

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FRANCIS WATER	)	
COMPANY FOR APPROVAL OF A	)	
PROPOSED INCREASE IN RATES,	)	CASE NO. 2004-00338
FINANCING, AND AN INCREASE IN NON-	)	
RECURRING CHARGES	)	

ORDER

On September 7, 2004, Francis Water Company ("Francis") applied for an adjustment of its general rates for service and its non-recurring charges and for authorization to enter into a 5-year loan agreement to borrow \$75,000. Francis proposes to increase its annual revenue from water rates by \$94,919, or approximately 163 percent over normalized revenue of \$58,331. On November 4, 2004, the Commission authorized Francis to enter into the proposed loan agreement.

On November 19, 2004, the Commission issued a Staff Report on the proposed rate adjustment. In its report, Commission Staff recommended the proposed rate adjustment increase be granted. In our Order of November 19, 2004, we directed all parties to submit within 10 days any comments on the Commission Staff Report or requests for a hearing or informal conference. The Attorney General ("AG") submitted written comments but did not request a hearing or an informal conference in this matter.<sup>1</sup>

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<sup>1</sup> By the terms of our Order of November 19, 2004, the record of this proceeding closed on November 29, 2004. On December 28, 2004, Francis submitted additional documents for our consideration. We have not considered these materials in reaching our decision. If Francis wishes the Commission to consider such materials, it may petition for rehearing of this Order. See KRS 278.400.

The AG commented on two issues. First, he proposes that the \$1,140 for replacing meters be capitalized and amortized for rate-making purposes. Under normal circumstances, the AG's proposed rate-making treatment would be appropriate. In the current case, however, extenuating circumstances are present. Until recently Francis had not been conducting the required meter testing nor had it been replacing aging and failing meters. To remedy this situation, it will replace 10 percent of its meters each year for the next 10 years, at an annual cost approximating \$1,140 to meet Commission metering standards. Accordingly, we find that the meter replacement cost should be treated as a recurring expense to permit the utility sufficient revenue to make the appropriate replacements. Because of this rate-making treatment, it will not be entitled to any depreciation on the newly purchased meters.

Second, the AG suggests that Francis review consolidation or a regionalization approach to its operation to reduce or contain its costs. We find great merit to this suggestion. While the Commission lacks the authority to direct Francis to merge with another water utility or to join in any regional venture, we can direct the utility to explore such options. Moreover, any failure on the utility's part to make reasonable efforts to reduce or contain its costs by pursuing consolidation or regionalization ventures, such as the purchase of water from a regional water supplier, may serve as the basis in its next rate proceeding to disallow costs that could have been reasonably avoided.

The Commission is concerned with the magnitude of the allowed rate increase and the substantial need for Francis to upgrade and replace its plant and equipment. To ensure that the utility uses its increased proceeds to improve the quality of its service, we direct that Francis file annual reports on the progress of its efforts to upgrade and replace its utility facilities and its staffing requirements.

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

1. The recommendations and findings contained in the Staff Report are supported by the evidence of record, are reasonable, and should be adopted as the findings of the Commission.

2. Francis's proposed non-recurring charges are equal to the expenses incurred to provide the associated services.

3. Francis's proposed rates will produce annual revenue from water service of \$153,250.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

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

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

4. Francis shall investigate the feasibility of purchasing its water requirements from a regional water supplier and any other feasible regionalization venture and shall, within 90 days of the date of this Order, submit a written report of its investigation to the Commission. This report shall, at a minimum, list all water suppliers contacted, each supplier's ability to provide water service to Francis, and Francis's intentions toward those suppliers who express a willingness to provide water service.

5. Beginning in 2006 and for each calendar year thereafter, Francis shall submit with the annual financial and statistical report that Administrative Regulation 807 KAR 5:006, Section 3(1), requires, a written report stating:

a. the name, position title, and job description of each of its employees.

b. the name of each of its licensed water treatment plant and distribution system operators and the average number of hours per day and days per week that each operator is on duty.

6. Three years from the effective date of this Order, Francis 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 21<sup>st</sup> day of January, 2005.

By the Commission

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2004-00338 DATED JANUARY 21, 2005.

The following rates and charges are prescribed for the customers in the area served by Francis Water Company. 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

5/8"x3/4" Meter:

First	1,000 gallons	\$16.33 Minimum Bill
Next	4,000 gallons	9.14 per 1,000 gallons
Next	10,000 gallons	6.65 per 1,000 gallons
Over	15,000 gallons	5.40 per 1,000 gallons

2" Meter:

First	60,000 gallons	\$362.39 Minimum Bill
Over	60,000 gallons	5.40 per 1,000 gallons

Non-Recurring Charges

Meter Connection/Tap-on Charge	
5/8" x 3/4" Meter	\$612.00
Connection/Turn-on Charge	35.00
Returned Check Charge	25.00