

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF THE BULLOCK)
PEN WATER DISTRICT OF GRANT,)
BOONE AND PENDLETON COUNTIES,) CASE NO. 8335
KENTUCKY FOR APPROVAL OF AN)
INCREASE IN RATES TO BE CHARGED)
FOR WATER SERVICE)

O R D E R

On September 24, 1981, the Bullock Pen Water District ("Bullock Pen") filed a petition with this Commission requesting authority to raise its rates to provide an increase in revenues of \$75,448. The Commission in this Order has granted Bullock Pen rates to produce \$69,521 in additional annual revenues.

On April 29, 1982, Bullock Pen amended its petition to include a request for a certificate of public convenience and necessity to construct certain line improvements and additions.

A hearing was held on May 4, 1982, at the Commission's offices in Frankfort, Kentucky. No intervenors were present. The Commission, on July 6, 1982, issued an Interim Order, granting a certificate of public convenience and necessity authorizing Bullock Pen to construct the proposed plant improvements and additions.

TEST PERIOD

For the purpose of determining the reasonableness of the requested rates, Bullock Pen proposed and the Commission

has accepted the 12-month period ending December 31, 1981, as the test period in this case.

REVENUES AND EXPENSES

Bullock Pen proposed no pro forma adjustments to its test period operations. However, the Commission is of the opinion that the following adjustments to 1981 operations are necessary to present normal operations fairly for rate-making purposes:

Operating Revenue

In response to requests from the Commission, Bullock Pen filed a revised billing analysis subsequent to the hearing. This billing analysis showed total water sales for the test year of 98,289,900 gallons. This volume is 18,273,000 gallons greater than the volume Bullock Pen used to compute its test period revenues. At current rates prior to any increase herein, revenues for the test period based on sales of 98,289,900 gallons are \$267,173. Therefore, the Commission is of the opinion that test period revenues as presented in Bullock Pen's application should be adjusted by \$25,738 to reflect the adjusted volume of sales during the test period.

As part of the filing of the revised billing analysis, the Commission was informed that the bulk loading station at Verona is located on private property and that the property owner is paid 20 percent of the revenue from the loading station for use of the property and maintenance of the station. These facts were not made a part of the evidence of record nor was information

provided as to amounts paid or type of service rendered during the test year. Based on the test year usage shown in the billing analysis for the Verona loading station, the Commission has determined that 20 percent of the revenue generated from this station at the proposed rates would result in a payment of approximately \$6,138, an increase of \$2,046 over the test year payment. The Commission finds that there is no evidence of record concerning this expense and that it should not be considered for rate-making purposes. The Commission is of the opinion that a percentage contractual agreement of this kind could result in excessive or unreasonable costs to the utility or its customers. Therefore, Bullock Pen should file with the Commission a statement regarding the services performed by the owner of the Verona loading station and the basis of payment for such services.

Depreciation

It is the Commission's policy to compute depreciation expense on the basis of original cost of the plant less contributions in aid of construction, as a utility should not be permitted cost recovery on that portion of the plant that is provided to it free of cost. Therefore, Bullock Pen's depreciation expense has been reduced by \$11,416 to an annual expense of \$36,933.⁽¹⁾

(1) Plant in Service (\$2,443,838) - Contributions in Aid of Construction (\$597,188) = Depreciable Plant (\$1,846,650)
X Depreciation rate (2%) = Depreciation Expense (\$36,933).

Therefore, Bullock Pen's adjusted test period operating expenses are adjusted as follows:

	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$241,435	\$ 25,738	\$267,173
Operating Expenses	<u>217,602</u>	<u>(11,416)</u>	<u>206,186</u>
Net Operating Income	<u>\$ 23,833</u>	<u>\$ 37,154</u>	<u>\$ 60,987</u>

REVENUE REQUIREMENTS

Bullock Pen proposed and the Commission has accepted the inclusion of \$6,250 of additional interest expense in the debt service calculation. This additional expense reflects the interest accrual for the most recent bond series issued in 1982, which was not reflected in test period operations. With the inclusion of the additional interest expense, Bullock Pen's average debt service is \$108,756. Further, Bullock Pen's adjusted debt service coverage under current rates is approximately .56X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. Moreover, the Commission is of the opinion and finds that a debt service coverage of 1.2X is the fair, just and reasonable coverage, in that it will permit Bullock Pen to pay its operating expenses and meet the requirements of its lenders. Therefore, the Commission had determined that Bullock Pen is in need of \$69,521 additional revenues.

