

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF TRI-VILLAGE)
WATER DISTRICT FOR AN ORDER) CASE NO. 9025
PERMITTING THE APPLICANT TO)
REVISE ITS RATES)

O R D E R

On March 30, 1984, Tri-Village Water District ("Tri-Village") filed its application pursuant to Chapter 278 of the Kentucky Revised Statutes and Title 807 of the Kentucky Administrative Regulations, 5:001, seeking to increase its rates for water service rendered by \$55,757. In order to determine the reasonableness of the request the Commission held a public hearing on August 15, 1984, at its offices in Frankfort, Kentucky. There were no intervenors in this proceeding.

The Commission in this Order has allowed an increase of \$45,995.

TEST PERIOD

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

REVENUES AND EXPENSES

During the test period Tri-Village experienced an operating loss of \$21,881. In order to reflect an on-going level of operations, Tri-Village proposed several pro forma adjustments

consisting of reductions to revenues and purchased water expense to reflect less rainfall than in a normal test period, repair and maintenance expenses for its storage tank, the purchase and operation of a new backhoe, annualization of bad debts, additional interest on short term debt, and proposed wage increases.

The Commission has accepted these adjustments with the following exceptions:

Bulk Sales Revenue

Tri-Village proposed to reduce its test period revenues derived from the bulk sale of water by \$4,775, from \$18,275 to \$13,500, due to abnormally dry test period weather. The adjustment was calculated by subtracting the bulk sales revenue realized in 1982 from the test period level of these revenues. Since Tri-Village experienced abnormally low bulk sales during 1982, it arbitrarily increased this result to what it considered a reasonable level. The Commission rejects this methodology as being totally unsupportable. Therefore, the Commission will use the 3-year average for bulk sales of 6,634,167 gallons. Applying the current rate of \$1.65/500 gallons or less and \$2.65/1,000 gallons, which is less the \$.35 collection charge paid to the leak sales operators, the Commission has determined the adjusted test period revenues to be realized from the bulk sale of water to be \$17,585, an increase of \$4,085 to Tri-Village's pro forma level.

Tri-Village stated its belief that most of its test period water loss was the result of its bulk sales being unmetered. Tri-Village further stated its intention to install meters in the future to monitor these sales. The Commission advises Tri-Village

that this step is in the best interest of the utility and should be accomplished as soon as economically feasible.

Testimony at the hearing¹ indicates that Tri-Village is not reporting the total amount of revenue associated with its bulk sales. The bulk sales stations are located at various places in the county on the property of individuals, such as store owners, who make collections for the water sold. For their services, these individuals are paid \$.35 for each 1,000 gallons sold. In determining its revenue from bulk sales Tri-Village has deducted the amount paid to these individuals from its per 1,000 gallon rates and reported only the net amount of revenue produced from the reduced rates. Tri-Village is hereby advised that revenue from bulk sales must be based on the actual approved rates and reported as such. The fees paid to the bulk sales operators should be shown as an expense to Tri-Village.

Purchased Water Expense

During the test period Tri-Village incurred \$78,355 in purchased water expense which it reduced to \$76,087. In its annual report Tri-Village listed 10,062,800 gallons as being for company use which included flushing of lines, fire fighting and "known leakage." It is the Commission's opinion that the known leakage should have been included in the amount of water reported as water loss. An analysis of this 10,062,800 gallons reveals the amount of known leakage to be approximately 3,000,000 gallons.

¹ Transcript of Evidence ("T.E."), pages 36 and 37, August 15, 1984.

Based on an adjusted test period water loss of 14.29 percent² and using the rates currently being charged by Tri-Village's supplier, the City of Owenton, Kentucky, the Commission has determined Tri-Village's adjusted purchased water cost to be \$80,141, an increase of \$4,054 to its proposed pro forma level.

Maintenance Expense

Tri-Village proposed to increase its test period maintenance expenses by \$5,000 to include the amortization of \$15,000 for repairs to and painting of its storage tank. The Commission is of the opinion that these improvements should be amortized over a 5-year rather than a 3-year period. Therefore, the Commission has reduced this adjustment by \$2,000.

