

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

NOTICE TO ADJUST RATES)
BY EAST PENDLETON WATER)
DISTRICT) CASE NO. 7801

O R D E R

On March 31, 1980, East Pendleton Water District, hereinafter referred to as the Applicant, filed Notice to the Commission of its intent to increase rates for service rendered on and after May 1, 1980. The proposed rates would increase annual revenues by approximately \$28,273. The Applicant experienced a net loss of \$19,223 for the test period and reasons that unless rate relief is granted, the Applicant will continue to incur such a deficit from its operations and will be unable to continue operations.

On March 31, 1980, the Commission, pursuant to KRS 278.190 (2), ordered the suspension of the proposed rates for a period of five (5) months beginning on May 1, 1980. The matter was set for public hearing at the Commission's offices in Frankfort, Kentucky, on July 9, 1980, at 2:30 p.m. EDT. All parties of interest were notified with the Consumer Intervention Division of the Attorney General's Office being the only party to intervene in the matter. At the hearing, certain requests for additional information were made by the Commission Staff. This information was filed, and the entire matter is now considered to be fully submitted for final determination by this Commission.

Test Period

The twelve (12) months period ending December 31, 1979, was used by the Applicant as the test period for purposes of testing the reasonableness of existing and proposed rates. Schedules of the test period results were submitted to the Commission for consideration. This test period met the requirements of the Administrative Regulations of the Commission and was accepted as filed.

Revenues and Expenses

The existing rates charged by the Applicant during the test period produced annual revenues from water sales of \$73,397 and including miscellaneous service revenues, gross operating revenues of \$73,408. The Applicant received other income of \$842 from interest accrued on a saving account remaining from contingencies. No proforma adjustments for changes in the number of customers or usage were proposed in the Application.

The operating expenses as submitted for the test period were \$73,272, including depreciation expense of \$19,608. No proforma expense adjustments were proposed by the Applicant, thus waiving the submission of a comparative income statement. The Applicant stated for the record that in preparing its Application to be submitted in this matter, adjustments for purchased water, other operating expenses and rate case costs were considered, but the net effect was minimal, thus no adjustments were submitted. However, the Commission is of the opinion that these adjustments should have been submitted for consideration and wishes to apprise the Applicant of such. Several test period operating expenses were questioned for substance with no unreasonableness found with the exception of purchased water. The Commission is of the opinion that purchased water should be reduced to bring its costs down to a level of maximum allowance of 15% for line loss and other unaccounted for water. However, after consideration of the Applicant's statement with reference to the merits of providing no proforma adjustments, the Commission has accepted test period operating expenses as submitted.

Based on the foregoing analysis, the Applicant will need gross revenues of \$95,339 to meet its reasonable operating expenses, service its debt, and to accumulate a reasonable surplus for compliance with its bond ordinance and resolution. Following is a schedule showing the effect on net income after the adjustments in revenues and expenses:

	<u>Actual Test Period</u>	<u>Proposed Proforma</u>	<u>Reasonable Proforma</u>
Operating Revenues	\$ 73,408	\$101,681	\$95,339 ⁽³⁾
Operating Expenses ⁽¹⁾	53,664	53,664	53,664
Depreciation Expense ⁽²⁾	<u>19,608</u>	<u>19,608</u>	<u>19,608</u>
Operating Income	136	28,408	22,067
Other Income	841	841	841
Interest Expense	<u>20,200</u>	<u>20,200</u>	<u>20,000⁽⁴⁾</u>
Net Income	<u>\$(19,223)</u>	<u>\$ 9,050</u>	<u>\$ 2,908</u>

Summary

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

1. That the Applicant should establish and maintain a program of water loss detection and correction which would substantially reduce and control line loss and other unaccounted for water.

2. That the schedule of rates prescribed and set forth in Appendix "A", attached hereto and a part hereof, are the fair, just and reasonable rates to charge for water service rendered by the East Pendleton Water District, in that based on test period conditions, these rates will produce annual revenues of \$95,339, including miscellaneous service revenues.

3. That the schedule of rates proposed by the Applicant are unfair, unjust and unreasonable in that these rates would produce revenues in excess of those found reasonable herein and should be denied.

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- (1) Inclusive of operation and maintenance expenses and taxes other than income taxes, but exclusive of depreciation expense.
- (2) Inclusive of depreciation expense on contributed assets which are not considered in the rate making process.
- (3) Revenue requirements were determined to be one and one-half times the debt service costs plus reasonable bond ordinance requirements and reasonable operating expenses, excluding depreciation expense.
- (4) Interest expense has been reduced in accordance with the principal and interest repayment schedule.

Orders In This Matter

The Commission, on the basis of the findings hereinbefore set forth and the evidence of record in this matter:

HEREBY ORDERS that the Applicant shall furnish the Commission with a plan of water loss detection and correction and that monthly reports shall be furnished until there is a substantial reduction and control in line loss and other unaccounted for water.

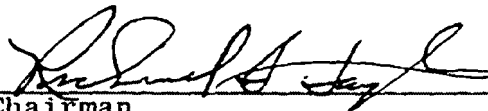
IT IS FURTHER ORDERED that the schedule of rates set forth in Appendix "A" be and hereby are fixed as the fair, just and reasonable rates to charge for water service rendered by the East Pendleton Water District on and after the date of this Order.

IT IS FURTHER ORDERED that the schedule of rates proposed by the Applicant be and hereby are denied.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 26th day of September, 1980.

UTILITY REGULATORY COMMISSION


Chairman

Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NUMBER 7801, DATED SEPTEMBER 26,
1980.

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

Residential Service

Gallage Blocks

Monthly Rates

First	1,000 gallons	\$7.75 (Minimum Bill)
Next	99,000 gallons	2.00 per 1,000 gallons
All Over	100,000 gallons	1.60 per 1,000 gallons