

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF       )  
THE SEDALIA WATER DISTRICT       )

CASE NO. 7910

O R D E R

Preface

On July 15, 1980, the Sedalia 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 \$6,907 over those produced during the twelve-month period ending April 30, 1980.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on October 29, 1980, at 1:00 p.m., Eastern Standard Time. All parties of interest were notified with the Consumer Intervention Division of the Attorney General's Office being permitted to intervene in the matter. At the conclusion of the hearing, it was determined that all requested information and other pertinent matters have 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 April 30, 1980, has been utilized as the "Test-Year." Adjustments, where found significant and reasonable, have been included to reflect more current operating conditions.

Valuation Methods

The Commission finds, from the record, Applicant's Net Investment as of April 30, 1980 is as follows:

|                                      |                         |
|--------------------------------------|-------------------------|
| Plant in Service                     | \$ 136,037              |
| Cash Working Capital                 | 1,245                   |
| Subtotal                             | <u>\$ 137,282</u>       |
| Less:                                |                         |
| Accumulated Depreciation             | 57,189                  |
| Contributions in Aid of Construction | <u>18,604</u>           |
| Net Investment                       | <u><u>\$ 61,489</u></u> |

In the above computation, cash working capital has been computed on the basis of one-eighth (1/8) of adjusted operating and maintenance expenses exclusive of depreciation expense and taxes.

There were no methods of valuation included in the evidence of record by the Applicant. The Commission has therefore elected to use Net Investment Rate Base in its determination of a proper rate of return.

#### Revenues and Expenses

Applicant proposed several adjustments to actual Operating Revenues and Expenses as itemized on its Comparative Income Statement. The Commission finds these adjustments allowable and has accepted them in its determination of adjusted rates with the following exceptions:

1. On lines 3(a), 3(b), 4(b), 5(b), 5(d) and 5(e) of the Commission's summary of Test-Year and projected annual revenues and expenses, the Applicant has proposed several pro forma adjustments to its operating expenses. These adjustments have been denied on the basis of not being reasonable, known and measurable adjustments to test year expenses. While these adjustments do not represent substantial increases in operating expenses, the effect is significant in that it is contrary to Commission policy to allow the inclusion of speculative adjustments for ratemaking purposes.

2. Applicant, in its October 16, 1980 response to the Commission's Order requesting prehearing information, lists in Item No. five (5) an adjusted figure of \$1,850 pertaining to Accounting. The adjusted amount represents re-occurring accounting fees of \$850 and the balance of \$1,000 is apportioned to rate case expense. The Commission has amortized the rate case expense over a three-year period. The individual adjustments are set out on lines 5(c) and 6(d) of the Commission's summary.

Therefore, the following tabulation is the Commission's summary of "Test-Year" and projected annual revenues and expenses:

|                                      | Actual <sup>(1)</sup><br>Expenses<br>Test-Year | Pro forma <sup>(1)</sup><br>Requested | Pro forma<br>Found<br>Reasonable |
|--------------------------------------|--|---------------------------------------|----------------------------------|
| <u>Revenues:</u>                     |  |                                       |                                  |
| Water Sales                          | \$ 12,309                                      | \$ 19,216                             | \$ 19,216                        |
| <u>Expenses:</u>                     |  |                                       |                                  |
| 1. Pumping Expenses:                 |  |                                       |                                  |
| (a) Power for Pumping                | \$ 968   | \$ 1,100                              | \$ 1,100                         |
| (b) Water Testing                    | 67   | 100                                   | 100                              |
| 2. Water Treatment Expenses:         |  |                                       |                                  |
| (a) Chemicals                        | 364  | 400                                   | 400                              |
| (b) Water Testing                    | 40   | 50                                    | 50                               |
| 3. Trans. and Distribution Expense:  |  |                                       |                                  |
| (a) Operation Supplies & Expenses    | 424  | 450                                   | 424                              |
| (b) Maintenance of Meters            | 618  | 850                                   | 618                              |
| 4. Customer Accounts Expenses:       |  |                                       |                                  |
| (a) Meter Reading Labor              | 1,200  | 1,400                                 | 1,380                            |
| (b) Postage                          | 368  | 400                                   | 368                              |
| 5. Adm. & General Expenses:          |  |                                       |                                  |
| (a) Adm. & Gen. Salaries             | 3,300  | 3,600                                 | 3,600                            |
| (b) Office Supplies & Other          | 20   | 25                                    | 20                               |
| (c) Accounting-Re-occurring          | 1,625  | 2,500                                 | 850                              |
| (d) Property Insurance               | 515  | 675                                   | 515                              |
| (e) Maint. of General Plant          | 150  | 200                                   | 150                              |
| 6. Other Expenses:                   |  |                                       |                                  |
| (a) Depreciation Expense             | 4,646  | 4,646                                 | 4,646                            |
| (b) Payroll Tax                      | 116  | 130                                   | 130                              |
| (c) Utility Reg. Comm. Assessment    | 50   | 50                                    | 50                               |
| (d) Rate Case Expense                |  |                                       | 333                              |
| Total Expenses                       | \$ 14,471                                      | \$ 16,576                             | \$ 14,734                        |
| Net Operating Income                 | \$ (2,162)                                     | \$ 2,640                              | \$ 4,482                         |
| Other Income:                        |  |                                       |                                  |
| Interest Income                      | 1,569  | 1,569                                 | 1,569                            |
| Other Deductions:                    |  |                                       |                                  |
| Interest on Long Term Debt           | 3,788  | 3,788                                 | 3,788                            |
| Amort. of Debt Discount and Expenses | 2  | 2                                     | 2                                |
| Net Income (Loss)                    | \$ (4,383)                                     | \$ 419                                | \$ 2,261                         |

(1) "Actual" and "Pro forma Requested" income and expenses were taken from the Applicant's Comparative Income Statement for the twelve-month period ending April 30, 1980.

### Summary

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

1. That, in this instance, the adjusted rate of return on Applicant's Net Investment is fair, just and reasonable and will produce an approximate 7.3% rate of return which is computed as follows:  $\$4,482$  (Net Operating Income)  $\div$   $\$61,489$  (Net Investment) = .073.

2. That the rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof should produce gross annual revenues of approximately \$19,216 from 154 customers and are the fair, just and reasonable rates to be charged for water service rendered by the Applicant to customers located in a portion of Graves County, Kentucky.

3. That the Commission further concludes that annual gross revenues in the amount of \$19,216 are necessary and will permit the Applicant to meet its operating expenses and debt service requirements.

### Orders 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 prescribed and set forth in Appendix "A" attached hereto and made a part hereof be and they are hereby fixed as the fair, just and reasonable rates of the Sedalia Water District for providing water service to customers located in a portion of Graves County, Kentucky to become effective for services rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the Applicant file with this Commission, within thirty (30) days from the date of this Order,



APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7910 DATED NOVEMBER 21, 1980

The following rates and charges are hereby prescribed for the customers served by the Sedalia Water District, Graves 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 2,000 gallons used per month | \$6.00 minimum bill <sup>(1)</sup> |
| Next 2,000 gallons used per month  | 3.00                               |
| Over 4,000 gallons used per month  | 1.00 per 1,000 gallons             |

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(1) The minimum monthly charge of \$6.00 shall entitle the customer to 2,000 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.