

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * *

In the Matter of

APPLICATION OF WATER VALLEY WATER) CASE NO.
WORKS FOR ADJUSTMENT OF RATES) 8171

O R D E R

On March 17, 1981, Water Valley Water Works ("Applicant") filed with the Public Service Commission an application seeking approval of a proposed adjustment to its existing rate for providing water service. The proposed rate sought by the Applicant would yield gross annual revenues from water sales of \$3,300, an increase of approximately \$600 over test-year operations.

The Attorney General's Division of Consumer Intervention filed a motion to intervene in this matter on March 23, 1981. Thereafter, by Order dated April 15, 1981, the Commission scheduled a hearing for June 17, 1981, for the purpose of determining the reasonableness of the proposed rate and required the Applicant to notify its customers of the date and location of the hearing and of the proposed rate in manners prescribed by Commission regulations. The Commission, having further considered the matter, is of the opinion and finds that a hearing is not in the public interest in the instant case as the additional cost incurred during the hearing process, in and of itself, would only result in increased expenses for the utility and ultimately higher rates for the ratepayer. The Commission therefore finds that the hearing in the above case scheduled June 17, 1981, at 1:00 p.m., Eastern Daylight Time, in the

Commission's offices at Frankfort, Kentucky, should be cancelled.

Commentary

Water Valley Water Works is a water distribution system serving 50 customers in Graves County, Kentucky. The source of supply for the system, which originally began operations in approximately 1925, is two wells owned by Laura and Murrel Stephens, co-owners of the Applicant.

Test Period

For the purposes of testing the reasonableness of the proposed rate, the Commission has adopted the twelve months ended December 31, 1980, as the test period. Pro forma adjustments, when proper and reasonable, have been included to more clearly reflect current operating conditions.

Valuation Methods

The records of the Applicant are insufficient in detail to provide the necessary information to determine the net investment or capitalization. Without these records it is impossible for the Commission to make rate determinations on the traditional methods; therefore, the operating ratio method will be used herein.

The formula used in computing operating ratio is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

Revenues and Expenses

The Applicant submitted its actual income statement for the twelve months ended December 31, 1980, without proposing adjustments to said statement. However, from additional information contained in the application, the Commission has made the following adjustments to Applicant's test year operations:

(1) The Applicant has not included depreciation for the test period as adequate plant records do not exist. Therefore, the Commission has made an adjustment to Applicant's operating statement to allow for annual depreciation expense attributable to plant additions since December 31, 1980. Total additions during this period were \$1,575,⁽¹⁾ which depreciated over a ten year useful life would result in annual depreciation expense of \$158.

(2) The owners are to be commended for their efforts to limit the operating expenses of the Applicant. These efforts have been exhibited by their operation of the utility without compensation for the many services they perform. However, after examining the duties necessary to operate a water utility of this size, the Commission is of the opinion that a fee of \$50 per month or a total of \$600 is a reasonable fee for these services and, in conformity with past Commission decisions concerning similar sized utilities, has included this expense for rate-making purposes.

(1)
Application, page 1.

(3) The Applicant was required to obtain a six-month loan of \$1,575 at an interest rate of 17% per annum to make required plant additions. As the Commission has determined that this action was both necessary and proper, the interest expense of \$56 associated with the loan has been included for rate-making purposes.

Therefore, test year operations have been adjusted to produce the following results:

| | <u>Actual</u> | <u>Adjustments</u> | <u>Adjusted</u> |
|-----------------------------|---------------|--------------------|-----------------|
| Operating Revenue | \$2,700 | -0- | \$2,700 |
| Operating Expenses | 2,249 | 758 | 3,007 |
| Net Operating Income (Loss) | <u>\$ 451</u> | (\$758) | (\$ 307) |
| Interest Expense | -0- | 56 | 56 |
| Net Income (Loss) | <u>\$ 451</u> | <u>(\$814)</u> | <u>(\$ 363)</u> |

Return

The Commission is of the opinion that the adjusted operating income is clearly unjust and unreasonable. The Commission is further of the opinion that the proposed rate should be approved as the \$3,300 (an increase of \$600) in revenues generated by the proposed rate will produce an operating ratio of 92.8% and will be sufficient to pay Applicant's operating expenses. The Commission is concerned, however, that while the rate requested by the Applicant and approved herein is sufficient to meet its day-to-day operating expenses, it is inadequate to produce an operating ratio of 88%, that operating ratio normally found to be fair, just and reasonable to also provide a reasonable surplus necessary for equity growth. Moreover, the Commission is of the opinion that the Applicant will be unable to continue operating for an extended period of time under these conditions. It therefore encourages the Applicant to reassess its financial position and take the necessary steps to ensure its financial stability.

Findings and Orders

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

1. The rate prescribed and set forth in Appendix A, attached hereto and made a part hereof, should produce gross annual revenues of approximately \$3,300 and is the fair, just and reasonable rate to be charged for water service rendered by the Applicant.
2. Gross annual revenues of \$3,300 are essential to permit the Applicant to meet its adjusted operating expenses and provide adequate, reliable service.
3. The Applicant should immediately establish and maintain plant and other records in such manner as will enable it and the Commission to determine the net investment and capitalization.

IT IS THEREFORE ORDERED that:

- (1) The rate prescribed and set forth in Appendix A, attached hereto and made a part hereof, is hereby fixed as the fair, just and reasonable rate to be charged by Water Valley Water Works for water service rendered on and after the date of this Order.
- (2) The Applicant shall file with this Commission, within 30 days after the date of this Order, its tariff sheets setting forth the rate 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.

(3) The Applicant shall establish and maintain adequate records to enable it and the Commission to determine the net investment and capitalization.

(4) For the reasons set forth on Page 1 of this Order, the hearing in this case scheduled for June 17, 1981, at 1:00 p.m., Eastern Daylight Time, in the Commission's offices at Frankfort, Kentucky, be and it hereby is cancelled.

(5) To insure that all affected parties have the opportunity to express an opinion with respect to the approved rate if they so desire, Water Valley Water Works shall, within ten days of the date of this Order, mail to each customer a notice setting forth the approved rate. Said notice shall also contain the following language:

After analyzing the information set forth in the application, the Commission has determined that the approved rate is required to enable the Water Valley Water Works to meet its operating expenses and to continue to provide adequate service and, further, that the holding of a hearing in this matter would not be in the public interest as it would place additional costs on the utility and ultimately the rate-payer. However, if any customer desires to make a statement concerning the approved rate or request a hearing in this matter at the Commission's offices in Frankfort, Kentucky, he/she may do so by mailing the statement or request by July 1, 1981, to the Public Service Commission, P. O. Box 615, Frankfort, Kentucky 40602. A copy of the information should also be provided to the Attorney General's Consumer Intervention Division.

(6) Water Valley Water Works shall file with the Commission (with a copy to the Attorney General's Consumer Intervention Division)

a copy of the notification and a notarized statement verifying such notification.

Done at Frankfort, Kentucky, this the 12th day of June 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katharine Randall
Vice Chairman

Alm Harigau
Commissioner

ATTEST:

Secretary

Appendix A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8171
DATED JUNE 12, 1981.

The following rate is prescribed for all customers served by Water Valley Water Works, Water Valley, Graves County, Kentucky. 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.

Customer Category

Monthly Rate

Residential

\$5.50