

COMMONWEALTH OF KENTUCKY

BEFORE THE UTILITY REGULATORY COMMISSION

* * * * *

In the Matter of:

THE APPLICATION OF BUFFALO TRAIL WATER ASSOCIATION,)
INC., OF ROBERTSON AND MASON COUNTIES, FOR (1) A)
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER ASSOCIATION)
TO CONSTRUCT A WATERWORKS CONSTRUCTION PROJECT,)
CONSISTING OF EXTENSIONS, ADDITIONS, AND IMPROVE-) CASE NO.
MENTS TO THE EXISTING WATER WORKS SYSTEM OF THE) 7763
ASSOCIATION: (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 ASSOCIATION TO ITS CUSTOMERS.)

FINAL ORDER

On March 5, 1980, Buffalo Trail Water Association, Inc., (hereinafter Applicant or Buffalo Trail) filed an application with this Commission requesting (1) a "Certificate of Public Convenience and Necessity" authorizing the construction of extensions, additions, and other 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 Commission scheduled the matter for hearing April 7, 1980, for testimony regarding the proposed construction and method of financing. Continuation of the hearing was scheduled for April 29, 1980, for testimony regarding the proposed adjustment of rates.

On March 12, 1980, the Consumer Protection Division in the Department of Law, pursuant to K.R.S. 367.150 filed a motion to intervene in this proceeding. This was the only party of interest formally intervening herein.

On April 26, 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 an FmHA Grant of \$726,000, an FmHA Loan of \$364,000, and Service Connection Fees of \$2,000.

COMMENTARY

Buffalo Trail Water Association is a non-profit water distribution association created and existing under and by virtue of

Chapter 273 of the Kentucky Revised Statutes. Buffalo Trail serves approximately 308 consumers in the Kentucky counties of Robertson and Mason. Applicant presently purchases all of its water from the City of Mt. Olivet and is unable to expand its services due to the limited capacity of the Mt. Olivet treatment plant. The immediate construction project includes connecting Applicant's existing lines to a new water plant to be constructed and operated by Western Fleming County Water District.

In the case at hand, the practice of seeking approval of the proposed construction project after final bids were received has placed a severe strain on the Commission's resources. In this instance, the Commission has responded to Applicant's needs; however, the Commission wishes to put Applicant on notice that it finds the current practice untenable. The Commission presently has approximately forty-nine (49) rate applications on its docket. Therefore, it is necessary that the Commission be given sufficient time, as allowed by Statute, to evaluate said Applications. Applicant is hereby given notice that future applications for construction, financing, and rates must be filed so as to permit the Commission a minimum of five (5) months and twenty days to process said applications.

TEST YEAR

Applicant proposed and the Commission has adopted the twelve (12) month period ending December 31, 1979, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

REVENUE REQUIREMENTS

Applicant projected expenses for the first year after completion of the proposed construction and the revenue required to cover said expenses in Exhibit E of its application. Applicant maintains that gross annual revenues of \$72,006 will be required to pay operating expenses, meet debt service payments, and maintain an adequate depreciation fund. The Commission is of the opinion that

Applicant's projected expenses are overstated by approximately \$5,000, and, therefore, Applicant's required revenue is overstated by a like amount. This opinion is based on the evidence of record indicating Applicant has been consistent in overstating expenses, other than Purchased Water and Maintenance, in the budget it prepares as part of its annual report to FmHA. Therefore, the Commission has determined that gross annual revenues of \$67,065, granted herein, will be necessary to allow Applicant the opportunity to pay operating expenses, meet debt service requirements, and maintain an adequate depreciation fund subsequent to completion of the proposed construction.

Following is a schedule showing these adjustments:

| | <u>Proforma Requested</u> | <u>Proforma Granted</u> |
|--------------------------|-------------------------------|-----------------------------|
| Operating Revenues | \$76,506 | \$67,065 |
| Operating Expenses | | |
| (Excluding Depreciation) | 30,108 | 25,108 ⁽¹⁾ |
| Depreciation Expense | <u>15,740</u> | <u>15,740</u> |
| Operating Income | 30,658 | <u>28,217</u> |
| Interest Expense | <u>23,034</u> | <u>23,034</u> |
| Net Income | <u><u>7,624</u></u> | <u><u>3,183</u></u> |

RATE DESIGN

Applicant proposed to modify its existing rate design by decreasing the second block from 4,000 to 1,000 gallons and increasing the third block from 5,000 to 8,000 gallons. The Commission does not agree with Applicant's proposed modifications of its consumption blocks. Therefore, the Commission is of the opinion and finds that the proposed rate design should be denied; and herein orders Buffalo Trail to remain on its existing rate design as set out in Appendix "A" attached hereto. In so doing the Commission finds that the increase, applied to the existing rate design will provide a more equitable distribution of the revenue required to cover Applicant's cost of providing service to its customers.

(1) \$5,000 denied as unsubstantiated by Applicant

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates for water service set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues in the amount of approximately \$67,065 and will be the fair, just, and reasonable rates for Applicant after the proposed construction is completed.

IT IS THEREFORE ORDERED that the rates proposed by Buffalo Trail Water Association, Inc., be and are hereby denied.

IT IS FURTHER ORDERED that the rates set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered by Buffalo Trail Water Association on and after the "effective date." Further that the effective date shall be the completion of the proposed construction or the end of the anticipated construction period whichever shall occur first.

IT IS FURTHER ORDERED that Buffalo Trail Water Association, Inc., shall file with this Commission, thirty (30) days prior to the effective date as hereinbefore defined, its revised tariff sheets setting forth the 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.

IT IS FURTHER ORDERED that the rates set out in the Order entered by this Commission on November 30, 1979, in Case No. 7400 shall remain in effect until on and after 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

Vice Chairman

ATTEST:

Commissioner

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE KENTUCKY UTILITY REGULATORY
COMMISSION IN CASE NO. 7763 DATED JUNE 23, 1980.

The following rates are prescribed for all customers served by Buffalo Trail Water Association, Inc. All other rates and charges not mentioned specifically herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

Consumption Blocks

5/8 - Inch x 3/4 - Inch Meter

First 1,000 gallons
Next 4,000 gallons
Next 5,000 gallons
Over 10,000 gallons

Rates for Each Block

\$7.50 (Minimum Bill)
2.75 per 1,000 gallons
1.75 per 1,000 gallons
1.50 per 1,000 gallons

3/4 - Inch Meter

First 5,000 gallons
Next 5,000 gallons
Over 10,000 gallons

\$18.50 (Minimum Bill)
1.75 per 1,000 gallons
1.50 per 1,000 gallons

1 - Inch Meter

First 10,000 gallons
Over 10,000 gallons

\$27.25 (Minimum Bill)
1.50 per 1,000 gallons

1 1/2 - Inch Meter

First 15,000 gallons
Over 15,000 gallons

\$34.75 (Minimum Bill)
1.50 per 1,000 gallons

2 - Inch Meter

First 20,000 gallons
Over 20,000 gallons

\$42.25 (Minimum Bill)
1.50 per 1,000 gallons

All meters shall be read to the nearest one hundred gallons each month.

The monthly bill for a customer served by a 5/8" x 3/4" meter shall be \$7.50 for metered usages of zero (0) to one thousand (1,000) gallons. The additional charge for usage in excess of one thousand gallons shall be computed to the nearest one hundred (100) gallons. Monthly bills for customers served by meters larger than 5/8" x 3/4" shall be computed in a similar manner.