

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

AN APPLICATION OF WESTERN)
BRACKEN WATER DISTRICT FOR AN) CASE NO. 9126
ADJUSTMENT OF RATES)

O R D E R

On September 5, 1984, Western Bracken Water District ("Western Bracken") filed its application with the Commission to increase its rates for water service pursuant to 807:KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates would produce additional revenue of \$16,610, an increase of 25 percent. Based on the determination herein, Western Bracken has been granted an increase in revenue of \$16,515 annually. The difference of \$95 reflects two minor changes in the proposed rate schedules.

In accordance with the provisions of the ARF regulation, no hearing was held in this matter. The Commission's decision in this matter is based on information contained in Western Bracken's application and annual reports, along with its response to the Commission's written request for information dated September 18, 1984.

COMMENTARY

Western Bracken is a non-profit water utility providing service to 345 customers. Western Bracken obtains its water supply from Bracken County Water District No. 1.

TEST PERIOD

The Commission has adopted 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 appropriate known and measurable changes.

REVENUES AND EXPENSES

Western Bracken proposed several adjustments to its test period revenues and expenses. The Commission finds the proposed adjustments to be proper and acceptable for rate-making purposes with the following modifications:

Amortization of Extraordinary Retirement

Since the end of the test year Western Bracken has retired and dismantled an inoperative 20-year-old water tower. The tower, which was being depreciated over a period of 40 years, had a net original cost of \$7,500 at the end of the test year. The cost to Western Bracken for dismantling and removing the tower was \$3,000, resulting in a total loss of \$10,500. Western Bracken stated that the extraordinary loss should be written off immediately for accounting purposes and amortized over 5 years for rate-making purposes.

The Commission is of the opinion that this retirement constitutes an extraordinary property loss consistent with the instructions for Account No. 182--Extraordinary Property Losses, of the Uniform System of Accounts for Class C Water Utilities to which this Commission subscribes and which, therefore, applies to Western Bracken. Western Bracken is hereby instructed to use Account No. 182 and follow the instructions set out therein to account for the retirement of the water tower.

The Commission is also of the opinion that a 10-year amortization period is appropriate for both accounting and rate-making purposes in this instance. Had the tower been operational, it would have had a remaining life of 20 years and annual depreciation expense of \$375. A 10-year amortization period results in an annual amortization charge of \$1,050 which is less by half than the amount of \$2,100 proposed by Western Bracken for rate-making purposes and \$9,450 less than the amount Western Bracken had proposed to write off in 1 year for accounting purposes.

The Commission is of the opinion that the 1-year write-off would greatly distort Western Bracken's 1984 reported operating results, and that the relatively short 5-year amortization period would unfairly burden ratepayers. A 10-year amortization period will allow Western Bracken to recover its cost without placing an unfair burden on ratepayers and will minimize the effects of the loss for financial reporting purposes. Therefore, an adjustment

of \$1,050 has been made to reflect the 10-year amortization of the extraordinary retirement.

Depreciation Expense

Western Bracken's test year depreciation expense was \$9,900. Western Bracken proposed to reduce this expense by \$159 to reflect both the retirement of the tower and an addition to plant of a \$228 pumping control panel subsequent to the test year. The Commission has recalculated the adjustment to properly reflect the elimination of \$375 in annual depreciation expense applicable to the retired tower and to reflect the elimination of depreciation on contributed property as an expense for rate-making purposes.

At the end of the test year Western Bracken had contributions in aid of construction equal to 16 percent of its plant in service. In order to insure that ratepayers pay only for plant in which Western Bracken has made an investment, the Commission has reduced the adjusted test year expense of \$9,525 by 16 percent, or \$1,524.¹ The Commission has accepted Western Bracken's adjustment to increase depreciation expense by \$23 to reflect the 10-year life of the new control panel. The net effect of these adjustments is a decrease in depreciation expense of \$1,876 to \$8,024.

