

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF THE OVERLAND )  
DEVELOPMENT, INC., FOR AN )  
ADJUSTMENT OF RATES PURSUANT ) CASE NO. 8876  
TO THE ALTERNATIVE PROCEDURE )  
FOR SMALL UTILITIES )

O R D E R

On July 21, 1983, Overland Development, Inc., ("Overland") filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method ("ARF") in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

Overland requested rates which would produce an annual increase of \$7,381 from its 58 customers. According to Overland's application, the two principal reasons for the requested increase in gross revenues are for the purpose of providing funds attributed to the cost of water purchased from its supplier, Big Sandy Water District, and increased wage cost. In this Order, the

Commission has allowed the requested rates producing an increase of \$7,381.

There were no intervenors in this matter and all information requested by the Commission has been submitted.

#### TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending July 31, 1982, has been accepted as the test period.

#### REVENUES AND EXPENSES

Overland incurred a net loss for the test period of \$7,903. Overland proposed several pro forma adjustments to its test period operating revenues and expenses to reflect current operating conditions more accurately. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

##### Purchased Water Expense

The Commission has reduced Overland's purchased water expense by \$1,141. Overland erroneously computed its purchased water cost on the basis of calendar year 1982 purchases of 4,750,000 gallons which is beyond the test period. The Commission made its computation on the basis of test year purchases of 4,100,000 gallons with an adjusted cost of \$7,775<sup>1</sup>/<sub>100</sub>.

##### Employee Salaries

Overland projected adjusted salary expense of \$4,208 for the test period. In reply to the Commission's request for additional information, Overland furnished detailed data on its three regular employees, a portion of which listed current

salaries of \$4,160. Therefore, the Commission has made an adjustment of \$48 to test period salary expense.

Depreciation Expense

Overland showed depreciation expense of \$5,257 for the test period. It was noted from an examination of Overland's depreciation schedule for the test period that depreciation expense had been computed on the double-declining balance method. Moreover, Overland had included depreciation expense applicable to non-utility property of \$1,666. The Commission is of the opinion that in accordance with the Uniform System of Accounts for Sewer Utilities, depreciation expense should be computed on the straight-line method for rate-making purposes, and has made an adjustment of \$1,096<sup>2/</sup> to depreciation expense in this Order, accordingly.

Therefore, Overland's adjusted operations at the end of the test period are as follows:

|                    | <u>Overland<br/>Adjusted</u> | <u>Commission<br/>Adjustments</u> | <u>Commission<br/>Adjusted</u> |
|--------------------|------------------------------|-----------------------------------|--------------------------------|
| Operating Revenues | \$ 7,565                     | \$                                | \$ 7,565                       |
| Operating Expenses | <u>23,214</u>                | <u>(2,285)</u>                    | <u>20,929</u>                  |
| Net Income (Loss)  | <u><u>\$(15,649)</u></u>     | <u><u>\$ 2,285</u></u>            | <u><u>\$(13,364)</u></u>       |

REVENUE REQUIREMENTS

The Commission is of the opinion that the operating loss is unfair, unjust and unreasonable. Further, the Commission is of the opinion that the proposed rates should be approved as the additional revenues of \$7,381 generated by the proposed rates will improve Overland's financial position.

### RATE DESIGN

Overland has proposed to change its present rate design by adjusting the amount of water allowed in each of its existing rate steps and adding two additional steps to its rate structure in order to spread the cost of service among its customers in a more efficient manner. Overland stated that the first two increments cover the majority of its customers and that the additional increments will allow customers that fill swimming pools, contractors, etc., to obtain water at a lesser rate. The Commission is of the opinion that the proposed change in rate design is in the best interest of Overland and its customers and should, therefore, be approved.

### 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 the fair, just and reasonable rates to charge for water service rendered to Overland's customers and should produce annual revenues of approximately \$14,950.

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

IT IS FURTHER ORDERED that the proposed change in Overland's rate structure is fair, just and reasonable and is therefore approved.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Overland shall file with this Commission its tariff

sheets setting forth the rates approved herein and a copy of its rules and regulations for providing water service.

Done at Frankfort, Kentucky, this 27th day of October, 1983.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

FOOTNOTES

|                                                            |              |                |
|------------------------------------------------------------|--------------|----------------|
| 1. Annual adjusted water expense:                          |              |                |
| Annual minimum bill: \$225 per month X 12 =                |              | \$2,700        |
| Remainder: 4,100 M gals. - 1,200 M gals. X<br>\$1.75 per M |              | <u>5,075</u>   |
| Total                                                      |              | <u>\$7,775</u> |
| 2. Depreciation expense, per books, 7/31/82                |              | \$5,257        |
| Straight-line depreciation expense on the<br>following:    |              |                |
| Dozer & tractor- \$2,395 X 60% =                           | \$1,437      |                |
| Office equipment-                                          | 51           |                |
| Water System-                                              | <u>2,673</u> |                |
| Total allowable depreciation expense                       |              | <u>4,161</u>   |
| Amount of adjustment                                       |              | <u>\$1,096</u> |

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8876 DATED  
OCTOBER 27, 1983

The following rates are prescribed for the customers in the area served by Overland Development, Inc. 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.

| <u>RATES:</u> | Monthly        |                        |
|---------------|----------------|------------------------|
| First         | 2,000 gallons  | \$9.50 Minimum Bill    |
| Next          | 8,000 gallons  | 3.50 per 1,000 gallons |
| Next          | 20,000 gallons | 2.75 per 1,000 gallons |
| Next          | 20,000 gallons | 2.25 per 1,000 gallons |
| Over          | 50,000 gallons | 1.75 per 1,000 gallons |