

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE NOTICE OF PURCHASED GAS )  
ADJUSTMENT FILING OF ELAM ) CASE NO. 8929-E  
UTILITY COMPANY )

O R D E R

On May 2, 1984, the Commission issued its Order in Case No. 8929 approving certain adjustments in rates and providing under certain conditions for the further adjustment of such rates when the wholesale cost of gas is increased or decreased or a refund is received.

On November 7, 1984, Elam Utility Company ("Elam") notified the Commission that its wholesale cost of gas would be increased by one of its suppliers and decreased by one of its suppliers and submitted with its notice certain information in compliance with its purchased gas adjustment clause on file with this Commission.

After reviewing the record in this case and being advised, the Commission is of the opinion and finds that:

(1) On November 2, 1984, Elam received notification of a wholesale increase from its supplier, Capitol Oil and Gas Company, effective October 9, 1984.

(2) Elam's supplier, Columbia Gas Transmission Corporation, has filed an application for decreased rates to become effective November 1, 1984, with the Federal Energy Regulatory Commission.

(3) Elam's notice of November 7, 1984, set out certain revisions in rates which Elam proposed to place into effect, said rates being designed to pass on the overall wholesale decrease in gas costs from its suppliers in the amount of \$7,116 or 15 cents per Mcf. Elam proposed an effective date of November 1, 1984, for its revised rates.

(4) The revised rates proposed by Elam contain a computational error in the industrial rate block. The rate should be \$8.09 per Mcf rather than \$9.09 as proposed.

(5) Elam's adjustment in rates under the purchased gas adjustment provisions approved by the Commission in its Order in Case No. 8929 dated May 2, 1984, is fair, just and reasonable and in the public interest and should be effective with gas supplied on and after November 1, 1984.

IT IS THEREFORE ORDERED that the rates in the Appendix to this Order be and they hereby are authorized effective with gas supplied on and after November 1, 1984.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Elam shall file with this Commission its revised tariffs setting out the rates authorized herein.

Done at Frankfort, Kentucky, this 4th day of December, 1984.

PUBLIC SERVICE COMMISSION

*Richard J. Hemeryk*  
Chairman

*Rudolph L. ...*  
Vice Chairman

*Paul ...*  
Commissioner

ATTEST:

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Secretary

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 8929-E DATED DECEMBER 4, 1984

The following rates and charges are prescribed for the customers served by Elam Utility 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.

RATES: Monthly

RESIDENTIAL & COMMERCIAL

Customer Charge	\$ 4.00
First 11 Mcf	8.09 per Mcf
Over 11 Mcf	9.09 per Mcf

INDUSTRIAL

Customer Charge	\$ 5.00
All Mcf	8.09 per Mcf

The base rates for the future application of the purchased gas adjustment clause of Elam Utility Company shall be:

	<u>Demand</u>	<u>Commodity</u>
Columbia Gas Transmission Corporation	-	\$4.4023 per Dth
Capitol Oil and Gas	-	4.41 per Mcf

additional \$10,000 and the repair to an access road to the tank site would be \$4,080. Although, the Commission does not usually recognize expenditures outside the test period, it is of the opinion that it is warranted in this instance because the damage actually occurred during the test period. However, the circumstances surrounding these costs were very unusual due to the extreme cold temperature combined with a power failure which will most likely never occur again. Therefore, the Commission finds an amortization of these incurred and estimated costs over a 5-year period is reasonable with an annual amortization of \$5,775, a reduction of \$9,019.

Additionally, the Company stated that the tank had not been painted in some 7 years and presented an estimate of \$8,200 to paint its tanks. The Commission finds the normal tank painting amortization to be 5 years and thus this cost should be amortized over that period. Thus, the annual amortization allowed by the Commission is \$1,640.

