

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED WATER ADJUSTMENT )  
FILING OF NORTHEAST )  
WOODFORD COUNTY WATER ) CASE NO. 7516-1  
DISTRICT )

O R D E R

On March 4, 1982, the Northeast Woodford County Water District ("Northeast Woodford") filed an application with the Public Service Commission requesting authority to institute a purchased water adjustment clause ("clause") and to adjust its rates for service rendered in accordance with the provisions of that clause pursuant to an increase in purchased water cost from its supplier, the City of Versailles ("City"). On May 24, 1982, the Commission issued its Order in this matter allowing the institution of the clause and denying an increase in rates due to the Commission's determination that Northeast Woodford could absorb the increase in purchased water expenses. Northeast Woodford filed an application for rehearing of the Commission's decision on June 15, 1982, citing as the basis for its application the Commission's rate-making treatment of its debt to the City, the quantity of purchased water allowed and the method used in determining depreciation expense for rate-making purposes. On July 19, 1982,

Northeast Woodford filed additional information as permitted by an Order of the Commission dated July 1, 1982.

The Commission has previously denied Northeast Woodford's application for rehearing concerning its debt to the City and will not further address that matter herein. The Commission will further address Northeast Woodford's information filed regarding the rate-making treatment of the quantity of water purchased and depreciation expense.

Quantity of Water Purchased

On July 19, 1982, Northeast Woodford filed the affidavit of Warner A. Broughman, III, P.E., in which he sets out several items of water loss which in his opinion should not be considered as part of Northeast Woodford's line loss to be used by the Commission in determining the amount of purchased water to allow for rate-making purposes. The Commission agrees with Mr. Broughman's assertion that water used in the flushing of lines should not be included in the determination of line loss for a utility and hereby directs Northeast Woodford to account for water used by the utility for flushing lines and any other water used by the utility separately from that accounted for as line loss in accordance with the Commission's prescribed annual report. The exclusion of the estimated water used for line flushing from the Commission's calculation of the quantity of water to be used for rate-making purposes is insignificant and does not affect the Commission's determination that Northeast Woodford can absorb the increase in water costs from the City.

In the Commission's opinion, the remainder of the items set out in Mr. Broughman's affidavit are clearly to be accounted for as line loss. As stated in previous Orders and as a part of the regulation regarding purchased water adjustments, the Commission has determined that the maximum line loss to be charged for rate-making purposes is 15 percent. The Commission, therefore, rejects Northeast Woodford's petition for rehearing concerning the quantity of water purchased used for rate-making purposes in this case.

The Commission advises Northeast Woodford that it is currently reviewing its policy and regulation concerning the maximum line loss allowed for rate-making purposes but has reached no conclusion at the date of this Order.

#### Depreciation Expense

Northeast Woodford maintains that the Commission should not reduce its plant in service for rate-making purposes by the amount of contributions in aid of construction as this item consists of fees paid by customers of the water district for installation of water meters for tap-ons. The Commission is of the opinion that contributions paid to the utility for installation of meters or any other capital expenditures have the effect of reducing the utility's capital requirements from investors.

It is therefore the policy of the Commission to compute depreciation expense on the basis of the original cost of the plant less contributions in aid of construction, as ratepayers should not be required to provide recovery on that portion of

the plant that has been provided free of cost. Thus, the Commission has denied Northeast Woodford's request for a rehearing on this matter.

FINDINGS AND ORDER

After examining the evidence of record and being advised, the Commission finds that Northeast Woodford's application for a rehearing of Case No. 7516-1 should be denied.

IT IS THEREFORE ORDERED that Northeast Woodford's application for rehearing of the Commission Order in Case No. 7516-1, dated May 24, 1982, be and it hereby is denied.

Done at Frankfort, Kentucky, this 16th day of September, 1982.

PUBLIC SERVICE COMMISSION

Marlin W. Cook  
Chairman

Katherine Randall  
Vice Chairman

L. W. Carroon  
Commissioner

ATTEST:

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Secretary