

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

THE NOTICE OF SOUTHERN MASON)
WATER DISTRICT OF ADJUSTMENT) CASE NO. 8176
OF WATER RATES AND CHARGES)
ON MAY 1, 1981)

O R D E R

Preface

On March 23, 1981, the Southern Mason 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 \$8,773 over test-year operations.

This case was set for hearing at the Commission's offices in Frankfort, Kentucky on August 6, 1981, at 1:00 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 in this matter. At the hearing, certain requests for information were made by the Commission staff. This information has been filed and the entire matter is now considered to be fully submitted for final determination by this Commission.

Test Period

The Applicant has selected the 12-month period ending December 31, 1980, as the test-year and has submitted tabulations of its actual revenues and expenses for this period and its pro forma adjustments thereto, for the Commission's consideration in the determination of a rate adjustment.

Revenues and Expenses

The Applicant proposed several adjustments to actual operating revenues and expenses as reflected in its comparative income statement 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:

Purchased Water

Applicant, in its computation of pro forma purchased water cost failed to consider excessive line loss of approximately 2.9% above the 15% maximum allowed by the Commission. Therefore, the Commission has reduced purchased water cost from \$18,708 to \$17,337, calculated as follows:

$$(21,052.8 \text{ M gallons, annualized water sales} \\ + .85) \times 70\text{¢} = \$17,337.$$

Transmission and Distribution - Operation Labor

Based on the Uniform System of Accounts for Class C and D Water Utilities, the installation cost of new water meters should be capitalized and depreciated over the useful life of the meters. The Applicant has incorrectly included \$1,356 pertaining to meter installation costs in operation labor expenses. Therefore, the

Commission has deleted \$1,356 from operating expenses and included it in depreciable plant for the purpose of computing adjusted depreciation expense.

Maintenance of Distribution Mains

The Applicant requested \$4,758 for the maintenance of mains. The Commission is of the opinion that certain items included in this account should be capitalized and depreciated over the useful life of the property. The two items are a valve box locator with carrying case (\$328) and a four-inch turbo strainer (\$246). Moreover, the Applicant has erroneously included in operating expense year-end supplies on hand in the amount of \$405. After considering these items, the Commission finds that the allowable maintenance of distribution mains is \$3,779.

Transportation Expenses

The Applicant proposed a pro forma adjustment to transportation expense of \$1,718. However, Applicant's computation contained an error in the calculation of the 7-month average. The Commission, in recomputing this cost, arrived at \$173.25⁽¹⁾ per month, making the adjusted operating expense \$2,079.⁽²⁾

Depreciation Expense

The Commission is of the opinion that the allowance for depreciation expense should be computed on the basis of the original cost of utility plant in service less accumulated contributions in aid of construction. Further adjustments to this account are required pursuant to an allowance for additional

(1) $\$1,213 \div 7 = \173.25
(2) $\$173.25 \times 12 = \$2,079$

depreciation expense as a result of the Commission capitalizing certain items expensed by the Applicant. Following are the Commission's adjustments to this item of expense for the test period:

| | |
|--|-----------------|
| Plant in Service December 31, 1980 | \$306,844 |
| Add: | |
| Installation cost of new meters | 1,356 |
| Valve box locator with carrying case and four-inch turbo strainer | <u>574</u> |
| Subtotal | \$308,774 |
| Less: | |
| Contributions in Aid of Construction December 31, 1980 | <u>40,009</u> |
| Net depreciable plant for rate-making purposes | \$268,765 |
| Depreciation rate (2%) | <u>.02</u> |
| Allowable depreciation expense | <u>\$ 5,375</u> |

Rate Case Expense

At the hearing, the Commission requested that the Applicant file, for the record, its itemized expenses incurred in the preparation of its rate case. Invoices totalling \$1,536.60 were filed by Applicant and the Commission has amortized this amount over a three-year period. ($\$1,537 \div 3 \text{ years} = \512).

Past Due Accrued Interest

Applicant, in its testimony before the Commission, stated that it owed \$44,362.50 in past due accrued interest and requested that it be allowed to amortize this cost over a four-year period. The Commission has extended the amortization period to five years and allowed \$8,873 per year to be included in customer rates for the sole purpose of paying the lenders their past due interest.