#### Directors Fees and Life Insurance

During the test period, the Company booked \$16,820 for directors fees and life insurance of its officers. An analysis of the support for this expenditure indicates that of this amount \$9,300 was for directors fees, \$7,226 for life insurance and \$294 for cancer insurance for the officers of the Company. During cross-examination, the Company stated that the life insurance and cancer policies had been revised and that the new premiums were \$2,640 and \$346 annually. The Uniform System of Accounts for Class C Water Utilities specifically states that where the utility

is the beneficiary of life insurance of officers and employees, this amount should be included outside of operating expenses not included in normal expenses considered for rate-making purposes in Account 426, Miscellaneous Income Deductions. Therefore, the Commission is of the opinion that amounts for life and cancer insurance should not be included for rate-making purposes.

#### FICA Taxes

The Company proposed an adjustment to employer FICA taxes in the amount of \$1,336. The Commission has recalculated employer FICA tax at the approximate rate of 7 percent and finds no material change from the level of the test period. Therefore, this adjustment has been rejected.

#### Depreciation

The Company proposed depreciation expenses of \$28,860 based on ACRS depreciation rates. In its Exhibit 20B filed September 27, 1984, the Company presented depreciation expenses of \$32,953 for plant investment through the end of 1983. Adding in depreciation expense for plant items placed in service during the first 3 months of 1984, to include all of the months of the test period, total depreciation expense is \$33,221.

It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of the original cost of the plant, less contributions in aid of construction, as ratepayers should not be required to provide recovery on that portion of the plant which has been provided free of cost. Therefore, the Commission finds the reasonable level of

depreciation expense for rate-making purposes is \$26,748,<sup>11</sup> a reduction of \$2,112.

Income Taxes

The Company proposed an income tax expense of \$17,000 based on proposed operations. Based on the Commission's adjusted revenues of \$353,315, operating expenses of \$276,506 and interest expense of \$48,198 (described later) the Company's taxable income is \$28,611. Therefore, the appropriate level of income taxes is \$5,133,<sup>12</sup> a reduction of \$11,867.

Based on the above adjustments, the Commission finds the reasonable net operating income to be \$71,676, summarized below:

	<u>Company Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$353,315	\$ -0-	\$ 353,315
Operating Expenses	<u>325,158</u>	<u>&lt; 43,519 &gt;</u>	<u>281,639</u>
Net Operating Revenue	<u>\$ 28,157</u>	<u>43,519</u>	<u>\$ 71,676</u>

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11	Depreciation on Total Plant Times Non-Contributed Rates 1 - (\$170,506* ÷ \$875,062) = .80515 Allowable Depreciation Expense	\$33,221 .80515 <u>\$26,748</u>
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• This includes contributions of the District eliminated at the time of merger.

12	State Income Tax	\$25,000 x .03 = \$ 750 <u>3,611 x .04 = 144</u> \$28,611 \$ 894
	Federal Income Tax	\$25,000 x .15 = \$3,750 <u>2,717 x .18 = 489</u> \$27,717* \$4,239

\*\$28,611 - \$894 = \$27,717.

REVENUE REQUIREMENT

The Company has a debt service of \$75,202, including interest expense of \$34,743, on its long-term debt, and interest expense requirements on its short-term debt of \$13,455 based on the level of debt in Notice Exhibit "F" and the current short-term interest rate of 13 percent. Thus, total debt requirements are \$88,657. The adjusted operating revenue found reasonable earlier produces an overall debt service coverage of .81X which the Commission finds unfair, unjust and unreasonable. The Commission is of the opinion that a debt service coverage of 1.1X on the Company's long-term debt service and 1.2X on the Company's short-term debt interest requirements is fair, just and reasonable in that it will provide revenues sufficient to service the Company's debt and provide adequate cash-flow to meet its operating expenses.

