COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF PARKWAY WATER ASSOCIATION FOR AN ADJUSTMENT OF RATES PURSUANT TO THE ALTERNATIVE RATE PROCEDURE FOR SMALL UTILITIES	)	CASE NO. 8656

ORDER

On September 22, 1982, Parkway Water Association ("Parkway") 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 information supplied with the application reflected that the proposed rates would produce additional revenues of $5,505 annually, an increase of 20 percent. Based on the determination herein, the annual revenue of Parkway will not be increased.

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, the annual reports and other documents on file in the Commission offices.

Commentary

Parkway is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky, and serves approximately 150 customers in Floyd County.

Test Period

The Commission has adopted the 12-month period ending June 30, 1982, 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

Parkway proposed several adjustments to its test period operating expenses. The Commission has accepted the proposed adjustment to salary expense. The other adjustments proposed by Parkway were estimates of increased costs based solely on inflationary trends without sufficient documentation to support any specific cost increases. The Commission is of the opinion that because of the inadequacy of the evidence supporting the proposed adjustments they cannot be accepted for rate-making purposes. The Commission advises Parkway that prior to filing future rate cases it should familiarize itself with the Commission's policy concerning pro forma adjustments. The following adjustments have been made by the Commission in accordance with its normal rate-making policies to Parkway's test period operating statement to reflect actual and anticipated operating conditions:

Purchased Water

During the test period Parkway incurred line loss of 24.98 percent. The Commission has an established policy for rate-making purposes of disallowing the cost associated with line loss in excess of 15 percent. Therefore, the Commission has determined that an adjustment of $1,703 should be made to exclude the cost associated with the line loss in excess of 15 percent.

Depreciation

The depreciation schedule submitted by Parkway reflects that depreciation expense for the test period was based on the total utility plant in service of $102,038. 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 finds that contributions in aid of construction represent approximately 22.5 percent of the total cost of utility plant in service. Therefore, depreciation expense has been reduced by $564 for the test period to exclude depreciation on assets purchased with contributions in aid of construction.

Maintenance of Mains

In response to a request for additional information, Parkway listed $3,810 of major repairs to its water lines at creek crossings. Parkway stated that the reoccurrence of repairs of this nature was dependent upon certain environmental conditions. Therefore, these costs are obviously beyond the control of Parkway and the frequency of reoccurrence is not known. A review of the annual expense in this account for the past 5 years reflects that the costs have varied from a high of $4,891 during the test period to a low of $103 in 1980. Therefore, the Commission finds that the level of maintenance expense incurred during the test year is extraordinary and should not be used in determining the annual revenue requirements of Parkway, and has reduced the expense by $3,810. However, the Commission has allowed $762 in amortization expense to reflect the amortization of this extraordinary expense over a 5-year period.

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

	Actual Test Period	Pro Forma Adjustments	Adjusted Test Year
Operating Revenue	$27,527	-0-	$27,527
Operating Expenses	27,912	(5,319)	22,593
Operating Income	$ (385)	$5,319	$ 4,934
Interest Expense	3,457	-0-	3,457
Interest Income	1,268	-0-	1,268
Net Income	$(2,574)	$5,319	$ 2,745

Revenue Requirement

Parkway's annual debt service requirement based on the documents filed with this case is $5,040. The adjusted test period operating statement reflects net income of $2,745 which provides adequate coverage on Parkway's debt service. The Commission is of the opinion that the adjusted operating income is adequate and will not adversely affect the financial condition of Parkway. Based on adjusted test period results, total operating revenues of $27,527 will produce operating income of $2,745 which after considering other income of $1,268 will be sufficient to allow Parkway to pay its operating expenses and meet its debt service requirements.

Summary

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

(1) The present rates are fair, just and reasonable for Parkway in that they will produce annual operating revenues of approximately $27,527. This revenue, along with interest income of $1,268, will be sufficient to meet Parkway's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

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

IT IS THEREFORE ORDERED that the present rates shall remain in effect for service rendered by Parkway.

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

Done at Frankfort, Kentucky, this 17th day of January, 1983.

PUBLIC SERVICE COMMISSION

Chairman

Katherine Randall

Vice Chairman

Commissioner

ATTEST:

Secretary