

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF JESSAMINE)
COUNTY WATER DISTRICT NO. 1 FOR) CASE NO. 4676-1
A PURCHASED WATER ADJUSTMENT)

O R D E R

On January 25, 1984, Jessamine County Water District No. 1 ("Jessamine") filed its application with this Commission to increase its rates pursuant to 807 KAR 5:067, Purchased Water Adjustment ("PWA"). The proposed rates would produce additional revenue of \$31,602, an increase of 47 percent.

Upon a thorough review of the financial statements submitted with the application, the Commission determined that there may be a potential for Jessamine to absorb a portion of the increase in the cost of water. Therefore, the Commission entered an investigation of the test-year financial statements of a greater scope than typically conducted in a PWA application. Information requests were issued on April 24, 1984, and June 7, 1984, in which Jessamine was given the opportunity to present evidence as to why a portion of the increase in the cost of water should not be absorbed.

Based on the determinations herein, Jessamine has been granted an increase of \$17,735 annually, an increase of 26 percent.

No hearing was held in this matter and accordingly the decision of the Commission is based on information contained in the application, written submissions, annual reports and other documents on file in the Commission's offices.

COMMENTARY

Jessamine is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky and serves approximately 369 customers in Jessamine County.

TEST PERIOD

Jessamine has proposed and the Commission has accepted the 12-month period ending December 31, 1983, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

The financial data from the 1983 Annual Report has been used as the basis for determining revenue requirements in this case. Jessamine proposed adjustments to revenues and expenses as reflected in the comparative income statement filed in Attachment 3 in response to the Commission's letter requesting information dated April 24, 1984. The Commission has made the following adjustments to reflect actual and anticipated operating conditions for rate-making purposes:

Adjustments for Anticipated Growth

Jessamine proposed adjustments to increase revenues and expenses based on anticipated growth rates and rounding up to even

amounts.¹ The adjustments to sales, penalties, and purchased water were based on anticipated growth of 7.5 percent. No statistical studies were cited and there was no firm commitment for residential or commercial building cited; consequently, the 7.5 percent growth rate is not founded on known and measurable criteria. Also, the adjustments to Customer Accounts and Administrative and General Salaries are based on an unspecified growth rate citing no known and measurable criteria. The policy of the Commission is to disallow adjustments when they do not meet the known and measurable criteria. Therefore, the Commission is of the opinion that the adjustment of \$5,247 made to increase revenues and the adjustment of \$5,220 made to increase operating expenses should not be included herein for rate-making purposes.

Purchased Water

Jessamine's 1983 Annual Report states that it purchased 56,853.13 thousand gallons of water at a total cost of \$44,317. Repricing the actual gallons purchased at Jessamine's current supplier's rate of 81 cents per thousand gallons yields an annual purchased water cost of \$46,051. Therefore, the Commission has determined that an adjustment should be made to increase purchased water expense by \$1,734.

Outside Services Employed

Jessamine reported expenses in 1983 for Outside Services Employed of \$27,976. Jessamine's response to a request for

¹ Response to Commission's Information Request dated June 7, 1984, Item No. 2.

additional information shows that \$26,499 of this amount was incurred relative to a plan for adding an elevated water tank to the system. Jessamine stated, in response to the Commission's query as to why these costs should not be capitalized, that the uncertainty of the project, as yet to be started, made capitalizing the \$26,499 unrealistic. Account No. 183--Other Deferred Debits is specifically designed to accumulate charges related to proposed construction which is currently uncertain. Therefore, an adjustment has been made to reduce Outside Services Employed by \$26,499 for rate-making purposes. Jessamine should adjust its accounting records to reflect this amount in Account No. 183--Other Deferred Debits in accordance with the Uniform System of Accounts, pending a determination of the final disposition of the amount.

Regulatory Commission Expense

Jessamine proposed an increase of \$1,250 in Regulatory Commission Expense for additional sampling and testing due to the proposed relocation and elevated tank projects. The Commission cites Jessamine's previous response as to the uncertainty of the proposed project and concludes that operating expenses associated with the project are also uncertain and are not known and measurable. Therefore, the adjustment of \$1,250 made to increase this expense has been denied for rate-making purposes herein.

