

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF THE OLDHAM COUNTY)
WATER DISTRICT, OF OLDHAM COUNTY,)
KENTUCKY, FOR (1) A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER)
DISTRICT TO CONSTRUCT A WATERWORKS)
CONSTRUCTION PROJECT, CONSISTING OF) CASE NO. 9021
EXTENSIONS, ADDITIONS, AND IMPROVEMENTS)
TO THE EXISTING WATERWORKS SYSTEM OF)
THE DISTRICT; (2) APPROVAL OF THE)
PROPOSED PLAN OF FINANCING OF SAID)
PROJECT; AND (3) APPROVAL OF THE)
INCREASED WATER RATES PROPOSED TO BE)
CHARGED BY THE DISTRICT TO CUSTOMERS OF)
THE DISTRICT)

O R D E R

The Oldham County Water District ("Oldham") filed an application on March 29, 1984, for approval of adjustments to its water service rates, authorization to construct a \$557,500 waterworks improvements project, approval of its financing for the proposed project, and an increase in the water rates being charged to its customers of \$164,372. Oldham's financing for this project includes \$40,500 from applicants for service in the proposed project area and a loan of \$537,000 from the Farmers Home Administration ("FmHA") at 9 1/8 percent annual interest. Oldham will issue waterworks revenue bonds as security for the FmHA loan. The repayment period for the loan will be 40 years. The proposed improvements will extend service to about 165 additional customers.

Plans and specifications for these improvements as prepared by Sieco, Inc., Engineers & Architects of Columbus, Indiana, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

By amended application filed July 3, 1984, Oldham requested Commission approval of construction not described in its initial application. This construction will be referred to herein as project (2) and project (3). The construction described in the initial application will be referred to as project (1). These are interdependent projects that should not be approved or disapproved as separate projects.

Project (2) is being accomplished for Oldham by the Oldham County Fiscal Court. The facilities included in project (2) are more particularly described herein by finding number 5. Project (2) will provide water service and fire protection requirements for the Buckner Industrial Park. It will also provide for the delivery of water to L'Esprit, a farm complex for Arabian horses. The financing for project (2) includes a community development block grant of \$857,000 and contributions in aid of construction of \$53,000 from Oldham County and \$2,000 from the Torbitt and Castleman Company located in the Buckner Industrial Park.

Plans and specifications for project (2), were also prepared by the Engineer, and have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Project (3) includes water distribution facilities within the L'Esprit development. These facilities are more particularly

described herein by finding number 6. Project (3) is being financed and accomplished by Kentucky Park, Inc., the developer of L'Esprit. Upon completion, the facilities included in project (3) will become an integral part of Oldham's distribution system.

The plans and specifications for project (3), as prepared by Chrisman-Miller-Woodford, Inc., Architects and Engineers of Lexington, Kentucky, have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on August 14, 1984. There were no intervenors, and no protests were entered.

In this Order the Commission has allowed rates to produce the increase in revenues requested by Oldham.

TEST PERIOD

Oldham proposed and the Commission has accepted the 12-month period ending December 31, 1983, as the test period in this proceeding.

REVENUES AND EXPENSES

Oldham had a test period operating income before debt service of \$128,962, which it proposed to increase to \$321,808. The proposed adjustments included increases in labor cost for wage increases, purchased water, increased chemical costs due to serving additional customers and a reduction in depreciation to eliminate contributions in aid of construction and plant supported by bonds. The Commission has accepted these adjustments and others proposed by Oldham with the following exceptions:

Revenues From New Customers

Oldham's billing analysis shows 165 new customers to be served by its proposed service extensions.¹ Since this construction has been approved herein, the Commission has included these additional customers in determining Oldham's adjusted gross revenues from the sale of water. Using Oldham's current rates and average retail water usage per month, the Commission has determined these additional revenues to be \$32,322 and has increased Oldham's test period revenues by this amount.

Purchased Water Cost

During the test period, Oldham had water purchases of 774,132,700 gallons.² The Commission has increased this amount by 16,123,979 gallons in order to reflect the usage of the additional customers to be served after the proposed construction and actual test period line loss of 14.34 percent. Therefore, the Commission has determined the total amount of purchased water allowed for rate-making purposes to be 790,256,679 gallons. Based on Oldham's supplier's rates, the Commission has determined the amount of purchased water expense allowed for rate-making purposes to be \$15,454,³ a \$1,470 reduction to Oldham's proposed pro forma expense of \$16,924.

¹ Billing Analysis filed August 23, 1984.

² 1983 Annual Report, Page 12.

³ Royalty Contracts filed September 27, 1984.
(30,000,000/mo/connection x 2 connections x 12 mos. x \$.02/1,000 gal) + (70,256,679 gallons x \$.015/1,000 gallons) = \$15,454.

