

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SOUTH)
WOODFORD WATER DISTRICT FOR AN)
ADJUSTMENT OF RATES PURSUANT TO) CASE NO. 8762
THE ALTERNATIVE PROCEDURE FOR)
SMALL UTILITIES)

O R D E R

On January 28, 1983, South Woodford Water District ("South Woodford") filed its application, in accordance with 807 KAR 5:076, Alternative Procedure for Small Utilities, seeking approval to increase its rates and charges for water service rendered to its customers by \$51,329, a 44.8 percent increase in gross operating revenues. In this Order the Commission has allowed increased revenues on an annual basis of \$6,613.

TEST PERIOD

In accordance with the guidelines for alternative rate procedures the Commission has adopted the 12 months ending December 31, 1982, as the test period in this proceeding.

REVENUES AND EXPENSES

South Woodford proposed several pro forma adjustments to its test period operations which the Commission has accepted with the following exceptions:

Purchased Water Expense

South Woodford proposed an adjusted purchased water expense of \$75,826, a \$3,453 increase over its test period level to take into consideration the increased cost of purchased water from its supplier, the City of Versailles. During the test period South Woodford experienced a water line loss of 17.7 percent. ^{1/} The Commission has a well established policy of allowing a maximum water line loss of 15 percent for rate-making purposes. Based on the amount of water sold by South Woodford during the test period and the rates currently being charged by its supplier, the Commission has allowed a purchased water expense for rate-making purposes of \$70,165, ^{2/} a reduction of \$5,661 from the pro forma expense proposed by South Woodford.

Line Extensions

South Woodford proposed to increase its plant in service by \$144,814 in order to reflect the inclusion of four line extensions completed between 1973 and 1977. These line extensions were never approved by this Commission and were financed with notes signed by the customers served from these extensions. South Woodford then entered into an agreement with these customers whereby it agreed to make the payments on these notes. The notes remained in the names of the customers of South Woodford. The Commission is of the opinion that the manner in which this construction and financing was undertaken is highly irregular and fails to comply with 807 KAR 5:001, sections 8 and 10, governing the procedures for construction and financing. Therefore, the inclusion of these extensions in South Woodford's plant in service should be denied.

However, the Commission is aware of the unusual circumstances surrounding the construction of the extensions. Should South Woodford wish to offer evidence that the extensions and financing thereof should be included in its cost of service it may do so by petitioning the Commission for rehearing on this issue or offering such evidence in a future related proceeding.

Depreciation Expense

South Woodford proposed an adjusted depreciation expense of \$20,589, a \$3,620 increase over the test period level, to reflect additional depreciation to be taken on the line extensions discussed above. The Commission has disallowed this adjustment because the line extension is not included in the cost of service.

The Commission has further determined that South Woodford's test period depreciation expense of \$16,969 included depreciation on contributed property valued at \$371,505. ^{3/} It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of original cost of the plant in service less contributions in aid of construction which were provided at zero cost to the utility. In determining the pro forma depreciation expense the Commission has utilized the depreciation rates applied by South Woodford. Therefore, the Commission has reduced South Woodford's proposed pro forma depreciation expense by an additional \$9,288 to an adjusted level of \$7,681. ^{4/}

Amortization Expense

South Woodford also proposed to include in its operations \$17,600 for the amortization of the financing associated with the line extensions previously disallowed. The amortization of the

debt has been disallowed. Since South Woodford presented no evidence of the third-party debt which it proposed to amortize, for rate-making purposes there is no liability to be borne by its customers.

