

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF MAYO VILLAGE WATER COMPANY, INC.,)
PURSUANT TO KRS 278.180, 278.190, AND RELATED)
STATUTES, AND 807 KAR 1:010, SECTION 109, AND)
807 KAR 2:020, SECTIONS 5 THROUGH 8, AND RE-)
LATED SECTIONS, THAT THE COMPANY PROPOSES TO)
PUBLISH AN EFFECTIVE TARIFF WHICH INCREASES)
THE WATER RATE TO ITS CUSTOMERS IN ITS CERTI-)
FICATED SERVICE AREA.)

CASE NO. 8136

APPLICATION FOR FOLLOWING:)

1. ORDER ALLOWING THE PUBLISHING OF A NEW)
TARIFF FOR AN INCREASE IN THE WATER RATES)
TO CUSTOMERS OF MAYO VILLAGE WATER COMPANY,)
INC.)

O R D E R

On January 30, 1981, Mayo Village Water Company, Inc., ("Applicant") filed its notice with this Commission wherein it proposed to increase its water service rates and charges by \$13,251 annually to become effective on and after February 18, 1981. By Commission Order dated February 2, 1981, the proposed rates and charges were suspended and the application of the rates was deferred for a period of five months on and after February 18, 1981.

The matter was scheduled for hearing at the Commission's offices in Frankfort, Kentucky, on June 17, 1981. All parties of interest were notified and the Division of Consumer Intervention of the Attorney General's Office was the only party formally intervening herein. A petition was filed by some of the consumers objecting to the rate increase.

After the hearing, additional information was requested. This information has been furnished and the entire matter is now submitted for final determination by this Commission.

COMMENTARY

Mayo Village Water Company, Inc., is a Kentucky corporation established by and under the laws of the State of Kentucky. Applicant presently serves approximately 130 customers in Pike County, Kentucky.

TEST PERIOD

The 12-month period ending September 30, 1980, has been used as the test year for the purpose of determining the reasonableness of the rates and charges proposed herein. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

REVENUES AND EXPENSES

The Applicant proposed several pro forma adjustments to revenues and expenses as reflected on its comparative income statement.

The Commission has accepted the pro forma adjustment of \$900 which represents one-third of the total cost incurred in connection with this rate case.

The Commission has disallowed the proposed pro forma adjustments for meter reading labor, rent, miscellaneous, office expense, truck expense, utilities and telephone expense, office salary, and management fee inasmuch as these adjustments were based solely on estimated increases in costs which are not sufficiently known and measurable.

The Commission has increased operating revenues by \$6,362 to reflect a normalization adjustment for the test year period based on the billing analysis. The amount reflected on the income statement submitted by

Applicant was based on cash receipts and did not reflect the revenue based on actual test year sales.

The Commission has also made the following adjustments to the test year operating expenses:

1. The cost of purchased water has been reduced by \$1,013 to \$8,357 which was the actual cost based on the invoices from the supplier for the test year.

2. The Applicant computed depreciation expense on plant in service at a rate of 10%. The Commission is of the opinion that the depreciation expense is excessive for rate-making purposes and has reduced depreciation expense to \$1,986, a reduction of \$2,661. Depreciation has been computed as follows:

Transmission lines	\$74,800	@ 2%	\$1,496
Meters	7,000	@ 3%	210
Pipes and fittings	2,000	@ 2%	40
Tools	1,200	@ 20%	<u>240</u>
Total Depreciation			<u>\$1,986</u>

3. Sales tax of \$653 and utility tax of \$523 have been excluded from operating expenses as the utility simply acts as a collection agency for the funds and does not incur any expense itself.

4. The Applicant included donations of \$369 in its operating expenses for the test year. In accordance with the Uniform System of Accounts for Water Utilities, these donations are a below-the-line item and should not be included in operating expenses. Therefore, the Commission has excluded \$369 from operating expenses and included this amount in Account 426, Miscellaneous Income Deductions.