Purchased Power Cost

Oldham had a test period purchased power cost of \$150,912 which it proposed to increase to \$190,436 in order to reflect anticipated rate increases and the additional power needed to serve the additional customers. The Commission is of the opinion that an increase based on anticipated future rate increases fails to comply with the requirements of being both known and measurable. Oldham did not supply sufficient information for the Commission to recalculate its power cost based on its test period usage; however, its major supplier, Louisville Gas and Electric Company, in Case No. 8924, General Adjustment of Electric and Gas Rates of Louisville Gas and Electric Company, received approximately a 6.6 percent increase in rates. Therefore, the Commission will increase Oldham's test period expense by 6.6 percent or \$9,960. The Commission has, moreover, increased this amount by \$3,343 in order to reflect the additional customers to be served by the proposed construction. Therefore, the Commission has determined the level of expense for purchased power included for rate-making purposes to be \$164,215,⁴ a \$26,221 reduction to Oldham's proposed pro forma expense.

Chemical Cost

Oldham had a test period chemical cost of \$13,358 which it proposed to increase to \$15,327 based on its proposed amount of

⁴ \$160,872 normalized cost ÷ 774,132,700 gallons pumped during the test period = \$.2078/1,000 gallons. 790,256,679 gallons of purchased water allowed herein x \$.2078/1,000 gallons = \$164,215.

purchased water of 888,272,000 gallons. The Commission in this Order has allowed purchased water of 790,256,679 gallons. Based on a cost per thousand gallons of \$.0172554,⁵ the Commission has determined the adjusted level of this expense to be \$13,636, a \$1,691 reduction to Oldham's pro forma level.

Pro Forma Wage Increases

Oldham proposed to increase its test period wage expense by \$10,335 in order to reflect a 10 percent wage increase to its employees and approximately a 9 percent increase for its Commissioners. Oldham does not have a wage contract with its employees and the percentage increases are merely a projection of anticipated wage increases. Since the proposed increases did not comply with the requirement of being known and measurable, the Commission will disallow their inclusion for rate-making purposes. The Commission is aware, however, that some level of wage increase is appropriate and will occur in all likelihood. Therefore, the Commission, in conformance with previous actions taken in recent Orders, will allow a wage increase approximating the most current inflation rate as measured by the Consumer Price Index of 4 percent.⁶ Therefore, the Commission will allow an increase of \$4,316 to Oldham's test period wages. The net effect of these adjustments is to reduce Oldham's pro forma wage expense by \$6,019.

⁵ \$13,358 ÷ test period purchases of 774,132,700 gallons = \$.0172554.

⁶ CPI-W for August, 1984 = 3.61%
CPI-O for August, 1984 = 4.23%
Average 3.92%

Payroll Taxes

Oldham proposed to increase its operating expenses by \$9,676 to reflect the payment of social security and unemployment taxes in 1984. The Commission, based on the wages allowed herein and the current tax rates, has determined the expense to be \$9,990, an increase of \$314 to Oldham's pro forma expense.

Depreciation Expense

Oldham had a test period depreciation expense of \$259,060 which it proposed to decrease to \$7,504 in order to eliminate depreciation on plant acquired with funds provided by bonds or contributions in aid of construction. The Commission is of the opinion that depreciation on plant acquired with funds provided from the issue of bonds is a proper expense to be included in operating expenses for rate-making purposes. Therefore, the Commission has determined Oldham's test period depreciation expense for rate-making purposes to be \$217,974.⁷ The Commission has increased this expense by an additional \$19,976⁸ to reflect a full year's depreciation on the non-contributed portion of proposed construction allowed herein. Thus, the total amount of depreciation allowed herein for rate-making purposes is \$237,950.

Therefore, the Commission is of the opinion that Oldham's adjusted operations can be stated as follows:

⁷ Plant in Service of \$6,958,600 - Contributions of \$1,099,083 = 5,859,517 x 3.72% weighted depreciation rate = \$217,974.

⁸ Non-contributed construction of 537,000 x 3.72% = \$19,976.

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$761,956	\$32,322	\$794,278
Operating Expenses	661,213	<1,925>	659,288
Operating Income	<u>\$100,743</u>	<u>\$34,247</u>	<u>\$134,990</u>
Other Income (Net)	28,219	<4,935>	23,284
Net Operating Income	<u>\$128,962</u>	<u>\$29,312</u>	<u>\$158,274</u>

REVENUE REQUIREMENTS

Oldham County has a debt service, including the financing allowed herein, of \$378,595. Oldham's adjusted operations result in a debt service coverage of .4X. The Commission is of the opinion that this is unfair, unjust and unreasonable in that it will not allow Oldham to meet its debt service requirements. Therefore, the Commission is of the opinion that Oldham should be allowed to increase its rates by its proposed request of \$164,372, which would give Oldham a debt service coverage of .8X. However, the rates proposed by Oldham yield additional revenue of \$96,640, less than the amount found reasonable by the Commission. Nonetheless, the Commission is of the opinion that Oldham should not be allowed to increase its rates beyond the proposed levels, and finds that the rates proposed by Oldham will yield gross annual revenue sufficient to pay Oldham's operating expenses, service its debt, and provide a reasonable surplus for equity growth, and, therefore, should be approved.

RATE DESIGN

Oldham did not propose any change in rate design and the Commission will not order any change in rate design in this case.

FINDINGS AND ORDERS

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

1. The rates and charges proposed by Oldham are fair, just and reasonable and should be approved for service rendered on and after the date of this Order.

