

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF )  
THE BOSTON WATER DISTRICT ) CASE NO. 8899

O R D E R

On September 12, 1983, Boston Water District ("Boston") filed an application with the Commission to increase its water rate pursuant to 807 KAR 5:076. This regulation permits utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method 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. Boston originally requested rates to produce an annual increase of \$22,290. In response to Commission requests for information, Boston revised its request upward to \$24,232. In this Order the Commission has granted an increase of \$12,839.

TEST PERIOD

The Commission has accepted the 12-month period ending December 31, 1982, as the test period in this case.

REVENUES AND EXPENSES

Boston proposed no pro forma adjustments to its test period operations. However, the Commission is of the opinion that the following adjustment to expenses is necessary to reflect normalized operations for rate-making purposes:

### Depreciation Expense

Boston's depreciation expense for the test period was \$20,108. It is the Commission's policy to compute depreciation expense on the basis of original cost of the plant in service, as the utility should not be provided recovery on that portion of the plant which has been provided free of cost. Therefore, the Commission finds that reasonable depreciation expense for rate-making purposes is \$7,376, a reduction in actual depreciation expense of \$12,732.<sup>1</sup>

Therefore, Boston's adjusted test period operations are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$75,033	\$ -0-	\$75,033
Operating Expenses	<u>82,812</u>	<u>(12,732)</u>	<u>70,080</u>
Operating Income	<u>\$ (7,779)</u>	<u>\$ 12,732</u>	<u>\$ 4,953</u>

<sup>1</sup> Calculation:

1982 Depreciation Expense (\$20,108) ÷ Plant in Service at 12/31/82 (\$753,839) = 2.67 percent composite rate

Plant in Service	\$ 753,839
Less: Contributions in Aid of Construction	<u>477,582</u>
Non-Contributed Plant,	\$ 276,257
Composite Rate	X 2.67%
Allowable Depreciation	<u>\$ 7,376</u>

1982 Depreciation (\$20,108) - Allowable (\$7,376) = Adjustment (\$12,732)

REVENUE REQUIREMENTS

The Commission has used the debt service coverage ("DSC") method to determine appropriate revenue requirements for Boston. Boston's average debt service for the next 5 years is \$14,827.<sup>2</sup> Boston's DSC on adjusted net operating income of \$4,953 is .33X. The Commission is of the opinion that a DSC of 1.2X is fair, just and reasonable to meet the requirements of Boston's bondholders and to pay expected operating expenses. Consequently, the Commission has determined that Boston is in need of additional revenues of \$12,839.<sup>3</sup> This increase will provide the 1.2X DSC which the Commission finds to be the fair, just and reasonable coverage for Boston to insure its financial stability and to provide reliable and adequate service to its customers.

SUMMARY

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

1. The rates proposed by Boston will provide revenues in excess of those found to be fair, just and reasonable and should be denied upon application of KRS 278.030.

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<sup>2</sup> Bonds

Principal (5-year average 1983-1987)	\$ 6,000
Interest	<u>8,827</u>
	\$14,827

<sup>3</sup> Adjusted Operating Expenses	\$ 70,080
1.2X DSC (\$14,827)	<u>17,792</u>
Required Revenue	\$ 87,872
Less: Adjusted Operating Revenue	<u>75,033</u>
Increase Granted	\$ 12,839

2. The rates in Appendix A are the fair, just and reasonable rates for Boston to charge for water service and should be approved.


IT IS THEREFORE ORDERED that the rates proposed by Boston be and they hereby are denied upon application of KRS 278.030.


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

IT IS FURTHER ORDERED that Boston shall file with this Commission, within 30 days of the date of this Order, its revised tariff sheets setting forth the rates approved herein.

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

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8899 DATED DECEMBER 15,  
1983.

The following rates are prescribed for the customers  
in the area served by Boston Water District. 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

Class A 1-Inch Meter

First 15,000 gallons	\$15.00 Minimum Bill
Over 15,000 gallons	.98 per 1,000 gallons

Class B 3/4-Inch Meter

First 4,000 gallons	\$ 7.75 Minimum Bill
Next 11,000 gallons	1.20 per 1,000 gallons
Over 15,000 gallons	.98 per 1,000 gallons

Class C 3/4-Inch Meter

First 2,000 gallons	\$6.75 Minimum Bill
Next 1,000 gallons	1.60 per 1,000 gallons
Next 2,000 gallons	1.20 per 1,000 gallons
Over 5,000 gallons	.98 per 1,000 gallons

Special Contract 2-Inch Meter

First 25,000 gallons	\$26.00 Minimum Bill
Over 25,000 gallons	.98 per 1,000 gallons

Truck Station

All Water	\$ 3.00 per 1,000 gallons
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