

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the Matter of:

THE APPLICATION OF HARDIN COUNTY )  
WATER DISTRICT NO. 1, A WATER )  
DISTRICT ORGANIZED PURSUANT TO )  
CHAPTER 74 OF THE KENTUCKY ) CASE NO. 8173  
REVISED STATUTES OF HARDIN COUNTY, )  
KENTUCKY, FOR APPROVAL OF THE )  
INCREASED WATER RATES TO BE )  
CHARGED BY THE DISTRICT TO CUS- )  
TOMERS OF THE DISTRICT )

O R D E R

On March 18, 1981, Hardin County Water District No. 1 ("Applicant") filed an application with this Commission seeking (1) a certificate of convenience and necessity permitting Applicant to undertake a waterworks construction project and (2) approval of the proposed plan of financing of said project.

On April 9, 1981, the Commission issued an Order wherein the matter was set for hearing on April 15, 1981. On April 27, 1981, Applicant filed an amended application requesting approval of an increase in water rates charged to its customers. The proposed rates would produce additional revenues of \$71,010 annually, an increase of 9.1% above normalized test year operating revenues. On May 14, 1981, the Commission issued an Order wherein the matter of increased rates was set for hearing on June 18, 1981, and Applicant was directed to give notice to its customers of the proposed rate increase and the scheduled hearing.

On June 2, 1981, Applicant filed an amended application wherein it increased its proposed rates and proposed to change its method of billing multi-family customers. The revision in the proposed rates and the billing change increased Applicant's requested revenue increase by \$220,156 to a total of \$291,166, an increase of 37.5% over normalized test year revenues. Applicant stated that the revised rates were necessary to enable it to meet its projected debt service requirements, which had increased due to the increase in costs of its proposed construction project.

The Commission entered an Order on June 3, 1981, wherein the hearing scheduled for June 18, 1981, was continued until further notice. On June 8, 1981, the Commission issued an Order which scheduled the matter for hearing on July 7, 1981, and directed Applicant to give notice to its customers of the proposed rate increase and the scheduled hearing. The hearing was held as scheduled on July 7, 1981, and a further hearing was conducted on July 24, 1981.

On July 1, 1981, the Citizens for Commercial Water Meters of Hardin County Water District No. 1 filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein.

On July 6, 1981, the Commission issued an Interim Order which approved Applicant's proposed waterworks construction project and its proposed plan of financing. This Order addresses Applicant's proposed increase in water rates charged to its customers.

COMMENTARY

Hardin County Water District No. 1 is a nonprofit water treatment and distribution system organized and existing under the laws of the Commonwealth of Kentucky. Applicant presently serves approximately 3,830 retail customers and two wholesale customers in Hardin County, Kentucky.

TEST YEAR

Applicant proposed and the Commission has adopted the 12 months ending December 31, 1980, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period, the Commission has given full consideration to known and measurable changes where appropriate.

REVENUES AND EXPENSES

Applicant proposed several adjustments to operating expenses as shown in Table V-3 of the revised engineering report, which the Commission finds to be proper and acceptable for rate-making purposes. In addition, the Commission has adjusted operating revenues by \$18,588 to reflect test year end rates for sales for resale. The Commission has also reduced revenues by \$7,265 to eliminate sales tax as an item of revenue. The net effect of all adjustments is as follows:

|  | <u>Actual<br/>Test Year</u> | <u>Adjustments</u>  | <u>Adjusted<br/>Test Year</u> |
|--|-----------------------------|---------------------|-------------------------------|
| Operating Revenues                     | \$ 765,434                  | \$ 11,323           | \$ 776,757                    |
| Operating Expenses                     | 456,660                     | (68,159)            | 388,501                       |
| Net Operating Income                   | <u>\$ 308,774</u>           | <u>\$ 79,482</u>    | <u>\$ 388,256</u>             |
| Interest on Long-Term Debt             | 95,969                      | 352,800             | 448,769                       |
| Other Income and<br>(Deductions) - Net | <u>22,741</u>               | <u>-0-</u>          | <u>22,741</u>                 |
| Net Income                             | <u>\$ 235,546</u>           | <u>\$ (273,318)</u> | <u>\$ (37,772)</u>            |

