

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION FOR AN)
ADJUSTMENT OF THE RATES) CASE NO. 7869
OF AUXIER WATER COMPANY, INC.)

O R D E R

On May 27, 1980, Auxier Water Company, Inc., hereinafter referred to as the Applicant, filed with this Commission its application seeking approval of a proposed increase in its water service rates.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on August 27, 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 and the Attorney for Highland Regional Medical Center were intervenors of record in this matter. There were also several consumers present at the hearing who voiced opposition to the proposed rate increase. The entire matter is now submitted for a final determination by this Commission.

Test Period

The Applicant proposed and the Commission has adopted the twelve (12) months ending April 30, 1980, as the test period for determining the reasonableness of the proposed rates. Proforma adjustments have been included where found, fair, just and reasonable.

Revenues and Expenses

The Applicant proposed several proforma adjustments to revenues and expenses as reflected on its Comparative Income Statement. The Commission will accept in full for rate-making purposes some of the proposed adjustments. However, those rejected or modified are more fully discussed below.

(1) The Applicant proposed an increase in wages of \$998 for the maintenance man and bookkeeper and a salary of \$18,000 to

be established for the new manager. The Commission is of the opinion that the costs actually incurred during the test year for the maintenance man and bookkeeper were adequate and that a salary of \$12,000 is a more reasonable amount to be established for the manager based on similar utilities of this size for rate making purposes.

(2) The Applicant proposed an adjustment to transmission and distribution expense of \$3,402. The Applicant filed no evidence to justify \$1,200 of this adjustment therefore, the Commission has excluded this amount from consideration herein. The remaining amount of the adjustment was for electric expense and the cost of a new pump. The Commission is of the opinion that the cost of \$1,601 for the new pump is a capital item and, therefore, should not be included in the operation and maintenance expense of the Applicant.

(3) The Applicant proposed an increase of \$732 for automobile expense with no justification from the evidence of record for this adjustment. The Commission is of the opinion that the costs actually incurred during the test year should be the amount included for rate making purposes due to the lack of support for any additional cost.

(4) The Applicant proposed an adjustment to outside services of \$5,000 of which \$1,500 was for accounting services rendered outside of the test period. The Commission is of the opinion that \$2,500 should be reasonable to cover annual professional services for a utility of this size.

(5) The Applicant proposed an adjustment to rent expense including insurance of \$2,500 payable to the manager of the company for office space in the basement of his home. The Commission is of the opinion that \$1,200 for rent and \$100 for insurance should be sufficient to acquire the amount of office space required for a company of this size.

(6) The Applicant proposed an adjustment in telephone utility expense of \$1,370 based on two (2) phones in service during the test year. This expense was adjusted to reflect the

current use of one phone in that the second phone is no longer in service. The amount found reasonable in this case was \$777.

(7) The Applicant proposed an adjustment of \$20,000 for the extension of water lines to serve areas without water service. This adjustment should not be included on the Income Statement in that the adjustment involves capital items which are not operating expenses. The Commission is of the opinion that the Applicant shall file an application for approval of the construction of these facilities and any other construction which involves significant capital outlay.

(8) The Commission has adjusted depreciation expense by \$947 to reflect the proforma depreciation based on a depreciation schedule submitted by the Applicant.

(9) The Applicant proposed an adjustment for taxes of \$6,160 including sales tax. The amount for sales tax was incorrectly recorded by the Applicant and has been excluded. The Commission has adjusted taxes to \$5,498 of which \$3,545 was for state and federal income taxes.

Based on the foregoing analysis, the level of annual operating expenses, including depreciation and taxes, found reasonable for the Applicant was \$121,915. Using an operating ratio of eighty-eight percent (88%), revenues of \$139,556 will be necessary to meet the reasonable operating costs of providing water service to its customers. The following is a schedule showing the effect on net income after the accepted adjustments to revenues and expenses.

	<u>Actual</u>	<u>Proforma Requested</u>	<u>Proforma Found Reasonable</u>
Operating Revenues	\$91,187	\$175,340	\$139,556
Operating Expenses	<u>87,159</u>	<u>158,394</u>	<u>121,915</u>
Operating Income	\$ 4,028	\$ 16,946	\$ 17,641
Interest Expense	<u>2,229</u>	<u>1,500</u>	<u>1,500</u>
Net Income	<u>\$ 1,799</u>	<u>\$ 15,446</u>	<u>\$ 16,141</u>

Other Issues

This agency is charged by statute with the responsibility of seeing that safe and adequate service is provided to the customers served by the public utilities in this state. Therefore, the Commission is greatly concerned with the Applicant's failure to fully comply with the Orders of its predecessor, the Public Service Commission, in Cases No. 4700 and 6574, dated August 10, 1966, and October 1, 1976, respectively. These Orders detailed improvements necessary in order for the Applicant to provide adequate service to its customers.

