

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION AND PETITION OF THE)
WHITLEY COUNTY WATER DISTRICT NO. 1)
FOR AN ORDER AUTHORIZING THE WATER)
DISTRICT TO REVISE RATES, TO INITIATE)
A METERING PROGRAM TO BEGIN METERING)
ALL CUSTOMERS, FOR A PURCHASED WATER) CASE NO. 8220
ADJUSTMENT CLAUSE, AND FOR A WAIVER)
BY THIS COMMISSION PERMITTING THE FILING)
OF THIS APPLICATION AND THE PROCESSING)
OF THIS CASE BASED UPON FINANCIAL)
STATEMENTS FOR THE PERIOD ENDING)
DECEMBER 31, 1980.)

O R D E R

Preface

On April 14, 1981, the Whitley County Water District No. 1 ("Whitley County") filed its duly verified application with this Commission seeking approval of proposed adjustments to its existing rates for providing water service; permission to initiate a metering program for all customers; approval of a purchased water adjustment clause; and a waiver permitting Whitley County to file its financial statements based on the 12 months ending December 31, 1980.

The rate increase sought by Whitley County would yield annual revenues of approximately 48.4% over test year operations.

This case was set for hearing at the Commission's offices in Frankfort, Kentucky, on August 18, 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. Additional information requested during the hearing has been filed and the entire matter is now considered to be fully submitted for final determination by this Commission.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1980, has been accepted as the test year. Adjustments, where found significant and reasonable, have been included to reflect more current operating conditions.

REVENUES AND EXPENSES

Whitley County proposed several pro forma 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

Whitley County, in its response to this Commission's Order requesting additional information, furnished a schedule of water purchases, by months, for the test period totalling \$33,531.20, which is approximately \$2,046 over the amount originally requested in its application. The Commission considers \$33,531.20 the proper amount to be included in operating expenses for rate-making purposes.

Maintenance of Pumping Plant

Whitley County proposed a pro forma cost of \$2,224 per year pertaining to the maintenance of pumping plant. After an examination of the individual invoices comprising this account, the Commission finds that the following costs were incurred prior to the test period and should be excluded for rate-making purposes:

12/14/79 Poynter Brothers Electric	\$ 14.40
3/6-12/31/79 Buhl Water Service	1,040.65
Total	<u>\$ 1,055.05</u>

Chemicals

An analysis of the individual invoices related to the pro forma cost of chemicals showed that Whitley County had purchased a Chem-Tech feed pump from Williamsburg Water Treatment, Inc., during the test period at a cost of \$270. The Commission considers this purchase to be a capital item and has, therefore, deleted it from pro forma operating expense.

Maintenance of Mains

Pursuant to the Commission's Order dated July 16, 1981, Whitley County furnished a detailed breakdown of all construction extensions and capital improvements to its distribution system for the test period. The Commission used this information and unit prices for material costs and hourly wage rates in computing the amount of capital cost that Whitley County had incorrectly accounted for as operating expenses. The Commission was unable to determine the exact accounts in which these capital items were included and therefore has made the following adjustment to the account, maintenance of mains:

Material and labor cost of capital extensions	\$ 4,842.99
Less: Amount capitalized by Whitley County per the 1980 Annual Report	838.62
Amount of adjustment	<u>\$ 4,004.37</u>

Maintenance of Service

An analysis of the invoices pertaining to the account, maintenance of services, indicated that payments were made to W. D. Bryant and Son, Inc., in the amount of \$291.66, and Williamsburg Hardware in the amount of \$70, which were purchases made prior to the test year. The Commission has, therefore, deducted these two payments from test period expenses.

Maintenance of Meters

Whitley County included \$1,563 in its pro forma operating expenses for the cost of maintaining its meters. On cross-examination, Whitley County's expert accounting witness testified that such items as meters, meter boxes, lids and associated labor cost were erroneously charged to expense. Therefore, the Commission is of the opinion that the following capital cost should be deducted from this account:

Test period cost of meters and associated materials	\$ 1,137.19
Internal labor cost to be capitalized	387.68
Total adjustment	<u>\$ 1,524.87</u>

Meter Reading Labor

Whitley County has projected \$4,453 as the pro forma cost of reading water meters. At the present time, Whitley County has only a portion of its water system metered, and, on a per-customer basis, the cost appears excessive. However, Whitley

County requested additional funds of approximately \$40,200 to meter the entire water system. After the project is completed, the expense will be justified, as the projected per-customer cost of approximately \$0.55 per meter is reasonable. Therefore, the Commission considers this pro forma cost allowable for rate-making purposes.

