

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SALT RIVER)
WATER DISTRICT FOR AN) CASE NO. 8782
ADJUSTMENT OF RATES)

O R D E R

On June 2, 1983, Salt River Water District ("Salt River") filed its application with this Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). On October 13, 1983, the Commission issued its Order in this matter allowing Salt River rates that would increase its revenue by \$25,090 annually. In addition, Salt River was granted a surcharge to collect \$14,967 per year for 3 years to collect sufficient revenue to make past due bond payments. Salt River filed a request for rehearing and/or reconsideration of the Commission's decision on November 2, 1983, citing as a basis for its request the Commission's rate-making treatment of the past due bond payments, betterment cost of relocated water lines, reduction in commercial revenues, and professional fees. Salt River filed additional information in support of its position with the request for reconsideration.

Past Due Bond Payments

Salt River requested in its application that it be granted revenues sufficient to collect the funds necessary to make its

bond payments of 1981 and 1982 which are in arrears. The Commission after a thorough review of the financial condition of Salt River through the calendar year 1982 granted Salt River's request and allowed a surcharge of \$14,967 per year for 3 years in order to collect sufficient revenue to make the past due bond payments. In its petition for rehearing, Salt River requested that the amount of the surcharge be increased or the duration of the surcharge extended to include the 1983 bond payment which is now also in arrears.

Salt River throughout the course of this case had many opportunities to bring this information to the Commission's attention yet did not do so until the request for reconsideration. Further, in order to properly evaluate whether the surcharge should be increased or extended the Commission would be required to review the actual operating results of Salt River for a recent 12-month period in order to ascertain that the bond requirements in fact could not be met. This would require extensive updating of the test year data and would require detailed financial data which is not in the record at this time. Therefore, the Commission will not alter its previous decision on this issue.

Betterment Cost of Relocated Lines

Salt River is requesting that it be granted additional revenues of \$2,472 to cover the cost of replacing undersized water mains, relocated due to highway construction. This replacement occurred during 1983 and therefore outside of the test period in this case. The Commission finds this expenditure to be of a capital nature and thus not properly included as an expense.

Therefore, the Commission finds no reason to alter its previous decision on this issue.

Reduction in Commercial Revenue

In its original application Salt River proposed an adjustment to reduce its revenues to reflect the loss of sales to three commercial customers and to reflect a reduction in the volume of sales of a fourth. The Commission denied the adjustment noting that while there should be certain expense reductions corresponding to the loss of these commercial customers, no such adjustments were proposed. Salt River has now proposed several expense reductions corresponding to the loss of commercial customers in its request for reconsideration. The Commission has reviewed these adjustments and finds that they do not contain any information or data which could not have been filed in a timely manner prior to the issuance of the final Order in this case.

In addition, the Commission finds the issue of reflecting revenue and expense changes for the loss and cutback of several commercial customers to be speculative in this instance. The Commission does not dispute the fact that Salt River has lost the three commercial customers mentioned; however it does recognize that the cutback in operations of the fourth commercial customer is a condition that could change at any time. In addition, Salt River may gain new commercial or residential customers or existing customers may increase their usage, either partially or wholly offsetting the loss in revenues from those customers who have left the system. Therefore, the Commission concurs with its previous decision for the above-stated reasons.

Professional Fees

Salt River requested additional revenue of \$7,083 to cover the cost of a "Master Plan". Included in the \$7,083 was \$3,014 for the annual amortization of \$27,125 over a 9-year period and \$4,069 in interest costs at a 15 percent annual percentage rate. In support of this adjustment Salt River submitted a draft copy of the master plan and invoices from Presnell and Associates, Inc., ("Presnell") for services provided in connection with the development of the plan. Based on the limited information included in the request for reconsideration and other documents filed in support of this adjustment it is apparent to the Commission that a major construction project including a new source of water supply for Salt River is eminent and the primary result of the Engineering Studies, the cost of which Salt River is requesting to recover herein.

At this time Salt River has not requested authority of this Commission to undertake a construction project of this magnitude. However, it is apparent that such a filing can be anticipated in the near future. Since it is apparent that a large portion if not all of the Engineering work performed by Presnell is related to new construction which the Commission has not approved, the Commission is not in a position to rule on the validity of these costs at this time. Furthermore, costs of this nature are typically included in the overall construction costs of a project such as this and funded through the capital sources of the total construction project. Therefore, the Commission is of the opinion that these costs should not be included in operating expenses for

rate-making purposes herein. Therefore, the petition for reconsideration on this issue should be denied.

SUMMARY

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

1. Salt River has failed to present sufficient evidence to support its position on the issues of past due bond payments, betterment cost of relocated water lines, reduction in commercial revenues, and professional fees. Therefore, the request for rehearing should be denied.

2. The Commission's Order of October 13, 1983, should be affirmed.

IT IS THEREFORE ORDERED that the Commission's Order of October 13, 1983, be and it hereby is affirmed.

IT IS FURTHER ORDERED that Salt River's request for rehearing be and it hereby is denied.

Done at Frankfort, Kentucky, this 22nd day of November, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary