

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF THE NORTH )  
SHELBY WATER COMPANY FOR A )  
CERTIFICATE THAT THE PRESENT )  
AND FUTURE PUBLIC CONVENIENCE )  
AND NECESSITY REQUIRES THE )  
APPLICANT TO EXTEND ITS LINES )  
AND CONSTRUCT FACILITIES ) CASE NO: 8718  
NECESSARY TO CONNECT WITH AND )  
PURCHASE WATER FROM FRANKFORT )  
WATER PLANT, FOR AN ORDER )  
AUTHORIZING THE ISSUANCE OF A )  
NOTE TO FINANCE SUCH CON- )  
STRUCTION AND FOR AN ORDER )  
AUTHORIZING INCREASE OF RATES )

ORDER

On November 3, 1982, the North Shelby Water Company ("North Shelby") filed its application for approval of financing and certification of construction of a waterworks improvements project. The objectives of this project include upgrading of the capacity and reliability of existing water distribution facilities and development of an alternative source of supply by connecting with the Frankfort Water Plant. North Shelby also requested approval of increased rates which would provide an increase in operating revenues of \$63,998. The Commission has allowed the proposed rates in this Order.

The project will be financed through a \$650,000 loan

from the Farmers Home Administration ("FmHA"). The loan repayment period is to be 40 years at an annual interest rate of 11.375 percent.

North Shelby is now serving approximately 1887 customers in Shelby and Franklin counties. The expansion of the waterworks plant, while designed not to add new customers but rather to improve service in the Franklin County portion of the service area, will allow North Shelby to serve a small number of additional customers.

The Commission, on January 4, 1983, issued an Interim Order granting a certificate of public convenience and necessity authorizing North Shelby to construct the proposed facilities, and further authorized North Shelby to finance the project as proposed. This Order addresses the proposed rate increase.

A hearing on the proposed rates was held in Frankfort, Kentucky, on February 14, 1983. No intervenors were present, and no protests were entered.

#### TEST PERIOD

North Shelby proposed, and the Commission has accepted, the 12-month period ending September 30, 1982, as the test period in this matter.

#### REVENUES AND EXPENSES

North Shelby's net operating income for the test period was \$54,603. In order to reflect normal operating conditions subsequent to completion of the proposed project, North Shelby proposed numerous adjustments to revenues and

expenses resulting in adjusted net operating income of \$41,965. The appropriate level of net operating income as determined by the Commission is \$108,263.

The Commission finds North Shelby's proposed adjustments to be generally proper and has accepted them for rate-making purposes with the following exceptions:

Water Sales

North Shelby was granted a rate increase during the test period. In response to a Commission request North Shelby supplied a billing analysis which indicated that current rates would produce total revenues of \$503,609, an increase of \$39,094 over test period revenues of \$464,515. Thus the Commission has increased operating revenue by \$39,094 to reflect normalized revenue for a full year at current rates.

Electricity Expense

North Shelby proposed to increase its electricity expense to reflect additional power costs to pump water from Frankfort Water Plant. In its adjustment North Shelby calculated an additional power cost of \$3,720 for the first year and increased this figure by 15 percent per year for 3 years to arrive at a power cost of approximately \$6,000 in the fourth year. Because the yearly 15 percent increase in power cost is neither known nor measurable and is merely an estimate, the Commission has accepted only the first year's power cost increase of \$3,720. Thus, North Shelby's adjusted operating expenses have been reduced by \$2,280.

Depreciation Expense

North Shelby adjusted depreciation expense by \$16,500 to reflect additional depreciation from the construction project. The Commission has further adjusted depreciation expense in accordance with its policy that depreciation should be computed on the basis of original cost of the plant in service less contributions in aid of construction, as the Commission is of the opinion that it is unfair to require ratepayers to provide recovery on that portion of plant which has been provided free of cost. Therefore, the Commission finds that reasonable depreciation expense for rate-making purposes is \$55,566,<sup>1</sup> a reduction in adjusted depreciation expense of \$25,924.