RATE STRUCTURE

Bullock Pen's present rate design contains a separate rate schedule for each of the 5 meter sizes used by its customers plus

a flat rate for bulk loading stations and the 6-inch meter serving the city of Dry Ridge. The final usage blocks for 5/8-inch, 1-inch and 1½-inch meters are for consumption over 10,000 gallons and for the 2-inch meter, over 16,000 gallons. Bullock Pen proposed to adjust the rate schedules by adding an additional rate step to the 1-inch and 1½-inch schedules, realigning the usage levels for 5/8-inch meters and changing the last usage level in each of the schedules to over 20,000 gallons. The 6-inch meter and bulk loading stations would remain on a flat rate.

The billing analysis filed by Bullock Pen indicates that the usage levels in the present rate schedules do not adequately reflect the usage patterns of Bullock Pen's customers. The Commission is of the opinion that the proposed changes in the rate structure are reasonable and will enable the utility to achieve a more equitable allocation of usage and billing, benefiting both the customers and the utility.

Bullock Pen further proposed to increase its service connection charges for the various size meters. The Commission is of the opinion that the proposed connection fees are reasonable and should be approved.

Bullock Pen also proposed meter installation fees of \$50 for 5/8-inch meters and \$75 for larger meters. These fees would be applicable to seasonal customers requesting removal of the meter during the winter months. The Commission is of the opinion that this is a reasonable charge in that the cost of providing this service should be borne by those customers who request it.

SUMMARY

After reviewing the record and being advised, the Commission is of the opinion and finds that:

1) The rates proposed by Bullock Pen will provide annual revenues in excess of the \$336,694 found to be fair, just and reasonable and should be denied upon application of KRS 278.030.

2) The rates in Appendix A are the fair, just and reasonable rates to charge for water service and should be approved.

3) The meter installation fee as well as the rate structure proposed by Bullock Pen should be approved.

4) Bullock Pen should file within 30 days of the date of this Order a statement concerning the operation and maintenance of the Verona loading station.

IT IS THEREFORE ORDERED that the rates proposed by Bullock Pen will provide revenues in excess of those found fair, just and reasonable and are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates to charge for water service and are hereby approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the proposed connection fees and meter installation charges be and they hereby are approved.

IT IS FURTHER ORDERED that the rate structure as proposed by Bullock Pen be and it hereby is approved.

IT IS FURTHER ORDERED that Bullock Pen shall file with this Commission a statement concerning the operation and maintenance of the Verona loading station.

IT IS FURTHER ORDERED that Bullock Pen shall file with this Commission within 30 days of the date of this Order, its revised tariff sheet setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 29th day of July, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katharine Randall
Vice Chairman

Lent Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8335 DATED JULY 29,
1982

The following rates are prescribed for the customers of Bullock Pen 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 effective date of this Order.

5/8" X 3/4" Meter

Gallonge Block

First 2,000 gallons
Next 3,000 gallons
Next 5,000 gallons
Next 10,000 gallons
Over 20,000 gallons

Monthly Rate

\$ 8.75 minimum
3.50 per 1,000 gallons
3.00 per 1,000 gallons
2.50 per 1,000 gallons
2.00 per 1,000 gallons

1" Meter

Gallonge Block

First 5,000 gallons
Next 5,000 gallons
Next 10,000 gallons
Over 20,000 gallons

Monthly Rate

\$19.25 minimum
3.00 per 1,000 gallons
2.50 per 1,000 gallons
2.00 per 1,000 gallons

1½" Meter

Gallonge Block

First 10,000 gallons
Next 10,000 gallons
Over 20,000 gallons

Monthly Rate

\$34.25 minimum
2.50 per 1,000 gallons
2.00 per 1,000 gallons

2" Meter

Gallionage Block

First 20,000 gallons
Over 20,000 gallons

Monthly Rate

\$59.25 minimum
2.00 per 1,000 gallons

City of Dry Ridge

\$ 1.63 per 1,000 gallons

Bulk Loading Stations

\$ 3.00 per 1,000 gallons

Connection Charges

5/8" X 3/4" meter
1" meter
1½" meter
2" meter
Larger than 2" meters

\$300
450
675
900
Actual Cost

Meter Installation Fee

5/8" X 3/4" meter
1" through 2" meters

\$50.00*
75.00*

*Applicable where meter is temporarily removed at the request of the customer.