

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT )  
FILING OF THE CANNONSBURG WATER ) CASE NO. 8115  
DISTRICT OF BOYD COUNTY, KENTUCKY )

O R D E R

On July 1, 1981, the Public Service Commission entered an order granting the Cannonsburg Water District increased operating revenues of \$27,307 annually.

On July 14, 1981, Cannonsburg Water District ("Applicant"), filed an application for rehearing. The application for rehearing alleged that five "errors" had been committed in the Commission's original Order. For purposes of clarity, the Commission will address each of the issues contained in the petition for rehearing individually.

(1) Applicant alleged that the cost of purchased water would increase substantially more than the \$44,629 provided for by the Commission's Order. The additional purchased water cost, according to Applicant's calculation, would be between \$60,000 and \$70,000 yearly. The petition for rehearing indicates that the revised estimates of the increased cost are based on more current information and would better reflect the effect of the increase.

In its Order, the Commission determined the increase in purchased water cost by applying the new wholesale rate to the purchases during the test year from the actual invoices. This procedure is consistent with normal rate-making practices and accurately reflects the increase in annual cost based on the historical test period.

(2) Applicant contended that the Commission in its Order did not take into consideration the increased expenses in its daily operations.

In the original application, Applicant represented to the Commission that it was seeking only to recover the increased cost of purchased water from its wholesale water supplier. However, after obtaining an accurate billing analysis it was apparent that the increase in rates would produce significantly greater revenues than the increased purchased water costs.

The testimony of Applicant at the public hearing indicated that the operating expenses of Applicant during the test period were substantially greater than the costs of the prior year and that the overall costs had increased in excess of 20%.

Applicant did not propose any adjustments to the test year expenses to reflect increases in costs other than the purchased water cost. The Commission regulation provides for the use of an actual twelve-month period adjusted for known and measurable changes to support proposed changes in rates. The responsibility for adjusting for increased costs of operation, as well as the burden of proof that increased costs cannot be absorbed, lies with

the Applicant. The Applicant failed to meet these responsibilities in this instance. Therefore, the Commission had no choice but to include only an adjustment for increased purchased water costs, and not other allowed cost increases, when determining the adjusted operating results.

(3) The Applicant contended that the Commission was incorrect when it reduced the test year depreciation expense by \$34,016 to exclude depreciation on contributed property and argued that these figures should not have been considered by the Commission in arriving at its decision. Applicant further stated that the correct amount of contributions is \$600,000 or 28% of the total cost of water plant in service.

The evidence of record speaks for itself on this issue in that the contributions in aid of construction reflected on the balance sheet at the end of the test period were as follows:

Tap-on Fees	\$ 536,628
Federal Grants in Aid of Construction	552,000
Other Contributions	<u>141,987</u>
Total Contributions in Aid of Construction	<u>\$1,230,615</u>

(4) Applicant stated that the Commission was incorrect in allowing only a 1.2 debt service coverage.

Applicant offered no proof as to the required debt service coverage in these proceedings. The Commission found that the 1.2 debt service coverage was adequate to pay Applicant's operating expense, meet its debt service requirements and maintain a reasonable surplus. The cash available to Applicant after

meeting all its obligations, based on the findings in the July 1, 1981, Order is as follows:

Sources of Funds

Operating Revenues	\$392,256
Interest Income	<u>12,396</u>
Total Sources	<u>\$404,652</u>

Uses of Funds

Cash Operating Expenses	\$307,250
Principal and Interest Payments	59,090
Cash Available for Capital Expenditures and Reserves	<u>38,312</u>
Total Uses of Funds	<u>\$404,652</u>

From the above, the Commission finds the Applicant's contention (that a 1.5 debt service coverage is necessary) to be unfounded.

(5) The Commission's Order did not allow the Applicant to increase its charges for the initial connection of new customers from \$225 to \$300. The Applicant now alleges that it is able to document why it is requesting an increase and can show the Commission proof as to its increased cost.

Applicant offered no support for the requested increase in customer tap-on fees when asked in these proceedings.

The Commission, therefore, is of the opinion and finds that the Applicant was given ample opportunity to meet its burden of proof that this charge should be increased.

The Commission is of the opinion and finds that the petition for rehearing presents no additional evidence that could not have reasonably been presented in the original proceedings to affect the decision rendered in the Commission's Order of July 1, 1981.

IT IS THEREFORE ORDERED That the petition for rehearing  
filed by Cannonsburg Water District is hereby denied.

Done at Frankfort, Kentucky, this 3rd day of August, 1981.

PUBLIC SERVICE COMMISSION

Marlin W. Vohs  
Chairman

Katherine Bensall  
Vice Chairman

Ann Karpis  
Commissioner

ATTEST:

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Secretary