The Commission wishes to apprise the Applicant of the seriousness of its non-compliance with lawful orders, and furthermore that as a result of this non-compliance, it is subject to the imposition of penalties under Kentucky Revised Statute 278.990.

In order to avoid the imposition of such penalties, the Applicant should take immediate action to accomplish the improvements specified in the Orders in Cases No. 4700 and 6574 and should report said action to the Commission within thirty (30) days of the date of this Order.

A further area of immense concern to the Commission is that the Applicant placed unauthorized rates into effect even after notification by the Commission that this action would be improper. The Commission further finds this to be unconscionable and will not tolerate further such blatant disregard for Kentucky laws and Commission regulations.

Summary

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

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

2. The rates prescribed and set forth in Appendix "A", attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for water service rendered by Auxier

Water Company, in that based on test period operating conditions, these rates will produce annual revenues of \$139,556 and will permit the Applicant to meet its reasonable operating expenses and to accumulate a reasonable surplus for equity growth.

3. In this instance, the determination of rates and revenue requirements should be based on the operating ratio (1) method.

4. An operating ratio of approximately 0.88 will result from the revenues of the Applicant and should provide a reasonable return margin in this instance.

5. The Applicant increased customer deposits during the year and the amounts to be charged by the Applicant shall be accordance with 807 KAR 25:020, Section 7 which states that a utility may require from any customer for service a minimum cash deposit or the guaranty to secure payment of bills of an amount not to exceed two-twelfths (2/12) of the estimated annual bill of such customer, where bills are rendered monthly.

6. The Applicant began billing its proposed rates on and after October 1, 1980, without authorization from this Commission. Thus the Applicant should submit a plan to refund all monies collected of the \$6,401 billed under rates that were in excess of those authorized by this Commission in its Order dated March 22, 1977, in Case No. 6580.

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 rates and charges in Appendix "A" hereto attached and made a part hereof are fixed and prescribed as the rates for water service rendered by Auxier Water Company on and after the date of this Order.

1) Operating ratio is defined as the ratio of expenses including depreciation and taxes to gross revenues.

$$\text{Operating Ratio} = \frac{\text{Operating Expenses plus Depreciation \& Taxes}}{\text{Gross Revenues}}$$

IT IS FURTHER ORDERED that the rates proposed by Auxier Water Company and set out in the Application insofar as they differ from those in Appendix "A" be and hereby are denied.

IT IS FURTHER ORDERED that Auxier Water Company 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. 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 Auxier Water Company shall prepare and file a detailed plan with a listing of the customers and the amount to be refunded to each customer for the amounts charged under rates in excess of those authorized by the Commission in its Order in Case No. 6580. This plan shall be filed with the Commission within twenty (20) days from the date of this Order.

IT IS FURTHER ORDERED that Auxier Water Company shall, within thirty (30) days of the date of this Order, file with the Commission a detailed report of action taken to comply with the Orders in Cases No. 4700 and 6574.

Done at Frankfort, Kentucky, this 31st day of October, 1980.

UTILITY REGULATORY COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

IT IS FURTHER ORDERED that the rates proposed by Auxier Water Company and set out in the Application insofar as they differ from those in Appendix "A" be and hereby are denied.

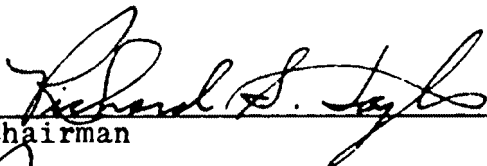
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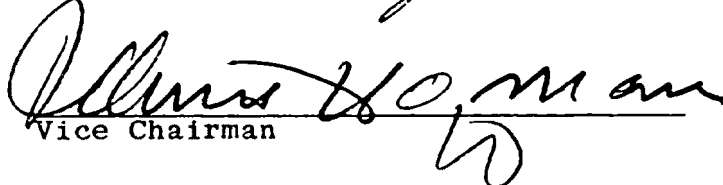
IT IS FURTHER ORDERED that Auxier Water Company shall prepare and file a detailed plan with a statement of the customers and the amount to be refunded to each customer for the amounts charged in excess of the authorized rates prior to the date of this Order. This plan shall be filed with the Commission within twenty (20) days from the date of this Order.

IT IS FURTHER ORDERED that Auxier Water Company shall, within thirty (30) days of the date of this Order, file with the Commission a detailed report of action taken to comply with the Orders in Cases No. 4700 and 6574.

Done at Frankfort, Kentucky, this

UTILITY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7869 DATED OCTOBER 31, 1980

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

Rates: Monthly

First	1,000 gallons	\$6.30
Next	1,000 gallons	3.50
Next	6,000 gallons	3.00
Next	6,000 gallons	2.50
Over	14,000 gallons	2.00

The minimum bill shall be \$6.30 per month and shall entitle the user to 1,000 gallons of water or less per month.