### REVENUE REQUIREMENTS

In order to issue parity bonds, Applicant must comply with certain conditions of the water revenue bond ordinance of 1978. One of the provisions of this ordinance is that revenues will be sufficient to produce a debt service coverage of 1.3. In determining the net annual debt service requirements, the bond ordinance provides for a reduction of the gross annual principal and interest payments for projected net annual cash flow of the invested sinking fund. The revenue requirements as proposed by Applicant did not take this provision into consideration, nor did they include the revenue of \$25,709 from these investments, or revenue of \$3,250 from reconNECTIONS, in determining gross income and revenues. Giving consideration to these items of revenue, the Commission has determined that Applicant's revenue should be increased by \$177,621 as calculated below:

|                                     |                     |
|-------------------------------------|---------------------|
| Gross Income and Revenues           | \$ 802,466          |
| Operating Expenses                  | 388,501             |
| Net Revenues                        | \$ 413,965          |
| Net Annual Debt Service Requirement | 455,066             |
| Coverage Requirement                | 136,520             |
| Revenue Deficiency                  | <u>\$ (177,621)</u> |

### RATE DESIGN

The Applicant proposed to establish a new rate schedule that would apply to "multi-unit" customers. It defined a "multi-unit" customer as any customer with three or more units being served through one master meter. The Applicant proposed to compute the bills to the multi-unit premises by dividing the

total gallons of water registered by such master meter in each month by the number of units in such premises to develop an average usage. The total bill for the premises would then be computed by using the calculated average usage for each unit, pricing at the appropriate rate step and multiplying by the number of units.

Thereafter, by letter filed July 23, 1981, the Applicant proposed an alternate method of billing the "multi-unit" customers. It proposed to allow each "multi-unit" customer 2,000 gallons (minimum bill) per unit and to price the remaining water at the rate in the second rate block.

As the Applicant provided no cost justification to support either of the proposed methods, the Commission finds no compelling reason to deviate from its established policy of allowing 2,000 gallons (minimum bill) for each unit in the premises and carrying the balance of the usage through the remaining rate blocks. This method, although resulting in slightly less revenue from the "multi-unit" customers than either of the Applicant's proposed methods, has proven to be a fair, just and reasonable method of establishing rates.

#### SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that the rates set out in Appendix A are the fair, just and reasonable rates for Applicant in that they will produce annual revenue from water sales of approximately \$871,035 and should be

approved. This revenue along with investment and other revenue of \$109,052 will result in gross annual revenues of \$980,087 which will be sufficient to pay Applicant's operating expenses and meet its bond ordinance requirements. The Commission finds that the rates approved herein are necessary in order to fulfill the requirements of Applicant's parity bond resolution upon issuance of the securities approved in this case and should not be placed into effect until such time as the authorized securities are issued.

The Commission further finds that the rates and charges proposed by Applicant would produce revenue in excess of that found to be reasonable herein and, therefore, must be denied upon application of KRS 278.030. Further, the proposed rates to serve the "multi-unit" customers were not supported by the evidence of record herein, would not be in the best interests of the affected customers and should be denied.

IT IS THEREFORE ORDERED that the rates set out in Appendix A, attached hereto and made a part hereof, are approved for service rendered on and after the date of the issuance of the parity revenue bonds.

IT IS FURTHER ORDERED that the rates proposed by Hardin County Water District No. 1 are hereby denied.

IT IS FURTHER ORDERED that Applicant shall file, within a reasonable time, after the issuance of the bonds, the date or dates of sale, the exact interest rate, the purchasers, the maturity dates, and a list of the expenses and fees involved in the issuance of the parity revenue bonds.

IT IS FURTHER ORDERED that Applicant shall advise the Commission as to the initial investments of the funds for the debt service reserve requirement and any changes thereafter.

IT IS FURTHER ORDERED that Hardin County Water District No. 1 shall file with the Commission within 30 days from the effective date of the rates authorized herein, its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 21st day of September, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs  
Chairman

Katherine Randall  
Vice Chairman

D. M. Carrigan  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8173 DATED September  
21, 1981

The following rates are prescribed for all customers served by Hardin County Water District No. 1. 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 Rates

Applicable to entire area served

General Customers

Rate

|  |                    |
|--|--------------------|
| First 2,000 gallons used per month         | \$4.50 Minimum     |
| Next 8,000 gallons used per 1,000 gallons  | 1.10/1,000 gallons |
| Next 15,000 gallons used per 1,000 gallons | .90/1,000 gallons  |
| Next 15,000 gallons used per 1,000 gallons | .75/1,000 gallons  |
| Over 40,000 gallons of water used          | .60/1,000 gallons  |

Multi-Family Rate (Trailer Parks, Apartment Buildings, etc.)

Available to customers that serve three or more units through one water meter.

The minimum bill shall be the residential monthly minimum (\$4.50) times the number of units available per customer. The monthly minimum shall entitle the customer to not less than 2,000 gallons of water, times the number of units available per month. The balance of the monthly usage shall be at the general customers' rates.

Connection Charge

Meter Size

|             |          |
|-------------|----------|
| 5/8" x 3/4" | \$250.00 |
| 3/4"        | 280.00   |
| 1 "         | 340.00   |
| 1 1/2 "     | 480.00   |
| 2 "         | 625.00   |