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

| | <u>Actual</u> | <u>Adjustments</u> | <u>Adjusted</u> |
|----------------------|-----------------|--------------------|------------------|
| Water Sales | \$65,284 | -0- | \$65,284 |
| Operating Expenses | <u>48,914</u> | <u>(1,790)</u> | <u>47,124</u> |
| Net Operating Income | \$16,370 | 1,790 | \$18,160 |
| Other Income | 3,495 | (472) | 3,023 |
| Interest Expense | 14,552 | -0- | 14,552 |
| Past Due Interest | <u>-0-</u> | <u>8,873</u> | <u>8,873</u> |
| Net Income | <u>\$ 5,313</u> | <u>\$ (7,555)</u> | <u>\$(2,242)</u> |

Debt Service Coverage

Applicant's rates, as proposed, produce total operating revenue from water sales of approximately \$74,057. Moreover, Applicant has other operating revenue of \$3,023 at the end of the test year.

Applicant's adjusted annual debt service cost excluding past due interest accrued is \$9,552, and the resulting debt service coverage produced from the allowed rates for water sales is calculated as follows:

| | |
|-----------------------------|------------------|
| Adjusted Operating Revenue | \$ 77,080 |
| Less: | |
| Adjusted Operating Expenses | 47,124 |
| Past Due Accrued Interest | <u>8,873</u> |
| Net Operating Income | <u>\$ 21,083</u> |
| Net Operating Income | \$ 21,083 |
| + Debt Service Cost | <u>19,552</u> |
| Debt Service Coverage | 1.08 X |

The Commission is, therefore, of the opinion that the proposed rates should be approved as the revenues generated by those rates 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 of approximately \$74,057 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 \$77,080 are necessary and will permit the Applicant to meet its adjusted operating expenses and improve its financial position.

3. The Applicant should be required to establish a separate interest bearing account for the purpose of accumulating annual funds of \$8,873 for the payment of past due accrued interest.

4. The Applicant should be required to submit a quarterly report to the Commission setting out such pertinent information as follows:

- a. Monthly deposits of \$739 to the account;
- b. Interest earnings credited to the account;
- c. All disbursements to the account and the recipients thereof.

5. The Applicant has not maintained its accounting records, especially in the area of capitalized cost, pursuant to KRS 272.280, Section 3, Item (1), which requires that each utility shall set up the proper accounts to conform with the Commission's Order adopting a uniform classification of accounts for water utilities.

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 Southern Mason Water District to become effective for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the Applicant is hereby directed to establish a separate, interest bearing account, and make monthly deposits of \$739 thereto for the purpose of accumulating sufficient funds to pay the past due accrued interest, the requirements of which are set out in finding number 3.

IT IS FURTHER ORDERED that the Applicant is hereby directed to maintain its accounting records pursuant to KRS 278.820, Section 3, Item (1), with special attention to capitalized cost.

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 S. Boh
Chairman

Katherine Randall
Vice Chairman

Jim Karpman
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8176 DATED OCTOBER 2,
1981

The following rates are prescribed for all customers served by Southern Mason 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:

Rates based on monthly consumption

Domestic and Commercial Rate

| | | |
|-------|----------------|------------------------|
| First | 1,000 gallons | \$ 10.50 Minimum Bill |
| Next | 4,000 gallons | 3.00 per 1,000 gallons |
| Next | 5,000 gallons | 2.70 per 1,000 gallons |
| Over | 10,000 gallons | 2.50 per 1,000 gallons |

Rates based on monthly consumption

Field Connection Rate

| | | |
|--------------------|----------------|---------------------------|
| First | 1,000 gallons | \$ 5.50 Minimum Bill |
| Next | 4,000 gallons | 3.00 per 1,000 gallons |
| Next | 5,000 gallons | 2.70 per 1,000 gallons |
| Over | 10,000 gallons | 2.50 per 1,000 gallons |
| Truck Loading Rate | | \$ 4.00 per 1,000 gallons |