The test period operations of South Woodford are therefore as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$114,491	\$ -0-	\$114,491
Operating Expenses	<u>118,306</u>	<u>\$ (3,976)</u>	<u>114,330</u>
Net Operating Income (Loss)	\$ (3,815)	\$ 3,976	\$ 161
Interest Income	<u>\$ 7,050</u>	<u>-0-</u>	<u>\$ 7,050</u>
Income before Interest Expense	\$ 3,235	\$ 3,976	\$ 7,211

REVENUE REQUIREMENTS

South Woodford's annual debt service based on outstanding debt at the end of 1982 is \$11,520. ^{5/} South Woodford's adjusted net operating income plus interest income provides a debt service coverage of .63X which is clearly unfair, unjust and unreasonable in that it does not afford South Woodford the opportunity to meet its operating expenses and provide adequate debt service coverage. The Commission is of the opinion that a debt service coverage of 1.2X is fair, just and reasonable in that it will allow South Woodford the opportunity to pay its operating expenses and meet the requirements of its lenders. Therefore the Commission will allow South Woodford to increase its rates and charges by \$6,613 determined as follows:

1.2 X Debt Service	\$ 13,824
Plus: Operating Expenses	<u>114,330</u>
Subtotal	\$128,154
Less: Operating Revenue plus Interest Income	<u>121,541</u>
	<u>\$ 6,613</u>

RATE DESIGN

In the final Order in Case No. 7517, Adjustment of Rates of South Woodford, dated February 19, 1980, the Commission approved a rate schedule that included various usage levels for different size meter connections. The rate schedule for each size meter connection allows a certain amount of water to be consumed in the minimum usage level. The 1-inch meter connection allows a usage of 10,000 gallons in the minimum usage block. South Woodford has been charging the 1-inch meter connections a minimum usage of 4,000 gallons which is in violation of its approved tariff. This has resulted in a loss in revenue of approximately \$9,887 annually. The Commission has adjusted the test year revenue by this amount to reflect the revenue which would have been generated if the rates allowed in Case No. 7517 had been charged.

The Commission hereby advises South Woodford that it is required by law to charge the approved rates and that any deviations from those rates must be approved by the Commission.

FINDINGS AND ORDERS

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

1. The rates and charges proposed by South Woodford would produce revenues in excess of those found to be fair, just and

reasonable and should be denied upon application of KRS 278.030.

2. The rates and charges in Appendix A are the fair, just and reasonable rates to be charged by South Woodford for water service rendered to its customers on and after the date of this Order.

3. Within 30 days of the date of this Order South Woodford should file its revised tariff sheet setting out the rates and charges approved herein.

IT IS THEREFORE ORDERED that the rates and charges proposed by South Woodford Water District be and they hereby are denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are the fair, just and reasonable rates to be charged by South Woodford Water District on and after the date of this Order.

IT IS FURTHER ORDERED that South Woodford Water District shall file with this Commission its revised tariff sheets setting out the rates and charges approved herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 15th day of June, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

FOOTNOTES

1. 1982 Annual Report, Page 12.
2. Ibid., $(54,716,000 \div .85) \times \$1.09/1,000$ gallons = \$70,165.
3. 1982 Annual Report, page 3, line 44.
4. $\$20,589 - \$3,620 - (\$371,505 \times 2.5 \text{ percent}) = \$7,681$.
5. Debt Service for Bonds

Principal (5-year average)	\$ 4,000
Interest	<u>7,520</u>
Total Debt Service	\$11,520

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 8762 DATED JUNE 15, 1983

The following rates and charges are prescribed for the customers in the area served by South Woodford Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

RATES:

5/8 X 3/4 Inch Meter

First 2,000 gallons	\$7.65 Minimum Bill
Next 2,000 gallons	2.25 per 1,000 gallons
Next 6,000 gallons	1.60 per 1,000 gallons
Next 90,000 gallons	1.40 per 1,000 gallons
Over 100,000 gallons	1.25 per 1,000 gallons

1 Inch Meter

First 10,000 gallons	\$21.75 per 1,000 gallons
Next 90,000 gallons	1.40 per 1,000 gallons
Over 100,000 gallons	1.25 per 1,000 gallons

2 Inch Meter

First 20,000 gallons	\$35.75 per 1,000 gallons
Next 80,000 gallons	1.40 per 1,000 gallons
Over 100,000 gallons	1.25 per 1,000 gallons