Backhoe Expense

Tri-Village proposed to increase its operating expenses by \$11,797 to reflect a proposed purchase and the attendant operation of a new backhoe. Currently Tri-Village owns a backhoe which it contends has a doubtful remaining useful life. In response to a Commission request at the hearing, Tri-Village supplied invoices for operating expenses incurred during the test period associated with the operation of the old backhoe. These expenses amounted to only \$368. Tri-Village did not state how many hours the backhoe was used during the test period nor justified the future need for a new and very expensive piece of equipment, the purchase price of

² (8,601,334 gallons of line loss + 3,000,000 additional gallons) ÷ 81,175,700 gallons of test period purchases = 14.29%.

which Tri-Village would attempt to finance through additional short term debt.

Given the vagueness of the necessity for this equipment and the current financial condition of Tri-Village, the Commission will not allow the inclusion of this expense for rate-making purposes. It is further the Commission's opinion that when Tri-Village attains a more stable financial standing and if it still believes that this equipment is necessary, it should approach Farmers Home Administration ("FmHA") and this Commission to justify the acquisition and to work out an acceptable method of financing the purchase. In the alternative, Tri-Village should rent this equipment on an "as needed" basis.³

Therefore, the Commission has reduced Tri-Village's pro forma operating expenses by \$11,797.

Depreciation Expense

Tri-Village had a test period depreciation expense of \$21,748. This included a truck being depreciated over a 3-year period and depreciation on plant supported by contributions in aid of construction. The Commission is of the opinion that the truck would have a useful life more closely approximating 5 years rather than 3. Further, it is this Commission's policy to disallow for rate-making purposes depreciation calculated on contributed

³ This recommendation does not in any way abrogate Tri-Village's right to petition for a rehearing of this or any other issue in this proceeding within 20 days of the date of this Order.

property as the utility has no financial investment in the property. Therefore, based on the above adjustments and Tri-Village's depreciation schedule, the Commission has determined the adjusted depreciation expense for rate-making purposes to be \$15,958, a reduction of \$5,790 to test period levels.

Interest Expense on Short Term Debt

Tri-Village currently has short term debt outstanding of \$53,000. This debt was incurred due to Tri-Village's inability to meet current FmHA payments on its bonded indebtedness and to fund its operations. The interest associated with this short term debt is \$6,420. Due to the severity of the current financial conditions of Tri-Village⁴ the Commission will include this interest expense in the calculation of Tri-Village's debt service.

The Commission is concerned with the apparent rapidity of Tri-Village's economic decline and hereby advises Tri-Village to work more closely with this Commission and FmHA in the future before undertaking any additional financings or encumbrances. Further, Tri-Village should file quarterly reports with the Commission for the 3-month periods ending March 31, June 30, and September 30, 1985, so the Commission may more closely monitor Tri-Village's progress in reestablishing sound financial conditions.

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

⁴ Tri-Village is currently operating at a loss and is in default on its bond obligations to FmHA.

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Revenues	\$171,220	\$ <690>	\$170,530
Operating Expenses	173,875	3,182	177,057
Operating Loss	<u>\$ <2,655></u>	<u>\$ <3,872></u>	<u>\$ <6,527></u>
Other Income	48		48
Net Operating Loss	<u>\$ <2,607></u>	<u>\$ <3,872></u>	<u>\$ <6,479></u>

REVENUE REQUIREMENTS

Tri-Village proposed to calculate its revenue requirement based on a rate of return. The Commission is of the opinion that, in this instance, a debt service calculation is more appropriate since it more closely reflects the actual monetary requirements of Tri-Village and the conditions of its bond ordinance.

The Commission has determined that Tri-Village has a debt service based on an average amortization of its long-term debt of \$26,470 or total requirements from long- and short-term debt of \$32,890.⁵ The adjusted operations of Tri-Village result in a net operating loss and thus do not provide coverage for Tri-Village's debt service. The Commission is of the opinion that this is unfair, unjust and unreasonable in that it does not allow Tri-Village to meet its obligations. The Commission is of the opinion that a debt service coverage ("DSC") of 1.2X is fair, just and reasonable in that it will allow Tri-Village to pay its

5	Bond	Amount	Amortization Factor	Debt Service
	1960	\$274,611	.0554	\$ 15,214
	1966	218,000	.05163	<u>11,256</u>
	Total Debt Service			\$ 26,470

operating expenses and meet its lender's obligations. Therefore, the Commission will allow Tri-Village to increase its rates by \$45,995 calculated as follows:

