

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

WOODLAWN, OAKDALE AND HUSBANDS ROAD )  
WATER DISTRICT (SEWER SYSTEM) APPLI-) CASE NO. 8180  
CATION FOR SEWER RATE INCREASE AND )  
ORDER ALLOWING FOR AN INCREASE IN )  
SEWER RATES )

O R D E R

On March 30, 1981, Woodlawn, Oakdale and Husbands Road Water District ("Woodlawn"), a sewer utility providing service in the Paducah, Kentucky, area to approximately 1,447 customers filed its notice seeking permission to increase the rates charged for sewer service. Woodlawn stated that the increase was necessary to comply with its bond indenture and to maintain sufficient revenue to meet the expenses directly connected with the efficient operation of its sewer system.

In order to determine the reasonableness of the proposed increase, a public hearing was held at the offices of the Public Service Commission in Frankfort, Kentucky on July 29, 1981, with the Consumer Protection Division of the Attorney General's Office being the sole intervenor. With the filing of certain information requested at the hearing, the entire matter is now submitted for final Commission determination.

TEST PERIOD

For the purpose of testing the reasonableness of the proposed rates, the Commission has adopted the 12 months ending December 31, 1980, as the test period. In accordance with Commission policy, pro forma adjustments have been included when found appropriate.

REVENUES AND EXPENSES

Woodlawn proposed several adjustments to its income statement to reflect more current operating conditions. The Commission is of the opinion that these adjustments are proper, and they have been accepted with the following exceptions:

Maintenance and Repairs

Woodlawn proposed to include in its test period operating expenses \$27,583 for maintenance and repair of its sewer system. Woodlawn could substantiate only \$25,395 of this amount. The Commission has determined that of the \$25,395, \$5,581 should have been amortized over a 10-year period and \$11,907 should have been amortized over a 5-year period. The Commission is of the opinion that, under normal operating conditions, the maintenance and repairs which have been amortized will not need to be performed again during the amortization period. Therefore, the Commission has reduced Woodlawn's expense for maintenance and repairs by  
(1)  
\$16,737.

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(1) Testimony of Mr. Martin and analysis of the maintenance invoices.

Regulatory Commission Expense

In its previous rate case, Case Number 7382, Woodlawn was ordered to refund \$10,947 in over-collections from unapproved rates. Woodlawn proposed to include this refund in its regulatory commission expenses, amortized over a 3-year period. Since this was a refund of money collected from the charging of illegal rates and not an expense incurred through the lawful operation of the utility, the Commission has disallowed its inclusion in Woodlawn's operating expenses.

Woodlawn further proposed to include \$4,601<sup>(2)</sup> for the current years' amortization of the rate case expenses incurred in connection with Case Number 7382. In reviewing the record in that case, the Commission has found that annual amortization of \$2,062<sup>(3)</sup> was permitted for rate-making purposes. The Commission has, therefore, reduced Woodlawn's requested expense by \$2,539.

In Woodlawn's current rate case, the Commission has determined that the \$6,300<sup>(4)</sup> of expenses documented by Woodlawn should be amortized over a 3-year period in accordance with Commission policy.

Therefore, the Commission has reduced Woodlawn's total estimated regulatory commission expenses by \$6,388.

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(2) Notice Exhibit No. 4, pg. 5.

(3) Commission Order in Case No. 7382.

(4) Notice Exhibit No. 17.

Office Supplies

Woodlawn, in connection with the refund ordered in Case Number 7382, incurred additional office expenses during the test period of approximately \$325. The Commission is of the opinion that, as the refund was the result of improper management, any expenses associated with the refund should be the responsibility of the investors in the utility and should not be borne by its customers. Therefore, the Commission has reduced this expense by (5) \$325.

Rent Expense

Woodlawn did not substantiate a pending \$200 increase in its office rent. Therefore, the Commission has disallowed this amount. (6)

Depreciation Expense

Woodlawn, in determining its test period depreciation expense for its plant in service, has included contributed property of \$540,928 (7) in its calculations. The Commission, for rate-making purposes, views depreciation as a means of recouping the investment in the utility plant. Therefore, the Commission has excluded the contributed portion of the plant in service in determining Woodlawn's pro forma depreciation expense. Based on noncontributed plant of \$1,196,476, (8) the Commission has deter-

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(5) Testimony of Ms. Gardner.