Depreciation Expense

The Commission is of the opinion that the allowance for depreciation expense should be computed on the basis of original cost of utility plant in service less contributions in aid of construction. The allowable depreciation expense adjustment of \$11,953.13 has been computed by the Commission as follows:

Plant in service at 12/31/80	\$525,869.03
Add: amounts removed from expense by the Commission and capitalized-Chem-Tech feed pump	270.00
The capital extension program	4,842.99
Meters, lids and associated labor cost	1,525.00
Subtotal	<u>\$532,507.02</u>
Less: Contributions in aid of construction	54,381.75
Depreciable plant in service	<u>\$478,125.27</u>
Composite depreciation rate	X .025
Allowable depreciation expense	<u><u>\$ 11,953.13</u></u>

Water Meter Program

Whitley County stated in its application that 285 out of 687 customers are presently on a metered basis and that approximately 50 meters are being read each month. Whitley County proposes to install meters in the remainder of its water system at an estimated cost of \$40,200 (402 meters @ \$100 per meter). Moreover, Whitley County has included in its pro forma operating

expenses an annual amortization charge of \$10,050 to finance this construction program over a 4-year period.

The Commission, giving due consideration to the proposed metering program of Whitley County, has concluded there would be a decided savings in the cost of purchased water by having all customers on a metered basis. However, the Commission has extended the period of amortization to 5 years in order to maintain a reasonable water rate for the ratepayers. Therefore, the Commission considers the following computation of the amortization of the metering program allowable: $\$40,200 \div 5 \text{ years} = \$8,040$.

Rate Case Expense

Item two of Whitley County's response to the Commission's Order dated May 18, 1981, provided a detailed analysis of rate case expenses totaling \$4,425. Whitley County's accounting witness testified during the hearing that there would be additional accounting costs of approximately \$1,500 due to additional time spent in answering additional data information requests. The Commission has, therefore, amortized the following rate case expenses over a 3-year period:

Legal	\$ 1,300
Consulting Engineer	1,500
Accounting	1,200
Water District Expense	425
Additional Accounting Expense	1,500
Total	<u>\$ 5,925</u> $\div 3 \text{ years} = \$1,975$.

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

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 93,175	\$	\$ 93,175
Operating Expenses	101,972	6,670	108,642
Net Operating Income (Loss)	<u>\$ (8,797)</u>	<u>\$ 6,670</u>	<u>\$(15,467)</u>
Interest Income	182		182
Interest Expense	23,142	(375)	22,767
Net Income (Loss)	<u><u>\$ (31,757)</u></u>	<u><u>\$ (6,295)</u></u>	<u><u>\$(38,052)</u></u>

DEBT SERVICE COVERAGE

Whitley County's rates, as proposed, produce total operating revenue of approximately \$138,299. Moreover, Whitley County had other miscellaneous income of \$132 during the test year.

Whitley County's adjusted average annual debt service cost is \$34,340, and the resulting debt service coverage produced from the allowed rates for water sales is calculated as follows:

Adjusted Operating Revenue	\$138,481
Less:	
Adjusted Operating Expenses	108,642
Net Operating Income	<u>\$ 29,839</u>
Net Operating Income	\$ 29,839
+ Debt Service Cost	34,340
Debt Service Coverage	<u><u>.869</u></u>

The Commission is, therefore, of the opinion that the proposed rates should be approved as the rates generated will be sufficient to pay Whitley County's operating expenses and improve its financial position.

SUMMARY

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 \$138,481 and are the fair, just and reasonable rates to be charged for water service rendered by Whitley County.

2. Gross annual revenues in the amount of \$138,481 are necessary and will permit Whitley County to meet its adjusted operating expenses and improve its financial position.

3. Whitley County should be required to establish a special interest bearing account, for the purpose of accumulating annual funds of \$8,040 to meter the remainder of its water distribution system.

4. Whitley County should be required to submit a quarterly report to the Commission setting out the following information:

- a. Monthly deposits of \$670 to the account;
- b. Interest earnings credited to the account;
- c. All disbursements to the account and the recipients thereof.

5. The stipulations in findings three and four will apply to Whitley County's accumulation of annual funds of \$22,340 for the purpose of paying interest on long-term debt, the monthly deposit to this account being \$1,862.

6. It is in the public interest that Whitley County be authorized to implement a purchased water adjustment clause as prescribed by the Commission's administrative regulation 807 KAR 5:067.

IT IS THEREFORE ORDERED that the rates prescribed and set forth in Appendix A, attached hereto and made a part hereof, are hereby fixed as fair, just and reasonable rates of the Whitley County Water District No. 1 to become effective for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Whitley County shall establish a special interest bearing account, and make monthly deposits of \$670 thereto for the purpose of metering the remainder of its water distribution system, the requirements of which are set out in findings three and four.

IT IS FURTHER ORDERED that Whitley County shall establish a special interest bearing account, and make monthly deposits of \$1,862 thereto for the purpose of paying interest on long-term debt, the requirements being the same as set out in findings three and four.

IT IS FURTHER ORDERED that Whitley County is granted authority to implement a purchased water adjustment clause as prescribed by this Commission's administrative regulation 807 KAR 5:067.

