

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST)
CLARK COUNTY WATER DISTRICT)
FOR AN ADJUSTMENT OF RATES) CASE NO. 8644
PURSUANT TO THE ALTERNATIVE)
PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

On September 7, 1982, East Clark County Water District ("East Clark") filed an application with the Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates would produce additional revenue of \$13,223 annually, an increase of 29 percent. East Clark proposed to increase only its residential and commercial rates. The Commission has granted no increase to East Clark.

A hearing was not requested in this matter, and in accordance with the provisions of the ARF no hearing was conducted. Therefore, the decision of the Commission is based on information contained in the application, written submissions, annual reports and other documents on file in the Commission offices.

COMMENTARY

East Clark is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky, and serves approximately 240 customers in Clark County.

TEST PERIOD

The Commission has adopted the 12-month period ending December 31, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

The ARF was established to provide a simplified and less expensive method for small utilities to apply for rate increases with the Commission. Therefore, the financial data from the 1981 annual report is used as the basis for determining the revenue requirements. East Clark proposed no specific adjustments to the test period operating statement. However, East Clark did discuss increases in certain operating expenses. The following adjustments have been made by the Commission, in accordance with its normal rate-making practices, to East Clark's test period operating statement to reflect actual and anticipated operating conditions:

Bulk Sales

East Clark's 1981 annual report lists total revenue from bulk water sales in the amount of \$30,181. This level of revenue was achieved by selling a total of 11,586,100 gallons at a rate of \$2.50 per 1,000 gallons for the first three quarters of 1981 and at a rate of \$3.50 per 1,000 gallons for the fourth quarter of 1981. The response to information request no. 2 indicates a decline in bulk water sales for the first three quarters of 1982. However, because East Clark did not engage in bulk water sales prior to 1981, the record does not provide conclusive evidence that a decline in bulk water sales is a definite trend. Therefore, the Commission has determined that operating revenue should be adjusted upward by \$10,370 for the test period to reflect the annual revenues based on the rate currently in effect.

Damages Paid by Contractor

Included within operating revenue for the test period is an amount totalling \$2,040 and identified as "Damages Paid by Contractor." The response to information request no. 1 states that \$2,000 of this amount is attributable to a damage claim received from a contractor in connection with a recent construction project. The Uniform System of Accounts for Class C Water Utilities specifies that significant amounts resulting from litigation or similar claims should be included in Adjustments to Retained Earnings (Account No. 439). The improper accounting treatment applied by East Clark does

not affect its retained earnings because the net income for 1981 is included therein. However, East Clark's net income is overstated by the \$2,000 inadvertently charged to operating revenue. East Clark should modify its operating statement for 1981 to exclude this item from operating revenue.

Although the \$2,000 should not be charged to operating revenue for accounting purposes, the Commission has determined that this revenue should be included in the operating statement for rate-making purposes. In determining the revenue requirements for East Clark the Commission must consider any expense items which may not reoccur in a normal operating year. The record in this case does not include sufficient detail to identify the costs incurred by East Clark which were associated with the damage claim. Therefore, the Commission has not adjusted the operating statement herein to exclude the \$2,000 from operating revenue.

Purchased Water

Purchased water costs for the test period have been increased by \$122 to reflect the increase in rates from East Clark's supplier effective October 1981.

Operation Supplies and Expenses

East Clark referred to rate increases from electric utilities as one of the reasons for an increase in water rates. In response to information request no. 2, copies of electric bills for the test period were submitted. The Commission has determined that electric expense for the test

period should be increased by \$166 in recognition of rate increases by those electric utilities which serve East Clark.

Insurance

In response to information request no. 1, East Clark submitted copies of invoices connected with insurance expense for the test period. The invoice associated with the directors and officers liability coverage indicates that \$386 was paid during the test period for a policy that covers a 3-year period. The Commission has made an adjustment to reduce insurance expense by \$257 for the test period in order to properly allocate this cost over the term of the policy.

Depreciation

The depreciation schedule submitted by East Clark reflects that depreciation expense for the test period was based on the total utility plant in service of \$857,926. It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of the original cost of the plant in service less contributions in aid of construction. The Commission has determined that contributions in aid of construction represent approximately 64 percent of the total cost of utility plant in service. Therefore, depreciation expense has been reduced by \$11,959 for the test period to exclude depreciation on assets purchased with contributions in aid of construction.