2. Oldham should file its revised tariff sheets setting out the rates and charges approved herein within 30 days of the date of this Order.

3. Public convenience and necessity require that the construction proposed in the application and record be performed and that a certificate of public convenience and necessity be granted.

4. Project (1) work includes about 12.5 miles of 10-inch, 6-inch, 4-inch and 3-inch water main construction, about 165 metered service connections and miscellaneous appurtenances.

5. Project (2) work for the Buckner Industrial Park includes a 250,000 gallon elevated storage tank, a 750 gallon per minute pumping station, about 4.0 miles of 16-inch, 10-inch and 6-inch water main construction and miscellaneous appurtenances. The industrial park's need for water storage and fire protection will be served by these facilities. Project (2) work also includes a 300,000 gallon water storage standpipe, a 300 gallon per minute pumping station, about 4.0 miles of 12-inch and 10-inch water main construction and miscellaneous appurtenances. This part of project (2) will provide for the delivery of water to the distribution mains serving the L'Esprit development.

6. Project (3) work includes about 4.2 miles of 10-inch, 8-inch and 6-inch water main construction to provide water service within the L'Esprit development.

7. The low bids received for project (1) totaled \$429,041 which will require about \$577,500 in project funding after allowances are made for fees, contingencies and other indirect costs.

8. Any deviations from the construction herein approved which could adversely affect service to any customers should be subject to the prior approval of the Commission. Oldham is further advised that this prior approval is applicable to the 6-inch water main and road bore near the US 42-KY 53 road junction.

9. The proposed borrowing of \$537,000 for project (1) is for lawful objects within the corporate purposes of Oldham, is necessary and appropriate for and consistent with the proper performance of services to the public by Oldham, and will not impair its ability to perform these services.

10. The financing secured by Oldham for projects (1) and (2) will be needed to pay for the work herein approved for these projects. Oldham's financing plan for projects (1) and (2) should, therefore, be approved. Oldham is not a participant in the financing of project (3). Kentucky Park, Inc., will pay all costs for project (3) and, upon completion, contribute the project (3) facilities to Oldham.

11. Utility facilities have been constructed for Oldham by the Oldham County Fiscal Court and by Kentucky Park, Inc., without a certificate of convenience and necessity for such construction

as required by KRS 278.020. Oldham should be admonished for its failure to comply with KRS 278.020 and further, should be warned that KRS 278.990 prescribes penalties for such actions.

12. Oldham should file with the Commission duly verified documentation which shows the total costs of each project herein certificated including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that the construction for each project is substantially completed. These costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

13. Oldham's contract with the Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering. The supervision and inspection should insure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

14. Oldham's contract with the Engineer should require the Engineer to furnish a copy of the record plans and a signed statement that each project herein approved has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of each project.

15. A 5/8-inch x 3/4-inch meter should be the standard customer service meter for all new customers and should be

installed at all points of service unless the customer provides sufficient justification for the installation of a larger meter.

16. Oldham should file with the Commission a copy of all contractual agreements for the provision of services or the purchase of services which are subject to the approval of the Commission.

IT IS THEREFORE ORDERED that the rates and charges proposed by Oldham in Appendix A be and they hereby are approved as the fair, just and reasonable rates to be charged by Oldham for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Oldham be and it hereby is granted a certificate of public convenience and necessity to proceed with the waterworks improvements projects set forth in the plans and specifications of record hereby approved.

IT IS FURTHER ORDERED that Oldham's plan for financing its construction work for projects (1) and (2) in the amounts of \$577,500 and \$912,000, respectively, including a 40-year loan of \$537,000 at 9 1/8 percent annual interest from FmHA, be and it hereby is approved.

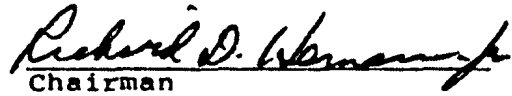
IT IS FURTHER ORDERED that Oldham shall comply with all matters set out in Findings 8 and 11 through 16 as if the same were individually so ordered.

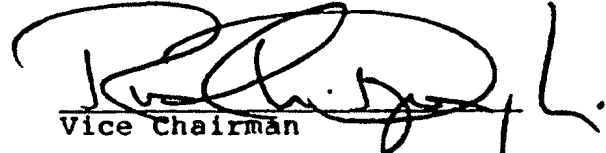
IT IS FURTHER ORDERED that the revised tariff sheets setting out the rates and charges allowed herein shall be filed within 30 days of the date of this Order.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 23rd day of October, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9021 DATED OCTOBER 23, 1984

The following rates are prescribed for the customers in the area served by Oldham County Water District, effective the date of this Order. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RETAIL CUSTOMERS

<u>Rate Block</u>	<u>Monthly Rate</u>
First 2,000 gallons	\$6.90 (Minimum Bill)
Next 3,000 gallons	2.30 per thousand
Next 4,000 gallons	1.75 per thousand
Next 11,000 gallons	1.15 per thousand
Next 20,000 gallons	.92 per thousand
Over 40,000 gallons	.72 per thousand

WHOLESALE CUSTOMERS

\$0.72 per thousand gallons