

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF THE )  
RATES OF KENTUCKY-AMERICAN ) CASE NO. 8836  
WATER COMPANY )

PETITION FOR REHEARING OF  
SETTING RATES BASED ON CAPITAL STRUCTURE

On December 20, 1983, the Commission entered an Order granting Kentucky-American Water Company, Inc., ("Kentucky-American") \$704,343 in increased operating revenue. On January 6, 1984, the Attorney General and the Lexington-Fayette Urban County Government ("AG") filed a petition for rehearing requesting that the Commission reconsider its decision to set rates based on capital rather than net investment rate base. The AG contended that the decision to set rates based on capital was violative of past Commission Orders and was contrary to good rate-making principles. Specifically the AG stated that the Commission allowed Kentucky-American to earn a return on non-utility property by including inflated capital containing temporary cash investments of \$1,175,506. On January 18, 1984, Kentucky-American filed a response to the AG's petition asking the Commission to deny the AG's request for rehearing. On January 26, 1984, the Commission entered an Order granting the AG's request for rehearing, stating that it would take the matter under

advisement and would issue a subsequent Order at a future date. This Order addresses the final decision of the Commission to reconsider its original position of setting rates based on capital.

#### DISCUSSION

The AG in its petition for rehearing stated that the Commission allowed Kentucky-American to earn on non-utility property by including in capital \$1,175,506 representing temporary cash investments which were not included in the net investment rate base. The Commission in determining an appropriate valuation method normally compares capital and net investment rate base and analyzes any difference between the two. In this case the primary difference was the inclusion of \$1,175,506 in temporary cash investments which were held for use in Kentucky-American's ongoing construction program. Because the interest earned on these temporary cash investments is accrued to the account and is used to offset eventual construction expenditures there is some benefit to the ratepayers by including this amount in capital. However, the AG's contention that such treatment is contrary to the rate-making principle of matching is correct. Further, while the Commission reserves the right to determine an appropriate basis upon which to determine rates, the Commission does not wish to establish a precedent of violating the matching principle by its original action in this case. Moreover, although Kentucky-American opposed the AG's request for rehearing, Kentucky-American originally proposed that the Commission determine rates based on the net investment rate base. Therefore,

the Commission will grant the AG's petition for rehearing on this issue and will determine revenue requirements based on the net investment rate base found reasonable in the Order of December 20, 1983, in the amount of \$42,649,892.

The AG stated that the difference in revenue requirement by using capital as opposed to net investment rate base is approximately \$200,000. However, the AG's calculation neglects to consider the effect of a change in taxes due to the change in imputed interest expense. The actual revenue decrease to Kentucky-American by the Commission's granting of the AG's petition is \$141,274.<sup>1</sup> To effect the revenue reduction, the Commission has reduced Kentucky-American's customer charges, general water service, and fire protection service rates by a factor of 0.00795 percent.

#### FINDINGS AND ORDERS

After examining the evidence of record and being advised, the Commission is of the opinion and finds that:

(1) The AG's petition for rehearing on the issue of setting rates based on capital should be granted.

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<sup>1</sup> Difference in Cost of Capital applied to Capital and Net Investment	\$ 97,607
Less JDIC Effect	<u>26,049</u>
Income Decrease	<u>\$ 71,558</u>
Revenue Decrease	<u>\$141,274</u>

(2) Kentucky-American should reduce its rates and charges by \$141,274 for water service rendered on and after the date of this order as set out in Appendix A.

(3) All provisions of the Commission's Order of December 20, 1983, in this proceeding not specifically adjusted herein should remain in full force and effect.

IT IS THEREFORE ORDERED that the rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by Kentucky-American for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that all provisions of the Commission's Order in this proceeding issued December 20, 1983, not specifically amended herein shall remain in full force and effect.

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

Done at Frankfort, Kentucky, this 25th day of June, 1984.

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. 8836 DATED 6/25/84

The following rates are prescribed for customers in the area served by Kentucky-American Water Company. 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.

