

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF FOUNTAIN )  
RUN WATER DISTRICT NO. 1 FOR ) CASE NO. 8334  
ADJUSTMENT OF RATES )

O R D E R

On August 20, 1981, Fountain Run Water District No. 1 ("Fountain Run") filed an application with the Commission seeking approval of a proposed adjustment to its existing rates for providing water service. The proposed rates sought by Fountain Run would yield additional gross annual revenues from water sales of approximately \$5,000, an increase of 30 percent above test period revenues.

On September 25, 1981, the Consumer Protection Division of the Attorney General's Office filed a letter with the Commission stating that after reviewing the application and exhibits it had decided not to intervene. No other protests or petitions to intervene have been filed.

The Commission, having considered the matter, is of the opinion and finds that a hearing is not in the public interest. The additional cost incurred during the hearing process, in and of itself, would result in increased expenses for the utility and ultimately, higher rates for the ratepayer. Moreover, the record in this case contains sufficient information to determine fair, just and reasonable rates.

COMMENTARY

Fountain Run is a water distribution utility serving approximately 150 customers in Monroe County, Kentucky. Fountain Run began operations in 1971 and has had no rate increases during this period of operation. The requested increase in this case was sought primarily to offset the costs to be incurred in cleaning and re-painting Fountain Run's water tank.

TEST PERIOD

For the purposes of testing the reasonableness of the proposed rates, the Commission has adopted the 12 months ended December 31, 1980, as the test period.

REVENUES AND EXPENSES

Fountain Run submitted its actual income statement for the 12 months ended December 31, 1980, and proposed only the \$5,000 adjustment to operating expenses for the cleaning and re-painting of its water tank, which the Commission has amortized over a 5-year period to reflect the expected period of benefit to Fountain Run's ratepayers. The Commission has, moreover, made an adjustment to reduce Fountain Run's test period depreciation expense from \$5,546 to \$2,028.<sup>(1)</sup> Fountain Run, in determining test period depreciation expense for its plant in service, included depreciation on contributed property. As the contributed plant was acquired without cost to Fountain Run, the Commission has excluded this portion of plant in determining depreciation expense for rate-making purposes.

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(1)  $\$278,607 - \$177,180 = \$101,427 \times 2\% = \$2,028.$

Therefore, the adjusted operating revenues and expenses of Fountain Run are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 16,512	\$ -0-	\$ 16,512
Operating Expenses	<u>15,563</u>	<u>(2,518)</u>	<u>13,045</u>
Operating Income	<u>\$ 949</u>	<u>\$ 2,518</u>	<u>\$ 3,467</u>

#### REVENUE REQUIREMENTS

Fountain Run's average debt service requirement is \$6,983. Using adjusted test period results, Fountain Run's debt service coverage was approximately .50X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. The Commission is moreover of the opinion that the requested additional revenues of \$5,000 will produce a fair, just and reasonable debt service coverage of approximately 1.2X in that total revenues of \$21,512 will be sufficient to allow Fountain Run to pay its operating expenses, service its debt and maintain an adequate surplus for equity growth.

#### RATE DESIGN

Fountain Run, in its application, did not propose a schedule setting forth proposed rates, but indicated that it would apply an increase of \$2.00 per month per subscriber.

The Commission is of the opinion that this is not the proper method of increasing revenue in this case and, therefore, the charge of \$2.00 per month per subscriber should be denied.

It would be in the best interest of Fountain Run and its subscribers to spread the rate increase granted herein by increasing each step of the existing declining block schedule.

All Fountain Run customers are billed under the same rate schedule with the exception of the City of Fountain Run which pays a flat rate of \$80.00 per month for fire hydrant rental. The flat rate for fire hydrant rental should be increased to \$100.00 per month.

FINDINGS AND ORDER

The Commission, after reviewing all the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A, attached hereto and made a part hereof, should produce gross annual revenues of approximately \$21,512 and are the fair, just and reasonable rates to be charged for water service rendered by Fountain Run.

2. A hearing in this matter is not in the public interest.

IT IS THEREFORE ORDERED that:

(1) The rates in Appendix A, attached hereto and made a part hereof, are hereby fixed as the fair, just and reasonable rates to be charged by Fountain Run Water District No. 1 for water service rendered on and after the date of this Order.

(2) Fountain Run's proposed flat rate increase of \$2.00 per customer per month is hereby denied.

(3) Fountain Run 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 Fountain Run's rules and regulations for providing service to its customers shall be filed with the tariff sheets.

(4) To insure that all affected parties have the opportunity to express an opinion with respect to the approved rates, Fountain

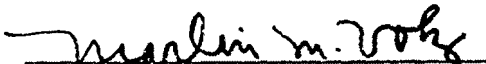
Run Water District No. 1 shall, within 10 days of the date of this Order, mail to each customer a notice setting forth the approved rates. This notice shall also contain the following language:

After analyzing the information set forth in the application, the Commission has determined that the approved rate is required to enable the Fountain Run Water District No. 1 to meet its operating expenses and to continue to provide adequate service and, further, that the holding of a hearing in this matter would not be in the public interest as it would place additional costs on the utility and ultimately the ratepayer. However, if any customer desires to make a statement concerning the approved rate or to request a hearing in this matter at the Commission's offices in Frankfort, Kentucky, he/she may do so by mailing the statement or request by January 10, 1982, to the Public Service Commission, P. O. Box 615, Frankfort, Kentucky 40602. A copy of the information should also be provided to the Attorney General's Consumer Protection Division, 209 Saint Clair Street, Frankfort, Kentucky 40601.

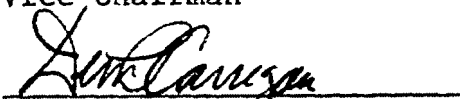
(5) Fountain Run Water District No. 1 shall file with the Commission (with a copy to the Attorney General's Consumer Protection Division) a copy of the notification and a notarized statement verifying such notification.

Done at Frankfort, Kentucky, this 10th day of December, 1981.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC  
SERVICE COMMISSION IN CASE NO. 8334  
DATED DECEMBER 10, 1981

The following rates and charges are prescribed for all customers in the area served by Fountain Run 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	\$ 7.50 Minimum Bill
Next	3,000 gallons	2.15 per 1,000 gallons
Next	5,000 gallons	1.75 per 1,000 gallons
Next	10,000 gallons	1.45 per 1,000 gallons
Over	20,000 gallons	1.25 per 1,000 gallons

The minimum bill of \$7.50 entitles the user to 2,000 gallons of water or less each month.

Contract rate for fire hydrant  
rental with the City of Fountain Run \$100.00 per month