

COMMONWEALTH OF KENTUCKY

BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of

THE APPLICATION OF WESTERN FLEMING COUNTY )  
WATER DISTRICT, OF FLEMING COUNTY, KENTUCKY )  
FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE )  
AND NECESSITY, AUTHORIZING AND PERMITTING )  
SAID WATER DISTRICT TO CONSTRUCT A WATER- )  
WORKS CONSTRUCTION PROJECT, CONSISTING OF )  
EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO )  
THE EXISTING WATERWORKS SYSTEM OF THE )  
DISTRICT; (2) APPROVAL OF THE PROPOSED )  
PLAN OF FINANCING OF SAID PROJECT; AND )  
(3) APPROVAL OF THE INCREASED WATER RATES )  
PROPOSED TO BE CHARGED BY THE DISTRICT TO )  
CUSTOMERS OF THE DISTRICT )

CASE NO. 7751

FINAL ORDER

On February 25, 1980, the Western Fleming County Water District hereinafter referred to as the "Applicant," filed with this Commission its duly verified application seeking: (1) a "Certificate of Public Convenience and Necessity" authorizing the construction of a 700 GPM water treatment plant and other extensions, additions and improvements to its existing water distribution system; (2) approval of the proposed method for financing the project; and (3) approval of adjustments in its water service rates.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on April 7, 1980. All parties of interest were notified in the manner prescribed by the Kentucky Revised Statutes. The Consumer Intervention Division of the Attorney General's office was an intervenor of record in this matter. Additional information, which was requested subsequent to the hearing, has been filed, and the entire matter is submitted for a final determination by this Commission.

On April 25, 1980, the Commission entered an Interim Order wherein Applicant was granted a Certificate of Public Convenience and Necessity and was authorized to finance the proposed construction project by means of a FmHA Grant of \$862,000, an ARC Grant of \$217,500, an FmHA Loan of \$560,000, Service Connection Fees of \$11,500, and the Buffalo Trail Water Association's Contributions in Aid of Construction of \$493,000. This Order addresses the adjustment of the Applicant's rates.

### Commentary

In a normal construction case, past practice has been to wait until final bids are received before seeking approval of the projects for which the construction is proposed. In the instant case said practice has placed a severe strain on the Commission's resources as a decision on the need for the construction precipitates a need for a decision on both the financing and the rate increase. The Commission must have the time allowed by Statute to evaluate these rate applications. We are therefore, putting the Company on notice that future Applications for construction, financing and rates must be so filed so as to permit the Commission a minimum of five months and twenty days to process the case. Our current workload simply will not allow us to deviate from this practice.

### Test Period

The Applicant proposed and the Commission has adopted the twelve month period ending December 31, 1979, as the test period for determining the reasonableness of the proposed rates and charges. Proforma adjustments have been included where found fair, just and reasonable.

### Revenue Requirements

Applicant proposed several proforma adjustments to revenues and expenses as reflected on its Adjusted Income Statement. These adjustments were to project the level of expenses on an annual basis following completion of the proposed construction and to reflect the annual debt service associated with financing of this project. Since the projected level of operating expenses was based on the use of arbitrary percentage changes which were not substantiated by the evidence in this record, these adjustments have not been accepted for rate making purposes, however, the adjustment for increased insurance and audit fee have been accepted. Further, the Bond Resolution requires the Applicant to meet certain debt service requirements. The amount shown by the Applicant for debt service costs after completion of the proposed construction will meet these requirements. Based on the foregoing analysis, the Applicant will

need gross revenues of \$129,457<sup>(1)</sup> to meet the debt service requirements of its bond resolution and to pay the operating expenses found reasonable. This will result in a revenue increase of \$53,891 which includes revenue for 113 additional customers to be served upon completion of the construction project, the revenue for Buffalo Trail Water District, a new wholesale customer, and the increase in rates for the present customers. Following is a schedule showing the effect on net income after the revenue and expense adjustments.

	<u>Actual</u>	<u>Proforma Requested</u>	<u>Proforma Granted</u>
Operating Revenues	\$75,566	\$129,457 <sup>(1)</sup>	\$129,457 <sup>(1)</sup>
Operating Expenses (Excluding Depreciation)	36,248	55,879	38,700
Depreciation Expense	<u>14,110</u>	<u>36,390</u>	<u>36,390</u>
Operating Income	\$25,208	\$ 37,188	\$ 54,367
Interest Expense	24,561	49,375	52,311 <sup>(2)</sup>
Other Income (Loss)	1,660	3,160	3,160
	<u>\$ 2,307</u>	<u>\$ (9,027)</u>	<u>\$ 5,216</u>

Summary

The Commission, after consideration of the evidence of record and being advised, is of the opinion and so finds that the rates proposed by the Applicant and set forth in Appendix "A" of this Order should produce gross annual revenues of approximately \$129,457 and are the fair, just and reasonable rates for the Applicant.

IT IS THEREFORE ORDERED that the rates set out in Appendix "A" attached hereto and made a part hereof be and they are hereby approved for services rendered by Western Fleming County Water District on and after the "effective date." Further that the effective date shall be the date the proposed construction has been completed or the date of the closing of the FmHA loan, whichever date shall occur first.

IT IS FURTHER ORDERED that Western Fleming County Water District shall file with this Commission thirty (30) days prior to the effective date as hereinbefore defined, its revised tariff sheets setting forth the water service rates approved herein. Further, that a copy of the Applicant's Rules and Regulations for providing service shall be filed with the said tariff sheets.

<sup>(1)</sup> Error on Billing Analysis (\$132,945 - \$3,488 = \$129,457)

<sup>(2)</sup> Includes interest of \$2,936 on the loan to Farmers Bank

IT IS FURTHER ORDERED that the rates for service rendered by Western Fleming Water District, currently on file with this Commission, shall remain in effect until the effective date, as hereinbefore defined, for the rates herein approved.

IT IS FURTHER ORDERED that the Interim Order, dated April 25, 1980, shall remain in full force and effect.

Done at Frankfort, Kentucky, this 23rd day of June, 1980.

UTILITY REGULATORY COMMISSION

\_\_\_\_\_  
Chairman

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Vice Chairman

\_\_\_\_\_  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7751 DATED JUNE 23, 1980.

RESIDENTIAL AND COMMERCIAL

USAGE BLOCKS

MONTHLY RATE

First 2,000 gallons	\$8.75 (Minimum)
Next 5,000 gallons	2.50 per 1,000 gallons
Next 3,000 gallons	2.00 per 1,000 gallons
Over 10,000 gallons	1.25 per 1,000 gallons

FIELD CONNECTIONS

First 2,000 gallons	\$6.00 (Minimum)
Over 2,000 gallons	1.25 per 1,000 gallons

SPECIAL RATES

Other Utilities at Wholesale

Southern Mason Water District	\$ .70 per 1,000 gallons
Buffalo Trail Water Association, Inc.	.50 per 1,000 gallons