¹ $\$9,900 - \$375 = \$9,525 \times .16 = \$1,524.$

The adjustments to Western Bracken's test period operations produced the following results:

| | <u>Actual</u> | <u>Adjustments</u> | <u>Adjusted</u> |
|--------------------|-------------------------|-------------------------|-------------------------|
| Operating Revenues | \$ 66,477 | \$ -0- | \$ 66,477 |
| Operating Expenses | 59,629 | 1,272 | 60,901 |
| Operating Income | <u>\$ 6,848</u> | <u>\$ <1,272></u> | <u>\$ 5,576</u> |
| Interest Expenses | 10,771 | <396> | 10,375 |
| Net Income | <u>\$ <3,923></u> | <u>\$ <876></u> | <u>\$ <4,799></u> |

REVENUE REQUIREMENTS

The Commission is of the opinion that a debt service coverage ratio of 1.2X is a fair, just and reasonable coverage for Western Bracken to maintain in that it meets the requirements of Western Bracken's lenders and provides an adequate surplus for equity growth. Based on adjusted test period operations, the Commission finds Western Bracken's revenue requirement to be as follows:

| | |
|----------------------------------|------------------|
| Adjusted Operating Expenses | \$ 60,901 |
| 1.2X Debt Service Coverage | 24,450 |
| Revenue Requirement | <u>\$ 85,351</u> |
| Less: Adjusted Operating Revenue | 66,477 |
| Increase Required | <u>18,874</u> |

The increase requested by Western Bracken would generate \$2,264 less than the amount found reasonable by the Commission. However, the Commission is of the opinion and finds that the rate increase requested by Western Bracken, as modified herein under the Rate Design Section, will produce gross annual revenue sufficient to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth and should, therefore, be approved.

RATE DESIGN

Western Bracken requested a minimum bill in the amount of \$35.75 for the first 10,000 gallons for Commercial to Loading Station customers, and a minimum bill of \$105.19 for the first 40,000 gallons used by Western School. The Commission has determined that, based on the Class C residential rate structure, the minimum bill for 10,000 gallons should be \$32.61 and the minimum bill for 40,000 gallons should be \$100.41. This change in minimum bills results in a decrease of proposed annual revenue in the amount of \$95.

SUMMARY

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

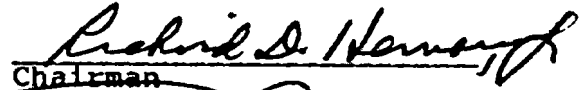
1. The rates proposed by Western Bracken, as modified herein and contained in Appendix A, are the fair, just and reasonable rates to be charged by Western Bracken and will produce annual operating revenues of \$82,992.

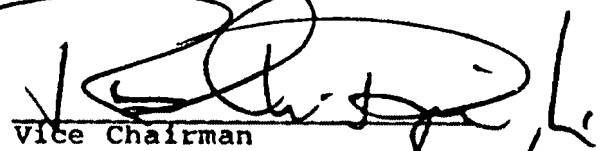
IT IS THEREFORE ORDERED that the rates proposed by Western Bracken, as modified herein and contained in Appendix A, be and they hereby are approved for service rendered by Western Bracken on and after the date of this Order.

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

Done at Frankfort, Kentucky, this 5th day of November, 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. 9126 DATED NOVEMBER 5, 1984.

The following rates are prescribed for the customers in the area served by Western Bracken Water District. 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.

RATES: Monthly

Class C

| | | |
|-------|---------------|------------------------|
| First | 1,000 gallons | \$8.51 Minimum Bill |
| Next | 2,000 gallons | 3.51 per 1,000 gallons |
| Next | 2,000 gallons | 2.89 per 1,000 gallons |
| Over | 5,000 gallons | 2.26 per 1,000 gallons |

Field

| | | |
|-------|---------------|------------------------|
| First | 1,000 gallons | \$8.51 Minimum Bill |
| Over | 1,000 gallons | 2.26 per 1,000 gallons |

Commercial to Loading Station

| | | |
|-------|----------------|------------------------|
| First | 10,000 gallons | \$32.61 Minimum Bill |
| Over | 10,000 gallons | 2.26 per 1,000 gallons |

Western School

| | | |
|-------|----------------|------------------------|
| First | 40,000 gallons | \$100.41 Minimum Bill |
| Over | 40,000 gallons | 2.26 per 1,000 gallons |