Interest Income

North Shelby had interest income of \$36,615 for the test period and proposed to reduce this amount to \$10,000 because of declining interest rates and because it earned half of the interest on funds set aside for debt retirement. North Shelby did not provide evidence that the interest

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Calculation:	
Utility Plant in Service	\$2,884,481
Less: Contributions in Aid of Construction	<u>1,124,756</u>
Net Utility Plant in Service	\$1,759,725
Composite Depreciation Rate	<u>x2.22%</u>
Depreciation Expense on Plant in Service	<u>\$ 39,066</u>
Plus: Depreciation Expense on Proposed Construction	<u>16,500</u>
Adjusted Depreciation Expense	<u>\$ 55,566</u>

earned on such funds is restricted. The Commission concurs with North Shelby's observations that interest rates have declined and that some reduction in interest income from temporary investments will result. The Commission is of the opinion that a reduction of interest income to \$20,000 is reasonable and appropriate based on the evidence presented and an examination of the recent interest income earned by North Shelby.

Therefore, the Commission finds that North Shelby's adjusted test period operations are as follows:

	<u>North Shelby Adjusted</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$464,515	\$ 39,094	\$503,609
Operating Expenses	422,550	(27,204)	395,346
Net Operating Income	<u>\$ 41,965</u>	<u>\$ 66,298</u>	<u>\$108,263</u>
Interest Income	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 20,000</u>
Income Available for Debt Service	<u>\$ 51,965</u>	<u>\$ 76,298</u>	<u>\$128,263</u>

#### REVENUE REQUIREMENTS

The Commission has used the debt service coverage ("DSC") method to determine appropriate revenue requirements for North Shelby. North Shelby's pro forma average debt service for the next 5 years, including financing of the proposed construction project, is \$177,480. North Shelby's DSC on adjusted net operating income of \$108,263 plus interest income of \$20,000 is .72x. The Commission is of the opinion that this coverage is unfair, unjust, and unreasonable. North Shelby's proposed rates will produce net

operating income of \$172,613 and a DSC of 1.08x, which the Commission finds to be the fair, just and reasonable coverage for North Shelby to earn to insure its financial stability and to provide reliable and adequate service to its customers.

SUMMARY

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

1. The rates and charges in Appendix A are the fair, just and reasonable rates to be charged by North Shelby in that they should produce gross annual revenues of \$587,607.

IT IS THEREFORE ORDERED that the rates and charges in Appendix A be and they hereby are approved as the fair, just and reasonable rates to be charged for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, North Shelby shall file its tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 25th day of March, 1983.

PUBLIC SERVICE COMMISSION

  
Chairman

ATTEST:

  
Vice Chairman

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Secretary

  
Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC  
SERVICE COMMISSION IN CASE NO. 8718  
March 25, 1983.

The following rates are prescribed for the customers in the area served by North Shelby Water Company. 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 date of this Order.

RATES: Monthly

5/8 X 3/4 Inch Meter

First 2,000 gallons	\$9.36 Minimum Bill
Next 3,000 gallons	3.68 per 1,000 gallons
Next 5,000 gallons	2.68 per 1,000 gallons
Next 40,000 gallons	2.18 per 1,000 gallons
Over 50,000 gallons	1.68 per 1,000 gallons

1 Inch Meter

First 5,000 gallons	\$20.40 Minimum Bill
Next 5,000 gallons	2.68 per 1,000 gallons
Next 40,000 gallons	2.18 per 1,000 gallons
Over 50,000 gallons	1.68 per 1,000 gallons

1-1/2 Inch Meter

First 10,000 gallons	\$33.80 Minimum Bill
Next 40,000 gallons	2.18 per 1,000 gallons
Over 50,000 gallons	1.68 per 1,000 gallons

2 Inch Meter

First 15,000 gallons	\$44.70 Minimum Bill
Next 35,000 gallons	2.18 per 1,000 gallons
Over 50,000 gallons	1.68 per 1,000 gallons

3 Inch Meter

First 35,000 gallons  
Next 15,000 gallons  
Over 50,000 gallons

\$88.30 Minimum Bill  
2.18 per 1,000 gallons  
1.68 per 1,000 gallons