In order to achieve the debt service coverage found fair, just and reasonable, the Commission has determined that the Company is entitled to a net operating income determined as follows:

Long-Term Debt Service Requirement (\$75,202 X 1.1)	\$82,722
Short-Term Debt Interest Requirements (\$13,455 X 1.2)	<u>16,146</u>
Reasonable Net Operating Income	<u>\$98,868</u>

Thus, the Company is entitled to additional revenues on an annual basis of \$34,893 determined as follows:



Reasonable Net Operating Income	\$98,868
Adjusted Net Operating Income	<u>71,676</u>
Deficiency	27,192
Retention Factor for Income Tax and Uncollectibles	.7793 <sup>13</sup>
Additional Revenue Requirements	<u>\$34,893</u>

The Commission does wish to apprise the Company that the additional revenue granted herein is based on the higher debt service requirements and that appropriate review will be made upon repayment of these loans and further that appropriate rate reductions may be necessary in the future.

#### RATE DESIGN

The Company has been operating under the auspices of two sets of rates which was the result of the approval of the lease purchase agreement with Spears Water District in Case No. 6464 dated March 15, 1976. In this instant case, the Company has proposed to consolidate the rate schedules of the former Spears Water District with its own present rate schedule. It has also proposed to increase the service charge rate. The Commission agrees.

#### FINDINGS AND ORDERS

1. The rates proposed by the Company will generate revenues greater than those allowed herein and should be denied upon application of KRS 278.030.

2. The rates in Appendix A are the fair, just and reasonable rates to be charged by the Company on and after the date of this Order.

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<sup>13</sup>  $1 - [(.18 \times .96) + .04] = .7872 \times .99 = .7793$

3. The consolidation of rate schedules of the former Spears Water District and Spears Water Company, Inc., is in the best interest of the District, the Company, and their customers, and should be approved.

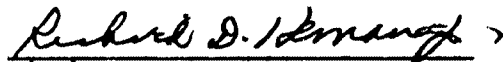
IT IS THEREFORE ORDERED that the rates proposed by the Company are hereby denied.

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

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

Done at Frankfort, Kentucky, this 21st day of November, 1984.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

SCHEDULE 1

<u>Month Billed</u>	<u>Month Received</u>	<u>Amount Billed</u> <sup>1</sup>	<u>Amount Received</u> <sup>2</sup>	<u>Under-Collections</u>
April	- May	\$ 22,459.85	\$ 22,482.79	\$ <22.94>
May	- June	23,634.24	22,197.04	1,437.20
June	- July	23,293.19	23,828.81	<535.62>
July	- August	30,416.78	28,932.43	1,484.35
August	- September	31,889.78	31,639.92	249.86
Sept.	- October	35,050.15	28,360.39	6,689.76
October	- November	33,675.31	32,121.72	1,553.59
Nov.	- December	26,148.61	25,446.27	702.34
Dec.	- January	28,437.78	25,599.41	2,838.37
January	- February	33,582.80	24,652.58	8,930.22
Feb.	- March	28,015.33	21,832.50	6,182.83
March	- April	<u>31,041.20</u>	<u>29,935.00</u> <sup>3</sup>	<u>1,106.20</u>
Total		\$347,645.02	\$317,028.86	\$ 30,616.16

<sup>1</sup> Exhibit 10 filed September 27, 1984.

<sup>2</sup> Exhibit B filed May 23, 1984.

<sup>3</sup> Exhibit B-1 filed July 23, 1984.

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 9067 DATED 11/21/84

The following rates and charges are prescribed for the customers served by Spears Water Company, 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 effective date of this Order.

RESIDENTIAL SERVICE

<u>Gallage Block</u>	<u>Monthly Rates</u>
First 2,000 gallons	\$ 7.60 Minimum Bill
Next 10,000 gallons	3.10 per 1,000 gallons
Over 12,000 gallons	2.25 per 1,000 gallons

MOBILE HOME AND/OR FIELD SERVICE

<u>Gallage Block</u>	<u>Monthly Rates</u>
First 1,000 gallons	\$ 4.40 Minimum Bill
Next 11,000 gallons	3.10 per 1,000 gallons
Over 12,000 gallons	2.25 per 1,000 gallons
Service Charge	\$10.00