

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

* * * * *

In the Matter of:

THE APPLICATION OF MCKINNEY)
WATER DISTRICT, LINCOLN COUNTY,) CASE NO. 7689
KENTUCKY)

O R D E R

Preface

On December 26, 1979, the McKinney Water District (Applicant) filed an application with this Commission which set forth therein a proposed increase in rates. The increase in annual revenues sought by the Applicant from its proposed rates was \$15,307 over those produced during the twelve month period ending September 30, 1979.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, February 4, 1980. All parties of interest were notified with the Consumer Protection Division of the Attorney General's Office permitted to intervene in the matter. At the hearing, a request for additional information was made by the Commission staff. This information has been filed, and the entire matter is now considered to be fully submitted for final determination by this Commission.

Test Period

For the purpose of determining the reasonableness of the proposed rates, the twelve-month period ending September 30, 1979, has been utilized as the "Test Year". Adjustments, where found significant and reasonable, have been included to reflect more current operating conditions.

Findings in This Matter

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds:

1. That during the test year, the Applicant's existing rates produced annual revenues of \$46,821 from 241 customers receiving water service during the test year. Further, that Applicant's expenses of \$51,272 resulted in a deficit of \$4,451 for the test year ending September 30, 1979.

2. That annual pro forma expenses are estimated to be approximately \$53,839 an increase of \$2,567 over test-year expenses.

3. That the rates as prescribed and set forth in Appendix "A", attached hereto and made a part hereof, should produce annual revenues of approximately \$58,704 from 241 customers, with a resulting annual net income before principal debt retirement of \$4,865. Further, that the Appendix "A" rates are the fair, just and reasonable rates to be charged by the McKinney Water District and should be approved by this Commission.

4. That the Commission after considering the tabulation of test-year and projected revenues and expenses submitted by the Applicant concludes that said revenues, expenses and pro forma adjustments can be summarized as shown in Appendix "B", attached hereto and made a part hereof. On the basis of the said Appendix "B" tabulation, the Commission further concludes that total annual revenues in the amount of \$58,704 are necessary and should provide for operating expenses including depreciation, interest, servicing of principal debt and the accumulation of a reasonable surplus for compliance with bond ordinance requirements.

5. That the rates proposed by the Utility are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

6. The record in this case shows that the Utility's unaccounted for water is excessive and does not reflect adequate accountability for its purchased water. The Commission, therefore, finds that the Utility should establish and maintain a program of emphasis on leak detection and correction until such time as its distribution system losses have been reduced to 15% or less for three consecutive months. Further, that the Utility should submit monthly reports of said losses to this Commission until such time as these losses have been stabilized at 15% or less. Such reports shall include the quantity of water purchased, the quantity of water sold and the quantity of unaccounted for water. If the Utility fails to implement this program of leak detection, the Commission will initiate an appropriate show cause proceeding to reduce the Utility's rates to reflect a line loss of 15%.

Order in This Matter

The Commission, on the basis of the matters hereinbefore set forth, and the evidentiary record in this case:

HEREBY ORDERS that the rates as prescribed and set forth in Appendix "A", attached hereto, be and they hereby are fixed as the fair just and reasonable rates of the Utility to become effective for services rendered on and after the date of this Order.

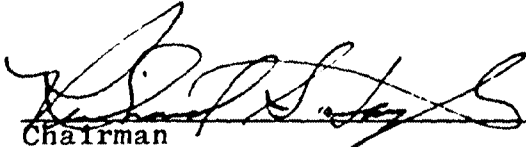
IT IS FURTHER ORDERED that the rates sought by the Utility be and the same are hereby denied.

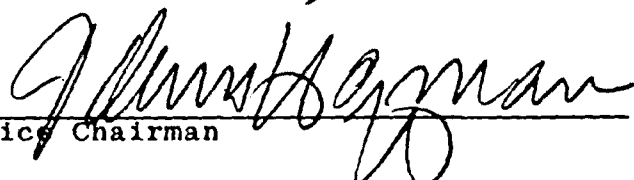
IT IS FURTHER ORDERED that the Utility shall establish and maintain a program of emphasis on leak detection and correction and submit monthly reports to this Commission as previously set forth herein in Finding No. 6.