In addition, the depreciation schedule reflects that East Clark charged \$719 that is attributable to 1980 test period depreciation expense. Therefore, depreciation expense for the test period has been adjusted downward by \$719 for rate-making purposes in recognition of this error.

The net effect of these adjustments on annual depreciation expense results in pro forma depreciation expense of \$6,709.

Interest Expense

Interest expense has been reduced by \$150 to reflect the annual interest expense on long-term debt outstanding at the end of the test period.

After consideration of the aforementioned adjustments the Commission finds that East Clark's test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenue	\$91,634	\$10,370	\$102,004
Operating Expenses	83,364	(12,647)	70,717
Operating Income	<u>\$ 8,270</u>	<u>\$23,017</u>	<u>\$ 31,287</u>
Interest on Long-term Debt	15,950	(150)	15,800
Interest Income	<u>1,267</u>	<u>-0-</u>	<u>1,267</u>
Net Income	<u><u>\$(6,413)</u></u>	<u><u>\$23,167</u></u>	<u><u>\$ 16,754</u></u>

REVENUE REQUIREMENTS

East Clark's debt service based on the average principal and interest payments due within the next 5 years is \$18,870. The adjusted test period operating statement

reflects operating income of \$31,287 which, along with interest income of \$1,267, provides a debt service ratio of 1.7. East Clark's principal lender requires an annual debt service ratio of 1.2. Therefore, the Commission is of the opinion that the adjusted operating income of \$31,287 is adequate and will not adversely affect the financial condition of East Clark. Based on test period results the adjusted operating revenue of \$102,004 is sufficient to allow East Clark to pay its operating expenses, meet its debt service requirements, and maintain an adequate surplus. Therefore, an increase in rates is not required.

RATE DESIGN

East Clark proposed to change its rate structure by adjusting the usage levels in its proposed rates. The Commission has determined that the present rate structure of East Clark is fair, just and reasonable and after consideration has determined that the proposed change in rate structure is not justified in this case.

For the convenience of those not regular customers, East Clark has two stations that deliver water in large quantities and are called bulk loading stations. These facilities are generally used by people who haul water to supply others who have no source of potable water. These stations are coin-operated, mechanical water dispensing devices. The initial rate for this service was equal to

\$2.50 per 1,000 gallons. In 1981 East Clark adjusted the amount of water received when operating the machine and by doing so ultimately raised the rate to equal \$3.50 per 1,000 gallons

East Clark did not seek approval from the Commission for the authority to establish a rate for bulk sales nor did it seek approval to increase the rate in 1981. This action by East Clark is in violation of the rules and regulations adopted by the Commission. (807 KAR 5:001, Rules of Procedure, and 807 KAR 5:011, Tariffs.)

The Commission agrees that the established bulk loading stations are beneficial to the utility and in the best interest of the general public, but the Commission admonishes East Clark for not complying with the above-mentioned regulations.

SUMMARY

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

1. The rates in Appendix A are fair, just and reasonable rates for East Clark in that they will produce annual operating revenues of approximately \$99,964 and should be approved. This revenue, along with other operating revenue of \$2,040 and interest income of \$1,267, will be sufficient to meet East Clark's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

2. The rates proposed by East Clark would produce revenue in excess of that found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by East Clark on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by East Clark be and they hereby are denied.

IT IS FURTHER ORDERED that East Clark shall not increase its rates for any service prior to seeking approval of this Commission.

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

Done at Frankfort, Kentucky, this 17th day of December, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN CASE NO. 8644 DATED
December 17, 1982.

The following rates are prescribed for the customers of
East Clark County Water District:

RATES: Monthly

First	2,000 Gallons	\$ 8.25 Minimum Bill
Next	2,000 Gallons	3.50 per 1,000 gallons
Next	3,000 Gallons	3.00 per 1,000 gallons
Next	3,000 Gallons	2.40 per 1,000 gallons
Over	10,000 Gallons	1.80 per 1,000 gallons