

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF WATER RATES)
OF PENDLETON COUNTY WATER) CASE NO. 8169
DISTRICT)

O R D E R

Preface

On March 13, 1981, the Pendleton County Water District ("Applicant") filed with this Commission its duly verified application seeking approval of proposed adjustments to its existing rates for providing water service. The rate increase sought by the Applicant will produce an estimated increase in gross revenue of \$3,903 from Division I and \$16,235 from Division II of Applicant's operations.

The matter was set for hearing at the Commission's office in Frankfort, Kentucky, on July 30, 1981, at 1:30 p.m., Eastern Daylight Time. All parties of interest were notified in the manner prescribed by Kentucky Revised Statutes, with the Consumer Protection Division of the Attorney General's Office being permitted to intervene. Additional information which was requested at the hearing has been filed and the entire matter is now considered to be fully submitted for final Commission determination.

Applicant's operation is unique in that it owns and operates two separate water distribution systems which are geographically separated by a distance of approximately four miles. Division I, which was constructed in 1962, serves approximately 510 customers in the areas of northern Pendleton County and southern Campbell County. Division II serves 55 customers including Griffin Industries, Inc., and Pendleton County High School in the area of Falmouth, Kentucky. This section was built in 1978.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates for each of the divisions Applicant serves, the 12-month period ending December 31, 1980, has been accepted as the test year. Adjustments, where found significant and reasonable, have been included to reflect more current operating conditions.

REVENUES AND EXPENSES

The Applicant proposed several pro forma adjustments to actual operating revenues and expenses as reflected in its comparative income statements for Division I and Division II, for the 12 months ended December 31, 1980. The Commission finds these adjustments allowable and has accepted them for rate-making purposes with the following exceptions:

Maintenance of Pumping Plant

Applicant proposed to amortize \$2,110 in maintenance expenses related to pumping plant in its operations in Division II over a 2-year period. It was deemed reasonable by the Commission to amortize this cost over 3 years, as the benefits derived from this maintenance program should extend the life of the asset beyond 2 years' operation.

Injuries and Damages

On page 41 of the transcript of evidence of the hearing of July 30, 1981, Mr. Harry Asher, Applicant's manager, testified that \$158 in expenses resulting from a failure in a back pressure relief valve located at Division II could be considered a non-recurring item of expense. The Commission concurs with the opinion of the Applicant's witness and has, therefore, deleted the \$158 from operating expenses.

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

Division I

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 72,200	\$ -0-	\$ 72,200
Operating Expenses	57,001	4,589	61,590
Net Operating Income	\$ 15,199	\$ (4,589)	\$ 10,610
Interest Expense	7,907	(149)	7,758
Net Income	<u>\$ 7,292</u>	<u>\$ (4,440)</u>	<u>\$ 2,852</u>

Division II

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 28,012	\$ -0-	\$ 28,012
Operating Expenses	24,269	3,086	27,355
Net Operating Income	\$ 3,743	\$(3,086)	\$ 657
Interest Expense	13,427	5	13,432
Net Income (Loss)	<u>\$ (9,684)</u>	<u>\$(3,091)</u>	<u>\$(12,775)</u>

DEBT SERVICE COVERAGE

Applicant's rates, as proposed, produce total operating revenue of approximately \$75,665 from Division I with miscellaneous revenue of \$438 during the test year. The proposed rates for Division II will produce approximately \$44,247.

Applicant's adjusted annual debt service cost in Division I is \$15,375, and in Division II is \$16,050. The resulting debt service coverage produced from the proposed rates for water sales is calculated as follows:

	<u>Division I</u>	<u>Division II</u>
Adjusted Operating Revenue	\$ 76,103	\$ 44,247
Less:		
Adjusted Operating Expenses	61,590	27,355
Net Operating Income	<u>\$ 14,513</u>	<u>\$ 16,892</u>
Net Operating Income	\$ 14,513	\$ 16,892
÷ Debt Service Cost	<u>\$ 15,375</u>	<u>16,050</u>
Debt Service Coverage	<u>.944</u>	<u>1.05</u>

The Commission is, therefore, of the opinion that the proposed rates for Divisions I and II should be approved as the rates generated will be sufficient to pay Applicant's operating expenses and improve its financial position.

FINDINGS IN THIS MATTER

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

1. The rates prescribed and set forth in Appendix A, attached hereto and made a part hereof, should produce gross annual revenues from water sales of approximately \$75,665 for Division I and \$44,247 for Division II and are the fair, just and reasonable rates to be charged for water service rendered by the Applicant.

2. Gross annual revenues in the amount of \$76,103 from Division I and \$44,247 from Division II are necessary and will permit the Applicant to meet its adjusted operating expenses and improve its financial position.