(6) Notice Exhibit No. 13.

(7) Notice Exhibit No. 3, pg. 3; testimony of Ms. Gardner.

(8) Response to Commission Order dated May 7, 1981; total plant in service shown on the depreciation schedule less contributions in aid of construction.

mined Woodlawn's depreciation expense to be \$13,999,<sup>(9)</sup> a reduction of \$6,249.

The adjusted revenues and expenses of Woodlawn are as follows:

	<u>Woodlawn Pro Forma</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 176,737	\$ 0	\$ 176,737
Operating Expenses	135,301	(29,899)	105,402
Operating Income	<u>\$ 41,436</u>	<u>\$ 29,899</u>	<u>\$ 71,335</u>
Other Income - Net	8,274	0	8,274
Net Income	\$ 49,710	\$ 29,899	\$ 79,609

REVENUE REQUIREMENTS

Woodlawn proposed an average debt service of \$102,763<sup>(10)</sup> which the Commission has accepted. Using adjusted test period results, including other income (net) and depreciation, Woodlawn's debt service coverage was approximately .77X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable and that additional revenues of \$43,707<sup>(11)</sup> are required to improve Woodlawn's debt service coverage to a fair, just and reasonable level of 1.2X. Based on test period results, total operating revenue of \$220,444 should be sufficient to allow Woodlawn to pay its operating expenses, service its debt and maintain an adequate surplus for equity growth.

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(9) Total depreciation taken in test period divided by total plant depreciated.

(10) Notice Exhibit No. 4, pg. 7.

(11) Average debt service of \$102,763 X 1.2 less adjusted Net Income of \$79,609 = \$43,707.

## RATE STRUCTURE

Woodlawn's rates for sewage service are based on metered water usage. The present rate structure consists of five rate blocks ranging from a 7,200 gallon minimum usage level to an over 500,000 gallon usage level. Eighty-nine percent of the customers fall within the first two blocks, and no customers are billed in the last block.<sup>(12)</sup> Woodlawn proposed to change its rate structure by reducing and adjusting the usage levels in the various rate blocks to reflect more accurately the actual usage levels of its customers. The Commission is of the opinion that the proposed usage levels are reasonable and will enable the utility to achieve a fair allocation of usage and billing, benefitting both the utility and its customers. These usage levels should, therefore, be approved.

## SUMMARY

The Commission, after examination of the evidence of record and being advised, finds that:

1. The rates charged by Woodlawn produce operating revenues insufficient to meet its operating expenses and provide adequate coverage for its debt service.
2. The rates in Appendix A, attached hereto and made a part hereof, should produce annual operating revenues of \$220,444 and are the fair, just and reasonable rates to be charged in that they will allow Woodlawn to pay its operating expenses, service

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(12) Water usage and revenues.

its debt and provide a reasonable amount of surplus for equity growth.

3. The rates proposed by Woodlawn and set out in its notice would produce revenues in excess of those found reasonable by the Commission and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved as the fair, just and reasonable rates to be charged by Woodlawn, Oakdale and Husbands Road Water District for sewer services rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Woodlawn, Oakdale and Husbands Road Water District in its notice be and they hereby are denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, Woodlawn, Oakdale and Husbands Road Water District shall file with this Commission its revised tariffs setting out the rates approved herein.

Done at Frankfort, Kentucky, this 23rd day of November, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh  
Chairman

William Randall  
Vice Chairman

Jim Carney  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO 8180 DATED NOVEMBER 23, 1981

The following rates and charges are prescribed for sewer service for the customers of the Woodlawn, Oakdale and Husbands Road 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.

Water Rates on which the 100  
Percent Monthly Sewer Service  
Will be computed

<u>Water Usage</u>	<u>Monthly Rate</u>
First 4,000 gallons	\$ 5.55 minimum
Next 16,000 gallons	1.00 per 1,000 gallons
Next 20,000 gallons	.75 per 1,000 gallons
Next 40,000 gallons	.70 per 1,000 gallons
Over 80,000 gallons	.65 per 1,000 gallons