IT IS FURTHER ORDERED that Whitley County shall file with this Commission, within 30 days after the date of this Order, its tariff sheets setting forth the rates approved herein. Further, a copy of Whitley County's rules and regulations for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 26th day of October, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katherine Russell
Vice Chairman

Lynn Curigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION OF KENTUCKY IN CASE NO. 8220 DATED
OCTOBER 26, 1981

The following rates and charges are prescribed for the customers served by Whitley County Water District No. 1 in Whitley County, Kentucky. 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:

Meter Customers:

First	2,000 gallons	\$7.50 (minimum monthly charge)
Next	98,000 gallons	2.50 per 1,000 gallons
Next	100,000 gallons	2.00 per 1,000 gallons

Non-Metered Customers:

Minimum monthly charge \$15.00 per month

Purchased Water Adjustment Applicable to the
Whitley County Water District Rate Schedule

The retail rates now authorized and operable are based upon the wholesale cost of water to Whitley County pursuant to valid contracts or wholesale tariffs on file with the Commission. For purposes of this purchased water adjustment clause, these wholesale rates shall be considered as the base rate for purchased water.

Application for Change in Base Rate. In the event there is a change in the base rates, Whitley County shall file with the Commission the following information:

(1) A copy of the wholesale supplier's tariff effecting a change in the base rate and a statement from the wholesale supplier evidencing the effective date of the new rates;

(2) A detailed statement of water purchased under the base rate for previous 12 months showing billing under the base rate and the applicable proposed rate;

(3) A detailed statement of water sold for the same 12-month period;

(4) A balance sheet and statement of operating expenses and revenues corresponding to the same 12-month period, said period ending not more than 90 days prior to the date of this utility's application for an increase in the base rate;

(5) Evidence that Whitley County has notified its customers of the proposed change, in the event of an increase only;

(6) Revised tariff sheets reflecting the rates Whitley County proposes to charge; and

(7) Such other information as the Commission may request for a proper determination of the purchased water adjustment.

Upon receipt of all the necessary information, the Commission will review the effect of the changed rate upon Whitley County's operations and if an increase is proposed, determine whether all or a part of the increase can be absorbed by Whitley County. Whitley County shall not implement its proposed revised rates until the Commission issues an Order authorizing Whitley County to adjust its rates. If an adjustment is authorized, the supplier's changed rate shall become the supplier's base rate for use in future applications.

The maximum amount of the adjustment so ordered shall not produce revenue adjustments greater than the difference between

the purchased water billed at the base rate and the purchased water billed at the authorized revised rate.

The notice required by (5) may be accomplished by a bill insert.

Calculation of the Purchased Water Adjustment. If a change is made in a base rate charged to Whitley County by its supplier(s), the unit charges of the wholesale tariff shall be increased or decreased by a purchased water adjustment calculated as follows:

(1) Water purchases shall be computed at the supplier's base rate and the supplier's new rate using a period of 12 calendar months ending within 3 months preceding the month of the effective date of the supplier's rate change. The difference between these amounts shows the total change in Whitley County's purchased water costs.

(2) The total change in purchased water costs shall be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons, unless Whitley County's water purchases exceed 115% of water sales during the 12-month period.

(3) In instances where water purchases exceed 115% of water sales, the actual water sales shall be divided by 85%, yielding the maximum allowable water purchases. The maximum allowable water purchases shall then be multiplied by the change in cost per cubic foot or gallon, yielding the total allowable change. The total allowable change shall then be

divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons.

Procedure for Distribution of Refunds from Suppliers. In the event Whitley County receives a refund from its supplier for amounts previously paid, Whitley County shall immediately apply to the Commission for authority to make adjustments on the amounts charged customers' bills under this regulation as follows:

(1) The total refund received by Whitley County shall be divided by the number of cubic feet or gallons of water the water utility estimates it will sell to its customers during the 4-month period beginning with the first day of the month following receipt of the refund, yielding a refund factor.

(2) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, Whitley County will reduce by the refund factor any purchased water adjustment that would otherwise be applicable during the period. The period of reduced purchased water adjustment shall be adjusted, if necessary, in order to most nearly approximate the total amount to be refunded.

(3) In the event Whitley County receives a large or unusual refund, Whitley County may apply to the Commission for a deviation from the procedure for distribution of refunds specified herein.

The base rate for purchased water for the future application of its purchased water adjustment clause is:

<u>Supplier</u>	<u>Rate</u>
City of Williamsburg	\$0.65 per 1,000 gallons
<u>City of Corbin</u>	
First 1,000 gallons	\$4.05 per 1,000 gallons
Next 1,000 gallons	1.60 per 1,000 gallons
Next 1,000 gallons	1.30 per 1,000 gallons
Next 7,000 gallons	1.05 per 1,000 gallons
Next 90,000 gallons	1.00 per 1,000 gallons
Over 100,000 gallons	0.70 per 1,000 gallons