5. Interest expense has been reduced by \$215 to \$1,800 to reflect the interest expense on notes payable at the end of the test year.

Based on the aforesaid adjustments, the Applicant's operating statement would appear as follows:

	<u>Actual</u> <u>9/30/80</u>	<u>Pro Forma</u> <u>Adjustments</u>	<u>Adjusted</u> <u>Test Year</u>
Operating Revenues	\$ 26,510	\$ 6,362	\$ 32,872
Operating Expenses	<u>36,484</u>	<u>(4,319)</u>	<u>32,165</u>
Net Operating Income	\$ (9,974)	\$ 10,681	707
Interest Expense	2,015	(215)	1,800
Other Deductions		369	369
Net Income	<u><u>\$(11,989)</u></u>	<u><u>\$ 10,527</u></u>	<u><u>\$(1,462)</u></u>

The actual net loss for the test year was \$11,989. After taking into consideration the pro forma adjustments, the adjusted loss would be reduced to \$1,462.

The Commission is of the opinion that a fair, just and reasonable operating ratio is 88% in that it will permit the Applicant to pay its operating expenses, service its debt and provide a reasonable return to Applicant's owners. The Commission finds that the Applicant's operating revenues should be \$39,494 which will require additional revenues of \$6,622 annually. Therefore, the increase in operating revenues is computed as follows:

Adjusted Operating Expenses	\$32,165
Income Taxes	<u>1,006</u>
Total Adjusted Operating Expenses	<u>\$33,171</u>
Operating Rates (\$33,171 ÷ 88%)	\$37,694
Add: Interest Expense	<u>1,800</u>
	<u>39,494</u>
Less: Operating Revenues	<u>32,872</u>
Increase in Revenues	<u><u>\$ 6,622</u></u>

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that the rates proposed by Mayo Village Water Company, Inc., would produce revenues in excess of those found to be reasonable herein and, therefore, must be denied upon application of KRS 278.030.

The Commission further finds that the rates set out in Appendix A attached hereto are the fair, just and reasonable rates for service

rendered by the Applicant on and after the date of this Order. These rates will produce annual revenues based on test year sales of approximately \$37,094, and the addition of \$2,400 of other operating revenues will provide total annual operating revenues of \$39,494.

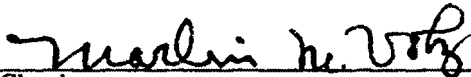
IT IS THEREFORE ORDERED that the rates proposed by Mayo Village Water Company, Inc., are hereby denied.

IT IS FURTHER ORDERED that the rates set out in Appendix A attached hereto and made a part hereof are approved for service rendered by Mayo Village Water Company, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED that the Mayo Village Water Company, Inc., shall file with this Commission, within 30 days from the date of this Order, its revised tariff sheets setting forth the rates approved herein. Further, that a copy of the Applicant's Regulations for providing service shall be filed with the said tariff sheets.

Done at Frankfort, Kentucky, this 5th day of August, 1981.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

Appendix A

Appendix to an Order of the Public Service Commission
in Case No. 8136 dated August 5, 1981.

The following rates and charges are prescribed for the customers in the area served by Mayo Village Water Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Monthly Rate

5/8" Meter

First	2,000 gallons	\$8.00 minimum bill
Next	3,000 gallons	2.80 per 1,000 gallons
Next	15,000 gallons	2.30 per 1,000 gallons
Next	30,000 gallons	1.70 per 1,000 gallons
Over	50,000 gallons	1.40 per 1,000 gallons

1" Meter

First	2,000 gallons	\$10.50 minimum bill
Next	3,000 gallons	2.80 per 1,000 gallons
Next	15,000 gallons	2.30 per 1,000 gallons
Next	30,000 gallons	1.70 per 1,000 gallons
Over	50,000 gallons	1.40 per 1,000 gallons