Adjusted Operating Expenses	\$177,057
Plus 1.2X DSC of \$32,890	39,468
Operating Revenues Required	<u>\$216,525</u>
Less Adjusted Revenues and Other Income	170,530
Additional Revenues Required	<u>\$ 45,995</u>

RATE DESIGN

Tri-Village presently bills its customers on four different rate schedules containing varying usage and rate levels. Of its 802 customers, approximately 16 receive service through the Class A rate structure, 312 receive service through the Class B rate structure, 457 receive service through the Class C rate structure, and 17 customers receive service through the Class F rate structure. Tri-Village proposed to change its rate design by deleting the various rate classes and billing all customers on a single rate schedule. The Commission is of the opinion that a single rate schedule would be more fair to all customers. Therefore, the proposed change in rate design should be approved.

Tri-Village currently has 12 customers who are served through 1-inch, 2-inch and 4-inch meters. The Commission is of the opinion that minimum usage levels and bills should be established for these customers which are more reflective of the capacity and cost of service through larger meters.

Tri-Village's current bulk sales rates are \$2.00 for sales of 500 gallons or less and \$3.00 per 1,000 gallons for sales over 500 gallons. Bulk sales are presently unmetered and no records

are kept showing the number of gallons sold in volumes of 500 gallons or less at the \$2.00 rate or the number of gallons sold at the \$3.00 per 1,000 rate. For this reason, no adjustments have been made herein to the bulk sales rates. However, Tri-Village is advised that in the future records of bulk sales should be maintained showing the gallons billed at each rate level in such detail as will enable an accurate determination of revenue produced from bulk sales.

FINDINGS AND ORDERS

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

1. The rates proposed by Tri-Village will generate revenues greater than those allowed herein and should be denied upon application of KRS 278.030.
2. The proposed change in the rate structure is fair, just and reasonable and should be approved.
3. Minimum usage levels and bills should be established for meters larger than 5/8-inch.
4. Tri-Village should proceed with the metering of its bulk sales as rapidly as economically feasible.
5. Tri-Village should maintain records of its bulk sales in sufficient detail as to enable an accurate determination of bulk sales revenue.
6. The rates in Appendix A are the fair, just and reasonable rates to be charged by Tri-Village on and after the date of this Order.

7. Revenue from bulk sales should be determined from the actual rates allowed and fees paid to bulk sales operators should be shown as an expense to Tri-Village.

8. Tri-Village should file quarterly financial reports for the period ending March 31, 1985, June 30, 1985, and September 30, 1985.

9. The revised tariff sheets setting out the rates and charges allowed herein should be filed within 30 days of the date of this Order.

IT IS THEREFORE ORDERED that the rates proposed by Tri-Village are hereby denied.

IT IS FURTHER ORDERED that the proposed change in the rate structure be and it hereby is approved.

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

IT IS FURTHER ORDERED that Tri-Village shall comply with findings Nos. 4, 5, 7 and 8 of this Order.

IT IS FURTHER ORDERED that Tri-Village shall file a copy of its revised tariff sheets setting out the rates and charges allowed herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 26th day of October, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Hemminger
Chairman

Ronald J. Joyner
Vice Chairman

Lawrence H. Hull
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9025 DATED 10/26/84

The following rates are prescribed for the customers of Tri-Village 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 effective date of this Order.

<u>Usage Blocks</u>	<u>Rates (Monthly)</u>
First 2,000 gallons	\$ 9.80 Minimum
Next 4,000 gallons	2.85 per 1,000 gallons
Next 4,000 gallons	2.75 per 1,000 gallons
Next 10,000 gallons	2.65 per 1,000 gallons
Over 20,000 gallons	2.45 per 1,000 gallons

Minimum Bills*

<u>Meter Size</u>	<u>Minimum Usage</u>	<u>Minimum Bill</u>
5/8-inch meter	2,000 gallons	\$ 9.80
1-inch meter	5,000 gallons	18.35
2-inch meter	16,000 gallons	48.10
4-inch meter	50,000 gallons	132.20

*All usage in excess of the minimum usage shall be billed in accordance with the rate schedule.

Bulk Sales

500 gallons or less	\$2.00
Over 500 gallons	3.00 per 1,000 gallons