Uncollectible Accounts, Office Supplies, Property Insurance

Jessamine proposed an aggregate adjustment to increase these expenses by \$77 due to anticipated inflation. The amount of

Uncollectible Accounts would not be primarily a function of inflation. Office Supplies may have some inflationary component; however, to determine the effects of inflation on this account would be extremely speculative. Any increase in Property Insurance could be evidenced by billing invoice, but no such documentation was provided. The Commission is of the opinion that these adjustments do not meet the Commission's known and measurable criteria and, therefore, they have not been included in projected operating expenses.

Other Income

Jessamine proposed a reduction in interest and dividend income of \$6,568 citing a reduction in cash available for investments due to the use of an undetermined amount of monies for current operating expenses. In response to the Commission's request for additional information, Jessamine provided the December 31, 1983, year-end cash balances and the rates at which these balances were invested. Based on calculations performed on the data contained in Jessamine's response, the cash investments as of December 31, 1983, would produce \$2,789 less than the test-year actual other income.² Therefore, the Commission has made an adjustment

² Cash Balance 12/31/83	Nominal Rate	Effective Rate	Revenue
\$72,697	9.39%	9.80%	\$7,126
11,076	5.25%	5.38%	596
4,442	-0-	-0-	-0-
1,066	5.25%	5.38%	57
<u>\$89,281</u>			<u>\$7,779</u>

to reduce Other Income by \$2,789, which results in adjusted Other Income of \$7,779.

Depreciation

Jessamine's depreciation expense reported for the test period was based on the total utility plant in service of \$257,688. It is the policy of the Commission, set out in numerous decisions, to compute depreciation expense for rate-making purposes on the basis of the original cost of plant in service less contributions in aid of construction. The Commission has determined that contributions in aid of construction represent approximately 33 percent of the total cost of utility plant in service. Therefore, depreciation expense has been reduced by \$2,108 to exclude depreciation on assets purchased with contributions in aid of construction.³

After consideration of the aforementioned adjustments, the Commission finds Jessamine's adjusted test period operations to be as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 68,353	-0-	\$ 68,353
Operating Expenses	<u>112,503</u>	<u>\$ <26,943></u>	<u>85,560</u>
Operating Income	<u>\$ <44,150></u>	<u>\$ 26,943</u>	<u>\$ <17,207></u>
Other Income	\$ 10,568	\$ <2,789>	\$ 7,779
Interest Expense on Long-Term Debt	<u>4,221</u>	<u><150></u>	<u>4,071</u>
Net Income	<u><u>\$ <37,803></u></u>	<u><u>\$ 24,304</u></u>	<u><u>\$ <13,499></u></u>

³ Contributions in Aid of Construction \$85,776
Plant in Service \$257,668 = 33%

\$6,389 (Depreciation Expense) X .33 = \$2,108.

REVENUE REQUIREMENTS

Jessamine's debt service based on the average principal and interest payments due within the next 5 years is \$7,552. Jessamine's bond ordinance of 1966 requires a cash reserve of \$7,200. Jessamine's bond and interest sinking fund and depreciation fund balances as of December 31, 1983, totaled \$89,591, which demonstrates a cash position substantially in excess of necessary working capital and required reserves. However, the adjusted test-period operating statement reflects a net operating loss of \$13,502 which in time would seriously impair Jessamine's ability to meet its financial obligations.

Jessamine's 1983 balance sheet reflects temporary cash investments of \$15,000, cash and working funds of \$12,089 in addition to the \$89,591 in depreciation and sinking fund reserves. This level of cash reserves exceeds the outstanding principal balance of Jessamine's long-term debt. The Commission typically allows a debt-service coverage of 1.2X in determining the revenue requirements of water districts. However, in this instance, a 1.2X debt-service coverage would provide additional cash reserves which are not required to meet current and expected financial obligations of Jessamine. Therefore, the Commission is of the opinion that a debt-service coverage of 1.1X will provide sufficient revenues to keep Jessamine operative on a sound financial basis. Therefore, to maintain Jessamine's financial condition, additional revenues of \$17,735 will be required. Based on adjusted test period results, total revenues of \$86,088 will produce net operating income of \$4,236 which, after considering

other income of \$7,779, will be sufficient to allow Jessamine to pay its operating expenses and meet its annual debt-service obligations.

