

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION AND NOTICE OF OLDHAM)
COUNTY WATER DISTRICT FOR APPROVAL)
OF INTERIM RATES; FOR APPROVAL OF)
PERMANENT RATES; ORDER AUTHORIZING)
LONG TERM FINANCING; CERTIFICATE OF) CASE NO. 7798
CONVENIENCE AND NECESSITY; AND)
PERMISSION TO FILE PERMANENT RATE)
AND TARIFF INFORMATION AFTER BIDS)
ARE RECEIVED)

O R D E R

Preface

On March 28, 1980, the Oldham County Water District ("Utility") filed with the Public Service Commission, formerly the Utility Regulatory Commission, its duly verified application seeking approval for: (1) interim rates, (2) permanent rates, (3) a certificate of public convenience and necessity, (4) approval of a proposed method of financing, and (5) authority to file additional project cost information after bids are received.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on May 22, 1980. All parties of interest were notified in the matter prescribed by the Kentucky Revised Statutes. The Consumer Intervention Division of the Attorney General's Office and the City of LaGrange, Kentucky, were intervenors of record in this matter. At the hearing, certain requests for additional information were made by the Commission staff. This information has been filed along with the additional project cost information.

The Commission in its Orders, dated July 2, 1980 and March 5, 1981, addressed the matters of interim rates, a certificate of convenience and necessity, and long term financing. Also, in its Order of July 2, 1980, the Commission directed the Utility to file a proposed plan to refund certain monies collected under rates in excess of those approved by this Commission for the period October 1, 1979 through July 1, 1980. When the Utility failed to supply a proposed plan by December 19, 1980, the Commission ordered Oldham County Water District to appear at the Commission's offices on January 22, 1981, to show cause, if any it could, why it should not be fined the maximum penalty provided in KRS 278.990 for failure to obey prior Commission Orders. The matter was addressed by the Commission in its Order dated February 20, 1981. Therefore, this Order addresses only the remaining matter of the Utility's application for adjustment of permanent rates to become effective upon the completion of the construction approved in this case.

The Commission in its Order dated November 5, 1980, ordered the Utility to submit an "Engineering Analysis" of its operating and non-operating expenses as to the cost to supply water to its customers. Upon the submission of the "Engineering Report", dated December 18, 1980, by Sieco, Inc., and the "Statement of Essential Facts", dated January 13, 1981, by the Utility, a further hearing was scheduled for March 11, 1981, in the Commission's offices at Frankfort, Kentucky.

TEST PERIOD

The Utility has proposed, and the Commission has adopted,

the 12 months ended December 31, 1979, for the purpose of determining the reasonableness of the proposed rates. Adjustments, where found fair, just and reasonable, have been included to reflect more current operating conditions.

REVENUE AND EXPENSES

The Utility's "Statement of Essential Facts" and the "Engineering Report" by Sieco, Inc., filed January 22, 1981 and December 19, 1980, respectively, proposed adjustments to the tariffs, revenue requirements, operating expenses and operating margins as filed in their original application. The Utility proposed adjustments to increase its operating revenues and expenses to reflect projected revenue needs and expenses to be incurred after the additional plant is placed in service. The Commission is of the opinion that the proposed adjustments generally are proper and they have, therefore, been accepted for rate-making purposes with the following modification:

The Utility has included in administrative salaries \$3,600 for each of the six Commissioners or a total of \$21,600. In accordance with KRS 74.363, a water district may only have three Commissioners. Therefore, the Commission has adopted, for rate-making purposes, \$10,800 or the salaries for three Commissioners.

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

	<u>Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted</u>
Operating Revenues			
Retail Sales	\$ 321,791	-0-	\$ 321,791
Wholesale Sales	109,737	-0-	109,737
Customer Penalties	6,764	-0-	6,764
Other Operating Income	1,147	-0-	1,147
Total Operating Income	<u>\$ 439,439</u>	-0-	<u>\$ 439,439</u>
Operating Expenses	257,705	\$ 171,968	429,673
Operating Income before Depreciation	<u>\$ 181,734</u>	<u>\$(171,968)</u>	<u>\$ 9,766</u>
Plus Other Income	8,483	625	9,108
Less Other Expense	91,464	178,124	269,588
Net Income (Before Depreciation)	<u>\$ 98,753</u>	<u>\$(349,467)</u>	<u>\$(250,714)</u>

The adjusted net income also reflects those adjustments accepted by the Commission in its Interim Order of July 2, 1980.

DEBT SERVICE COVERAGE

The Commission finds that the Utility is entitled to operating revenues equal to 1.3 times its annual debt service plus operating expenses (excluding depreciation). These revenues will provide the Utility the opportunity to earn the margin necessary to comply with the FmHA bond ordinance requirements and to maintain its financial integrity. The Utility's current debt service requirement of \$124,225 increased by \$208,666 to reflect the debt service requirement on the \$3,520,000 FmHA bond issue approved in the Interim Order dated November 5, 1980, equals a debt service requirement of \$332,981. Therefore, the increase in operating revenues is computed as follows:

Debt Service Coverage (\$332,981 x 1.3)	= \$432,875
Operating Expenses	<u>429,673</u>
Revenues Required	\$862,548
Less: Test Year Revenues	439,439
Other Income	<u>9,108</u>
Increase in Gross Revenue Needed	<u>\$414,001</u>

The Commission's Interim Order of July 2, 1980, granted additional

revenues of \$86,044. Therefore, the revenues granted herein, over and above those granted in the Interim Order, are \$327,957 (\$414,001 - \$86,044).

RATE DESIGN

The Utility proposed amendments to the rates and charges originally filed in their application, which increased the rates and charges for the "All over 40,000 gallons" and the "Wholesale rate" from 63¢ per 1,000 gallons to 72¢ per 1,000 gallons. The Commission is of the opinion that the rates and charges proposed by the Utility generally are proper and should be accepted, inasmuch as the proposed rates and charges apply the cost of service to all rate classes, thereby, minimizing the possibility of one rate class subsidizing another rate class.

SUMMARY

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds that the rates proposed by the Utility in the "Statement of Essential Facts", dated January 13, 1981, and set out in Appendix A attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged for services rendered by Oldham County Water District on and after completion of construction, in that they will produce revenues from water sales of approximately \$847,267 and should be approved.

IT IS THEREFORE ORDERED

1. That the rates set out in Appendix A attached hereto and made a part hereof be and are hereby fixed as the fair, just

and reasonable rates for water services rendered by the Oldham County Water District on and after the completion date of the construction project approved in the Commission's Order dated November 5, 1980, in this case.

2. That Oldham County Water District shall file its revised tariff sheets setting out the water service rates and charges approved herein 30 days prior to the effective date of these rates and charges.

Done at Frankfort, Kentucky, this 15th day of June, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh
Chairman

Did not participate
Vice Chairman

Don Harvill
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 7798
DATED JUNE 15, 1981.

The following rates are prescribed for all general customers in the entire area served by Oldham County Water District. 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.

GENERAL SERVICE RATES MONTHLY

<u>Gallonge Block</u>	<u>Monthly Rate</u>
First 2,000 Gallons	\$ 6.00 (Minimum Bill)
Next 3,000 Gallons	\$ 2.00 per thousand
Next 4,000 Gallons	\$ 1.50 per thousand
Next 11,000 Gallons	\$ 1.00 per thousand
Next 20,000 Gallons	\$ 0.80 per thousand
Over 40,000 Gallons	\$ 0.72 per thousand

Wholesale Rate

City of LaGrange, Kentucky	\$ 0.72 per thousand
Kentucky State Reformatory	\$ 0.72 per thousand