

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

APPLICATION OF THE GARRARD)	
COUNTY WATER ASSOCIATION, INC.)	CASE NO. 7926
FOR AUTHORITY TO ADJUST RATES)	

O R D E R

On July 29, 1980, Garrard County Water Association, Inc. (Applicant), a water utility serving approximately 1,044 consumers, filed its Application seeking authority to increase its rates to produce an increase in revenue of \$53,815.93, an increase of approximately 31.41%.

The proposed rates and charges were suspended for a period of five (5) months on and after August 18, 1980, by the Commission's order entered July 29, 1980. A second order entered August 13, 1980, set a public hearing to be held November 5, 1980, and ordered the Applicant to publish notice of such hearing in accordance with Kentucky law and the rules and regulations of this Commission.

The hearing was held as scheduled, with all parties of interest having first been duly notified and the Division of Consumer Intervention of the Attorney General's Office being the only intervenor of record. The matter is now considered to be fully submitted for final determination by this Commission.

TEST PERIOD

The Applicant proposed and the Commission has accepted the twelve (12) month period ending May 31, 1980, for the purpose of determining the reasonableness of the proposed rates. Pro forma adjustments have been included where found to be just and reasonable.

REVENUES AND EXPENSES

The Applicant proposed several pro forma adjustments to its operating statement^{1/} and the Commission is of the opinion

^{1/}Applicant's Exhibit "F," pages 1 & 2 of 2.

that these adjustments are necessary to present a fair and accurate description of the Applicant's operations, with the following exceptions:

1. The Commission has determined that for rate-making purposes the amount of line loss allowed should be limited to fifteen percent (15%), therefore, the purchased water expense has been calculated to be \$72,459.35.^{2/}

2. The Commission has further determined that \$5,465 of capitalized labor should be omitted from salaries, thus making the expensed portion \$27,690.20.^{3/}

3. The Commission is also of the opinion that the \$239.14 of additional office supplies and postage expense associated with an increase in consumers should be disallowed as the Applicant made no provisions for additional revenues to be generated by the increase in consumers.

4. The Commission has further determined that depreciation expense should be based on the original cost of the utility plant in service less contributions in aid of construction. The depreciation expense is thus computed to be \$21,864.89.^{4/}

5. Finally, the Commission believes that the \$13,825 charge for sandblasting and painting of two water storage tanks should be amortized over a five (5) year period instead of three years as proposed by the Applicant.^{5/}

Therefore, Applicant's adjusted operations at the end of the test period are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$176,788.77	\$ (5,465.00)	\$171,323.77
Maintenance & Operating Expenses ^{6/}	133,504.77	20,720.78	154,225.55
Operating Income (Loss)	\$ 43,284.00	\$(26,185.78)	\$ 17,098.22
Interest Expense	41,570.54		41,570.54
Other Income	10,061.19		10,061.19
Net Income (Loss)	\$ 11,774.65		\$(14,411.13)

^{2/} Calculations: (64,832,053 gallons ÷ 85%) X \$.95/1000 gallons = \$72,459.35.

^{3/} Calculation: \$33,155.20 (total salaries) - \$5,465 (capitalized portion) = \$27,690.20.

^{4/} Calculation: (original cost of plant \$1,493,136.53 - contributions in aid of construction \$538,337.73) X 2.29% (cumulative depreciation rate used by Applicant) = \$21,864.89.

^{5/} Calculation: \$13,825 ÷ 5 yrs. = \$2,765/yr.

^{6/} Maintenance & Operating Expenses includes depreciation expense, Commission hearing expense and amortization expense. These expenses were not included by the Applicant.

OPERATING REVENUE INCREASE

The Commission finds that the Applicant is entitled to operating revenues equal to 1.2 times its annual debt service plus operating expenses, including depreciation, therefore the increase in operating revenues is computed as follows:

1.2 X Debt Service Coverage ^{7/}	\$ 69,218.40
Adjusted Operating Expenses	<u>154,225.55</u>
Subtotal	\$223,443.95

Less:

Adjusted Operating Revenue	\$171,323.77
Other Income	<u>10,061.19</u>
Subtotal	\$181,384.96

Increase	\$ 42,058.99
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FINDINGS IN THIS MATTER

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

1. That the rates set out in Appendix "A," attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged by the Applicant and should produce annual revenues from the sale of water in the approximate amount of \$213,382.76 or that revenue needed to cover Applicant's adjusted operating expenses and provide a 1.2 coverage of its annual debt service.

2. That the rates proposed by the Applicant and set out in its Application should be denied in that they produce annual revenues in excess of that found reasonable.

3. That the Applicant should file within thirty (30) days of the effective date of this Order its revised tariff sheets setting forth its rates and all rules and regulations of the utility.

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 set out in Appendix "A," attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged for water service rendered by the Applicant on and after the date of this Order.

^{7/} Calculation:	Principal on Long Term Debt	\$16,111.46
	Interest Expense	<u>41,570.54</u>
	Debt Service	\$57,682.00

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

IT IS FURTHER ORDERED that the Applicant file with this Commission within thirty (30) days of this Order its revised tariff sheets setting forth its rates and all rules and regulations of the utility.

Done at Frankfort, Kentucky, this 18th day of December, 1980.

UTILITY REGULATORY COMMISSION

Did not participate

Chairman

John H. Egan

Vice Chairman

Mary Kay Decker

Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7926 DATED DECEMBER 18, 1980

The following rates are prescribed for the customers in the area served by Garrard County Water Association. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Residential, Farm and Small Commercial

5/8" X 3/4" Meter Schedule

First	1,000 Gallons	\$ 7.75 (Minimum Bill)
Next	1,000 Gallons	3.75 per 1,000 Gallons
Next	1,000 Gallons	2.75 per 1,000 Gallons
Next	2,000 Gallons	2.25 per 1,000 Gallons
All Over	5,000 Gallons	1.75 per 1,000 Gallons

Large Commercial, Dairy Farm, & School Connections

1" Meter Schedule

First	5,000 Gallons	\$ 18.75 (Minimum Bill)
All Over	5,000 Gallons	1.75 per 1,000 Gallons

1½" Meter Schedule

First	10,000 Gallons	\$ 27.50 (Minimum Bill)
All Over	10,000 Gallons	1.75 per 1,000 Gallons

2" Meter Schedule

First	25,000 Gallons	\$ 53.75 (Minimum Bill)
All Over	25,000 Gallons	1.75 per 1,000 Gallons

Bulk Sales

\$3.00 per 1,000 Gallons