving final rates in this case, the Commission maintain its current seven-step rate structure and adjust the first and last steps to accommodate the low and high end users.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. The revenue required from rates as requested by Hickory and recommended by Staff of \$324,157 is reasonable and the appropriate amount of revenue to be generated from the rates approved herein.

2. The cost-of-service study included in the Staff Report is appropriate and properly reflects Hickory's cost of service.

3. The rates recommended in the Staff Report are cost based, while those requested by Hickory are not.

4. The rates approved in this case should be cost based; however, the transition to cost-based rates should be made gradually to avoid customer rate shock.

5. The rates set out in Appendix A, which is attached hereto and incorporated herein, will produce \$324,157 in annual operating revenues while maintaining Hickory's current seven-step rate structure. These rates are not entirely cost based but are more in line with Staff's cost-of-service study than those proposed by Hickory and will minimize rate shock.

IT IS THEREFORE ORDERED that:

1. The rates proposed in Hickory's application and recommended in Staff's report are hereby denied.

2. The rates set out in Appendix A are approved for services rendered by Hickory on and after the date of this Order.

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

4. Three years from the date of this Order, Hickory shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

Done at Frankfort, Kentucky, this 5th day of October, 1999.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-084 DATED OCTOBER 5, 1999

The following rates and charges are prescribed for the customers in the area served by Hickory Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

3 /4 Inch Meter

First	2,000 gallons	\$8.55	Minimum bill
Next	3,000 gallons	2.90	per 1,000 gallons
Next	5,000 gallons	2.70	per 1,000 gallons
Next	10,000 gallons	2.50	per 1,000 gallons
Next	30,000 gallons	1.80	per 1,000 gallons
Next	50,000 gallons	1.50	per 1,000 gallons
Over	100,000 gallons	1.25	per 1,000 gallons

1 Inch Meter

First	6,000 gallons	\$19.95	Minimum bill
Next	4,000 gallons	2.70	per 1,000 gallons
Next	10,000 gallons	2.50	per 1,000 gallons
Next	30,000 gallons	1.80	per 1,000 gallons
Next	50,000 gallons	1.50	per 1,000 gallons
Over	100,000 gallons	1.25	per 1,000 gallons

1-1/2 Inch Meter

First	7,500 gallons	\$24.00	Minimum bill
Next	2,500 gallons	2.70	per 1,000 gallons
Next	10,000 gallons	2.50	per 1,000 gallons
Next	30,000 gallons	1.80	per 1,000 gallons
Next	50,000 gallons	1.50	per 1,000 gallons
Over	100,000 gallons	1.25	per 1,000 gallons

2 Inch Meter

First	15,000 gallons	\$43.25	Minimum bill
Next	5,000 gallons	2.50	per 1,000 gallons
Next	30,000 gallons	1.80	per 1,000 gallons
Next	50,000 gallons	1.50	per 1,000 gallons
Over	100,000 gallons	1.25	per 1,000 gallons

3 and 4 Inch Meters

First	100,000 gallons	\$184.75	Minimum bill
Over	100,000 gallons	1.25	per 1,000 gallons