RATE DESIGN

Jessamine presently bills all customers on a single rate schedule consisting of three rate steps. Jessamine proposed to change its rate design by lowering the minimum usage level from 3,000 to 2,000 gallons, adding a fourth rate step and adjusting the interim usage levels. In support of this proposal, Jessamine filed a Feasibility Study for Water System Improvements which included, at Pages 5-10 of the Summary Addendum to the report, an analysis of water usage patterns of its customers. This analysis shows that the numbers of customers and their usage patterns correlate with the existing rate structure. No significant change is shown by the forecast of water usage and no further justification was presented for the proposed change in rate structure. In addition, the Commission is of the opinion that the present rate structure will provide a more equitable distribution of the increase granted herein than that proposed by Jessamine.

The above-mentioned water usage analysis also shows that Jessamine has approximately 22 1-inch and 1 1/2-inch meters in use. The Commission is of the opinion that due to the higher costs involved in providing service through larger meters minimum bills and usage levels should be established for larger meters which are more reflective of meter capacity and the cost of providing such service.

Jessamine's current tariff provides for tap fees for 3/4-inch, 1-inch and 1 1/2-inch meters with a higher tap fee for a commercial customer using a 3/4-inch meter than a residential customer receiving the same service. No change was proposed for tap fees; however, in its response to the Commission's data request of June 7, 1984, Jessamine stated that the current tap fees are not compensatory, a need to increase the fees is anticipated, and it does not know the reason for the difference in the fees for 3/4-inch meters. The Commission is of the opinion that Jessamine should review its schedule of tap fees and, should increases appear necessary, file proposed tap fees with the Commission along with appropriate cost justification for each size meter.

SUMMARY

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

1. The change in rate design proposed by Jessamine is not justified at this time and should be denied.
2. Minimum usage levels and bills should be established for each meter size.
3. Jessamine should review its schedule of tap fees and, should changes appear necessary, file its proposed changes with the Commission along with appropriate cost justification for each size meter.
4. The rates proposed by Jessamine are unfair, unjust and unreasonable in that they will produce revenues in excess of those found reasonable herein.

5. The rates in Appendix A are the fair, just and reasonable rates to be charged by Jessamine and should be approved.

IT IS THEREFORE ORDERED that the change in rate design proposed by Jessamine be and it hereby is denied.

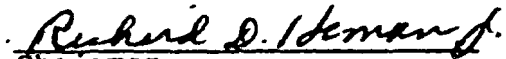
IT IS FURTHER ORDERED that the rates proposed by Jessamine be and they hereby are denied.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are approved for services rendered on and after the date of this Order.

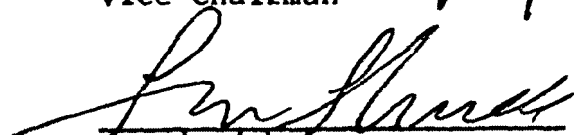
IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Jessamine shall file its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 19th day of September,
1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 4676-1 DATED SEPTEMBER 19,
1984

The following rates are prescribed for customers in the area served by Jessamine County Water District No. 1. 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 effective date of this Order.

MONTHLY RATES

First 3,000 gallons	\$8.25 Minimum
Next 7,000 gallons	1.40 per 1,000 gallons
Over 10,000 gallons	1.20 per 1,000 gallons

MINIMUM BILLS

<u>METER SIZE</u>	<u>MINIMUM MONTHLY WATER USAGE</u>	<u>MINIMUM BILL</u>
3/4-inch	3,000 gallons	\$ 8.25
1-inch	5,000 gallons	11.05
1 1/2-inch	10,000 gallons	18.05

All usage above the minimum will be billed according to the general rate schedule.