IT IS FURTHER ORDERED that the Utility file with this Commission, within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Utility's "Rules and Regulations" for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 1st day of August, 1980.

UTILITY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7689 DATED AUGUST 1, 1980

The following rates and charges are hereby prescribed for the customers served by the McKinney Water District, Lincoln County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

| <u>Meter Size and Rate Block</u> | <u>Monthly Rate</u> |
|------------------------------------|--------------------------|
| <u>5/8" x 3/4" Meter</u> | |
| First 1,000 gallons used per month | \$ 9.00 minimum bill (1) |
| Next 2,000 gallons used per month | 3.00 per 1,000 gallons |
| Next 7,000 gallons used per month | 2.50 per 1,000 gallons |
| Over 10,000 gallons used per month | 1.90 per 1,000 gallons |
| | |
| <u>Special Contract Rate</u> | <u>Rate per Month</u> |
| McKinney Water Association | \$1.30 per 1,000 gallons |

(1) The minimum monthly charge of \$9.00 shall entitle the customer to 1,000 gallons of water or less per month. Additional charges for usage in excess of one thousand gallons shall be computed to the nearest one hundred (100) gallons of usage on the basis of the above unit costs per one thousand (1,000) gallons.

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7689 DATED AUGUST 1, 1980

In accordance with finding number 4, the following is the commission's summary of "Test-Year" and projected annual revenues and expenses for providing service to 241 customers.

| | Test-Year ⁽¹⁾ Ending <u>9/30/79</u> | Pro Forma ⁽¹⁾ <u>Requested</u> | Pro forma Found <u>Reasonable</u> |
|--|--|--|---|
| <u>Revenues:</u> | | | |
| Water Sales | \$ 46,821 | \$ 62,128 | \$ 58,704 |
| <u>Expenses:</u> | | | |
| Purchased Water | 29,470 | 30,000 | 29,470 (2) |
| Electricity | 1,310 | 1,400 | 1,310 (2) |
| Labor | 2,186 | 2,500 | 2,186 (2) |
| Supplies | 1,794 | 2,000 | 1,794 (2) |
| Meter Reading | 1,518 | 1,600 | 1,518 (2) |
| Customer Billing | 1,200 | 1,350 | 1,200 (2) |
| Collection and Bookkeeping | 2,305 | 2,750 | 2,305 (2) |
| Office Supplies & Postage | 500 | 600 | 500 (2) |
| Commissioners Fees | 1,039 | 1,200 | 1,200 |
| Accounting (Reoccurring) | 375 | 375 | 375 |
| Legal Expense | 175 | -0- | -0- |
| Rate Case Expense | -0- | 525 | 175 (3) |
| Interest Expense | 5,083 | 9,917 | 7,425 (4) |
| Miscellaneous Expense | 233 | 250 | 233 (2) |
| Insurance and Bond | 80 | 80 | 80 |
| Unemployment Insurance | 36 | 100 | 100 |
| Depreciation Expense | 3,753 | 3,753 | 3,753 |
| Amort. of Bond Discount | <u>215</u> | <u>215</u> | <u>215</u> |
| Total Expenses | \$ 51,272 | \$ 58,615 | \$ 53,839 |
| Net Income or (Loss) before Prin. Debt Retirement | <u>\$ (4,451)</u> | <u>\$ 3,513</u> | <u>\$ 4,865</u> |

(1) "Test-Year" and "Pro forma" revenues and expenses were taken from the Applicant's Comparative Income Statement for the 12 months ending September 30, 1979, the test-year in this matter. The expense accounts "Sales Tax" and "Refunds" appearing on Applicants Comparative Income Statement were deleted from the revenues and expenses as they were not considered proper items in determining rates.

(2) The above noted expenses were reduced to "Test-Year". The increases requested by the Applicant were speculative, at best, and were not considered by the Commission to be reasonable, known, and measurable adjustments to the test-year and were, therefore, denied.

(3) Accounting and legal rate case expense totaling \$525 was amortized over a period of three years.

(4) Only re-occurring Interest Expense applicable to the test-year was considered allowable in determining pro forma rates.