

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF THE DAVID WATER )  
DISTRICT FOR APPROVAL OF ADJUSTMENTS ) CASE NO. 7788  
TO THE WATER RATES WITHIN ITS SERVICE )  
AREA )

O R D E R

On March 27, 1980, the David Water District (hereinafter Applicant or David) filed an application with this Commission seeking approval of an adjustment to the rate it charges for water from a two-inch meter. Subsequent to hearing the matter on July 9, 1980, the Commission entered an Interim Order on August 25, 1980, wherein Applicant was directed to amend its application by filing a revised rate schedule wherein any increase in revenues would be more reasonably apportioned to all classes of customers.

On September 25, 1980, Applicant filed with the Commission its revised schedule of rates. The Commission scheduled the matter for hearing December 9, 1980, and ordered Applicant to give notice of the hearing and the proposed rate adjustment. The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance. The Consumer Intervention Division in the Department of Law, and Middle States Coal Company (hereinafter Middle States) were the only formal intervenors in this matter.

COMMENTARY

The David Water District is a non-profit water distribution system which, at test year-end, served 78 consumers in Floyd County, Kentucky. Applicant purchases all of its water from the Beaver Elkhorn Water District. Applicant's plant-in-service, at test year-end, was fully contributed, having been funded with Federal Grants.

TEST YEAR

Applicant proposed and the Commission has adopted the twelve-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.

## REVENUES AND EXPENSES

Applicant proposed several adjustments to revenues and expenses, as reflected on Attachment C of its Application. The adjustments were proposed to reflect the proposed rate increase and increases in the volume of water sold; increases in the volume of purchased water; increases in fees paid for bookkeeping, billing, meter reading, and general maintenance; and increased rental fees for offices, telephones, and equipment. The Commission is of the opinion that Applicant's pro-forma adjustments are generally proper and accepted for rate-making purposes with the following modifications.

The Commission adjusted Applicant's pro-forma revenue by \$7,540 to reflect only the increased volume of water sales resulting from the projected sales to Middle States. Applicant had adjusted revenues by \$13,600 based on the proposed rate increase and the original proposed usage by Middle States of 800,000 gallons per month. The evidence of record indicates Middle States' usage should be approximately 500,000 gallons per month, which at current rates would result in additional revenues of \$6,060 above test year levels.

Applicant's adjustment of \$300 to Operation Supplies has been excluded for rate-making purposes. Applicant did not present sufficient evidence to support its contention that the cost of materials and supplies would increase as Applicant had projected.

Applicant's adjustment of \$7,920 to Purchased Water has been reduced by \$2,480 to reflect the adjusted level of water consumption by Middle States of 500,000 gallons per month.

The adjustment of \$600 to increase Operation Labor Expense to \$4,040 has been reduced by \$200 based on the evidence of record which indicates Applicant is currently paying \$320 per month, or \$3,840 annually, for meter reading and maintenance work.

The Commission has eliminated Applicant's Depreciation Expense of \$1,005 as an allowable expense for rate-making purposes. Inasmuch as Applicant's plant-in-service at test year-end was financed entirely with contributed capital, Applicant has incurred no capital costs in providing service to its consumers and, therefore, has no costs to recover through depreciation charges.

Applicant's proposed increase of \$2,400 for Administrative Expense has been increased by \$1,200 to reflect that Applicant is paying \$300 per month, rather than \$200 per month as was originally proposed, for billing and bookkeeping services.

The Commission has eliminated Applicant's Tax Expense of \$321 for rate-making purposes. The evidence of record indicates that this tax expense is sales tax for which Applicant merely acts as a collection agent. Inasmuch as the collected tax is not revenue generated through Applicant's water service rates, it should not be reported as such, and, therefore, should not be reported as expense to be recovered through the water service rates.

The effect of these adjustments on Net Income is as follows:

	<u>Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 11,547	\$ 5,739	\$ 17,286
Operating Expenses	<u>12,919</u>	<u>9,284</u>	<u>22,203</u>
Operating Income	\$ (1,372)	\$ (3,545)	\$ (4,917)
Interest Income	157	-0-	157
Net Income	<u>\$ (1,215)</u>	<u>\$ (3,545)</u>	<u>\$ (4,760)</u>

Applicant projected that its proposed rates would generate \$25,147 in annual revenues, an increase of \$7,861 above adjusted test year revenues. The Commission has determined that Applicant's proposed rates will, based on test year water usage and the 500,000 gallons per month for projected sales to Middle States, generate revenues less than what Applicant had proposed. The Commission is of the opinion, however, that Applicant's proposed rates will generate sufficient revenues to afford Applicant the opportunity to pay its operating expenses and maintain an adequate reserve for any extraordinary repair or capital expenditures.

#### SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates proposed by Applicant and set out in Appendix "A" attached hereto and made a part hereof are the fair, just, and reasonable rates for service rendered by Applicant on and after the date of this Order.

IT IS THEREFORE ORDERED that the rates proposed by David Water District and set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered by David Water District on and after the date of this Order.

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

Done at Frankfort, Kentucky, this 23rd day of January, 1981.

UTILITY REGULATORY COMMISSION

Did not participate  
Chairman

*J. Lewis Haynes*  
Vice Chairman

*Mary Ray Oaken*  
Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7788 Dated January 23, 1981

The following rates are prescribed for all customers served by David Water District. 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

5/8" Meter

First	2,000 gallons	\$6.20 (Minimum)
Next	3,000 gallons	3.10 per thousand gal.
Next	5,000 gallons	2.90 per thousand gal.
Next	10,000 gallons	2.40 per thousand gal.
Next	30,000 gallons	1.90 per thousand gal.
Over	50,000 gallons	1.40 per thousand gal.

3/4" Meter

First	5,000 gallons	\$15.50 (Minimum)
Next	5,000 gallons	2.90
Next	10,000 gallons	2.40
Next	30,000 gallons	1.90
Over	50,000 gallons	1.40

1" Meter

First	10,000 gallons	\$30.00 (Minimum)
Next	10,000 gallons	2.40
Next	30,000 gallons	1.90
Over	50,000 gallons	1.40

1½" Meter

First	20,000 gallons	\$54.00 (Minimum)
Next	30,000 gallons	1.90
Over	50,000 gallons	1.40

2" Meter		
First	50,000 gallons	\$111.00 (Minimum)
Over	50,000 gallons	1.40