ORDERS IN THIS MATTER

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case HEREBY ORDERS that the rates prescribed and set forth in Appendix A, attached hereto and made a part hereof, are hereby fixed as the fair, just and reasonable rates of the Pendleton County Water District to become effective for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission, within 30 days after the date of this Order, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Applicant's rules and regulations for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 2nd day of October, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohz
Chairman

Katharine Randall
Vice Chairman

Jim Harrison
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8169 DATED OCTOBER 2, 1981

The following rates are prescribed for all customers served by Pendleton County 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

Division I

First 2,000 gallons	\$ 6.20 minimum bill
Next 3,000 gallons	1.90 per 1,000 gallons
Next 10,000 gallons	1.20 per 1,000 gallons
Over 15,000 gallons	1.10 per 1,000 gallons

Division II

First 2,000 gallons	\$ 7.85 minimum bill
Next 3,000 gallons	2.73 per 1,000 gallons
Next 10,000 gallons	2.03 per 1,000 gallons
Over 15,000 gallons	1.93 per 1,000 gallons

Special Contracts

Griffin Industries, Inc.

First 1,200,000 gallons	\$2,356.00 minimum bill
Over 1,200,000 gallons	1.93 per 1,000 gallons

Pendleton County High School

First 150,000 gallons	\$308.20 minimum bill
Over 150,000 gallons	1.93 per 1,000 gallons

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION OF KENTUCKY IN CASE NO. 8191 DATED
OCTOBER 2, 1981

The following rates and charges are prescribed for the customers of South Anderson 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.

Purchased Water Adjustment Applicable to the
South Anderson Water District Rate Schedule

The retail rates now authorized and operable are based upon the wholesale cost of water to the Applicant pursuant to valid contracts or wholesale tariffs on file with the Commission. For purposes of this purchased water adjustment clause, these wholesale rates shall be considered as the base rate for purchased water.

Application for Change in Base Rate. In the event there is a change in the base rates, the Applicant shall file with the Commission the following information:

(1) A copy of the wholesale supplier's tariff effecting a change in the base rate and a statement from the wholesale supplier evidencing the effective date of the new rates;

(2) A detailed statement of water purchased under the base rate for previous 12 months showing billing under the base rate and the applicable proposed rate;

(3) A detailed statement of water sold for the same 12 months period;

(4) A balance sheet and statement of operating expenses and revenues corresponding to the same 12 months period, said period ending not more than 90 days prior to the date of this utility's application for an increase in the base rate;

(5) Evidence that the Applicant has notified its customers of the proposed change, in the event of an increase only;

(6) Revised tariff sheets reflecting the rates the Applicant proposes to charge; and

(7) Such other information as the Commission may request for a proper determination of the purchased water adjustment.

Upon receipt of all the necessary information, the Commission will review the effect of the changed rate upon the Applicant's operations and if an increase is proposed, determine whether all or a part of the increase can be absorbed by the Applicant. The Applicant shall not implement its proposed revised rates until the Commission issues an Order authorizing the Applicant to adjust its rates. If an adjustment is authorized, the supplier's changed rate shall become the supplier's base rate for use in future applications.

The maximum amount of the adjustment so ordered shall not produce revenue adjustments greater than the difference between the purchased water bill at the base rate and the purchased water billed at the authorized revised rate.

The notice required by (5) may be accomplished by a bill insert.

Calculation of the Purchased Water Adjustment. If a change is made in a base rate charged to the Applicant by its supplier(s), the unit charges of the wholesale tariff shall be increased or decreased by a purchased water adjustment calculated as follows:

(1) Water purchases shall be computed at the supplier's base rate and the supplier's new rate using a period of 12 calendar months ending within three months preceding the month of the effective date of the supplier's rate change. The difference between these amounts shows the total change in the Applicant's purchased water costs.

(2) The total change in purchased water costs shall be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons, unless the Applicant's water purchases exceed 115% of water sales during the twelve-month period.

(3) In instances where water purchases exceed 115% of water sales, the actual water sales shall be divided by 85%, yielding the maximum allowable water purchases. The maximum allowable water purchases shall then be multiplied by the

change in cost per cubic foot or gallon, yielding the total allowable change. The total allowable change shall then be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons.

Procedure for Distribution of Refunds from Suppliers.

In the event the Applicant receives a refund from its supplier for amounts previously paid, the Applicant shall immediately apply to the Commission for authority to make adjustments on the amounts charged customers' bills under this regulation as follows:

(1) The total refund received by the Applicant shall be divided by the number of cubic feet or gallons of water the water utility estimates it will sell to its customers during the two-month period beginning with the first day of the month following receipt of the refund, yielding a refund factor.

(2) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, the Applicant will reduce by the refund factor any purchased water adjustment that would otherwise be applicable during the period. The period of reduced purchased water adjustment shall be adjusted, if necessary, in order to most nearly approximate the total amount to be refunded.

(3) In the event Applicant receives a large or unusual refund, the Applicant may apply to the Commission for a deviation from the procedure for distribution of refunds specified herein.

The base rate for purchased water for the future application of its purchased water adjustment clause is:

<u>Supplier</u>	<u>Rate</u>
Lawrenceburg Municipal Water	\$.66 per 1000 gallons
Stringtown Water District	\$.72 per 1000 gallons 130.00 minimum