

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the Matter of:

THE NOTICE OF MONTGOMERY COUNTY )  
WATER DISTRICT NUMBER ONE OF ) CASE NO. 8185  
AN ADJUSTMENT OF WATER RATES AND )  
CHARGES ON MAY 1, 1981 )

O R D E R

On March 31, 1981, Montgomery County Water District Number One ("District") filed an application with this Commission giving notice of an adjustment of rates to become effective May 1, 1981. The proposed rates would produce additional revenue of \$10,836 annually, an increase of 33.0% based on the test year revenue. By Commission Order, the effective date of the proposed tariffs was suspended until October 1, 1981, pursuant to the provisions of KRS 278.190. The termination of the suspension period was waived for 30 days by the District on July 7, 1981.

On April 7, 1981, the Division of Consumer Protection in the Department of Law filed a motion to intervene in this proceeding, which was sustained. However on July 31, 1981, the Division notified the Commission that it would not participate in the cross-examination at the hearing.

A hearing was held at the Commission's offices in Frankfort, Kentucky, on August 5, 1981. The matter is now considered submitted for final determination by the Commission.

### Commentary

Montgomery County Water District Number One is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. The District presently serves approximately 335 customers in the Mount Sterling, Kentucky, area.

### Test Period

The Commission has adopted the 12-month period ending December 31, 1980, as the test period for the purpose of determining the reasonableness of the proposed rates. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

### Revenues and Expenses

The District proposed pro forma adjustments to increase its water revenue based on the proposed rates and to reflect the increased costs associated with this rate case. The rate case expense was estimated to be \$3,000 for legal and consulting fees, to be amortized over a 3-year period. However, the actual bills submitted by the District show total rate case expense of \$2,700. Therefore, the Commission has adjusted the amortization of rate case expense to \$900.

The Commission has reduced the District's repairs and maintenance expense by \$1,634 to exclude the cost of a major repair on an intake valve and by \$347 for a new custom heater at the plant.

The major repair was not a recurring expense and will only be necessary every 3 to 10 years.<sup>(1)</sup> The estimated life of the new heater was 3 to 5 years. Therefore, the Commission has determined that these items should not be expensed, and has included an additional depreciation expense of \$69 for the heater and an amortization expense of \$327 for the repair based on a 5-year life.

The Commission has reduced depreciation expense by \$93 for rate-making purposes. The District's balance sheet reflected contributions in aid of construction of \$5,762 or approximately 3.53% of total plant. It is the intent of the Commission that the District, through its water service rates, generate revenues sufficient to recover all costs incurred in providing service to its customers. However, the District should not charge its customers for costs it has not incurred, as would be the case if it were allowed depreciation on contributed property.

Based on the allowed pro forma adjustments, the District's test period operations appear as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 32,854	\$ -0-	\$32,854
Operating Expenses	36,478	(778)	35,700
Operating Income (Loss)	<u>(3,624)</u>	<u>778</u>	<u>(2,846)</u>
Interest Expense	3,692	-0-	3,692
Net Income	<u>\$ (7,316)</u>	<u>\$ 778</u>	<u>\$ (6,538)</u>

---

(1) Transcript of Evidence of August 5, 1981, pages 32-34.

### Revenue Requirements

The Commission is of the opinion that a debt service coverage of 1.2 will allow the District to pay its operating expenses, meet its debt service requirements and maintain reasonable reserves. Based on this debt service coverage the District's operating revenues should be \$42,530, which will require additional revenue of \$9,673 annually.

### Other Issues

#### Unauthorized Rates

During the course of these proceedings the Commission learned that the District has been charging unauthorized rates to its mobile home park consumers. The rate to these consumers was increased without the approval of the Commission. The Commission is of the opinion that a refund of the over collections at this time would place a severe financial burden on the District which would have to be borne by all its consumers. Therefore, the Commission finds that a refund would not be in the best interest of the majority of the consumers of the District and should not be required. The District is hereby advised, however, that this Commission will not permit any future disregard of the law and may seek to impose the maximum statutory penalties if additional offenses occur.

#### Service Connection Fees

The District has proposed to charge the actual cost for a domestic service connection that requires the District to cross a road to connect the prospective customer to its main. This practice is not proper for the installation of small connections (3/4", 1"), the charge for which should be based on average cost.

The District may charge the actual cost incurred for the installation of larger service connections.

Summary

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that the rates proposed by the District would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

The Commission further finds that the rates in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for water service rendered by the District in that it will permit the District to meet its reasonable operating expenses and to accumulate a reasonable surplus for equity growth.

IT IS THEREFORE ORDERED that the rates in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for water service rendered by the District on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by the District are hereby denied.

IT IS FURTHER ORDERED that the District shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

IT IS FURTHER ORDERED that the charges for service connections in this instance are hereby denied.

IT IS FURTHER ORDERED that the District shall file tariff sheets for service charges that reflect the average cost for installation along with cost justification for such requested charges.

Done at Frankfort, Kentucky, this 28th day of October, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohy  
Chairman

Katherine Sandall  
Vice Chairman

Jim Carrey  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8185 DATED OCTOBER 28,  
1981

The following rates and charges are prescribed for all customers in the area served by Montgomery 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.

RATES: Monthly

First	2,000 gallons	\$ 6.00 minimum bill
Next	3,000 gallons	1.05 per thousand gallons
Next	5,000 gallons	0.95 per thousand gallons
All Over	10,000 gallons	0.75 per thousand gallons