CLASSIFICATION OF SERVICE

SERVICE CLASSIFICATION NO. 1

METER RATES

The following shall be the rates for consumption, in addition to the service charges provided for herein:

	<u>1000 Gallons Per Month</u>	<u>Rates Per 1000 Gallons</u>	<u>100 Cubic Feet Per Month</u>	<u>Rate Per 100 Cubic Feet</u>
For the first	12	\$1.14799	16	\$.861
For the next	588	0.91466	784	.686
For all over	600	0.82799	800	.621

	<u>1000 Gallons Per Month</u>	<u>Rates Per 1000 Gallons</u>	<u>100 Cubic Feet Per Month</u>	<u>Rate Per 100 Cubic Feet</u>
For the first	36	\$1.14799	48	\$.861
For the next	1,764	0.91466	2,352	.686
For all over	1,800	0.91466	2,400	.621

SERVICE CHARGES

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

<u>Size of Meter</u>	<u>Per Month</u>	<u>Service Charge</u>	<u>Per Quarter</u>
5/8"	\$ 3.81		\$ 11.43
3/4"	5.71		17.13
1"	9.52		28.56
1 1/2"	19.05		57.15
2"	30.48		91.44
3"	57.14		171.42
4"	95.24		285.72
6"	190.47		571.41
8"	304.76		914.28

SERVICE CLASSIFICATION NO. 3

RATES

<u>Size of Service</u>	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
4" Diameter	\$ 7.28	\$ 87.36
6" Diameter	16.38	196.56
8" Diameter	29.11	349.32
12" Diameter	65.48	785.76

SERVICE CLASSIFICATION NO. 4

RATES FOR PUBLIC FIRE SERVICE

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
For each public fire hydrant contracted for or ordered by Urban County, County, State, or Federal Government Agencies or Institutions	\$16.38	\$196.56

RATES FOR PRIVATE FIRE STATION

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
For each private fire hydrant contracted for by Industries or Private Institutions	\$16.38	\$196.56

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE TARIFF APPLICATION OF )  
COLUMBIA GAS OF KENTUCKY, INC., )  
TO ESTABLISH AN ACTUAL COST ) CASE NO. 8964  
ADJUSTMENT PROVISION TO ITS )  
PURCHASED GAS ADJUSTMENT )  
CLAUSE )

O R D E R

On January 10, 1984, Columbia Gas of Kentucky, Inc., ("Columbia") filed a tariff with the Commission proposing to establish an actual cost adjustment provision to its purchased gas adjustment clause ("PGA"). On January 17, 1984, the Commission suspended Columbia's proposed tariff for a period of 5 months on and after the proposed effective date of February 1, 1984. The Commission issued an information request in this case on February 6, 1984, and Columbia complied by filing its responses on February 21, 1984. There were no intervenors of record nor was a hearing conducted in this matter.

Columbia's actual cost adjustment provision would establish a procedure for dollar for dollar matching of gas cost and recovery after the fact. Each September 1, a refund or surcharge per Mcf would be established for a 12-month period to be applied to customers served under Rate Schedules GS-Residential, GS-Commercial and Industrial, FC-1, FI-1, IS-1, and IUS-1. This amount would be based on the cost of gas purchased during the 12 months ended June 30 of the current year, less gas cost recovered

during the same period, and over- or under-collections from the previous year's actual cost adjustment.

The Commission recognizes that Columbia experienced some over-recovery of gas cost during periods of increasing supply cost, but did not exceed the returns allowed by the Commission. As supply costs stabilize and/or decrease, Columbia could experience some under-recovery of gas cost. It is difficult to predict the effect that the upcoming natural gas deregulation on January 1, 1985, will have on supply cost. The Commission is of the opinion that Columbia's proposed tariff should be denied because it is inappropriate to make such changes at this time. The Commission would be open to reviewing the proposal in 1 year, after gas supply markets have adjusted to deregulation.

IT IS THEREFORE ORDERED that Columbia's proposed actual adjustment provision to its PGA be and it hereby is denied.

Done at Frankfort, Kentucky, this 25th day of June, 1984.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary