

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR ADJUSTMENT OF THE)
RATES OF WEST MARSHALL WATER)
DISTRICT PURSUANT TO 807 KAR 5:076,) CASE NO. 9526
ALTERNATIVE RATE FILING FOR SMALL)
UTILITIES)

O R D E R

On March 14, 1985, West Marshall Water District ("West Marshall") filed its application seeking to increase its rates for water service pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates would generate additional revenues of \$2,660 on an annual basis, an increase of ten percent in the rates currently being charged.

A hearing was not requested in this matter and in accordance with the provisions of the ARF no hearing was conducted. The decision of the Commission is based on information contained in the application, annual reports, and other documents on file in the Commission's offices. Based on the findings herein the Commission has allowed the increase in revenues of \$2,660 annually.

West Marshall's application for a rate increase did not include a billing analysis. During the period of May 5, 1986, through May 7, 1986, an on-site billing analysis was performed by a staff member of the Commission.

Based on West Marshall's present rates the staff billing analysis produced annual operating revenue in the amount of \$24,883. A copy of the staff report was sent to West Marshall wherein West Marshall was given an opportunity to respond. West Marshall has not filed a response to the staff report and therefore the Commission assumes that West Marshall is in agreement with the findings in said report.

Revenues and Expenses

West Marshall reported net operating income of \$3,086 for the test period ending December 31, 1984. In order to recognize current operating conditions, West Marshall proposed in its filing adjustments to purchased water expense, billing and office expense, repairs expense, payroll taxes and miscellaneous expenses. The proposed adjustments would increase West Marshall's operating expenses by \$2,651 and the Commission finds they are acceptable for rate-making purposes.

Depreciation Expense

Test period depreciation expense reported by West Marshall was \$4,616, reflecting total plant in service, resulting in a composite depreciation rate of approximately 2.5 percent.¹ For rate-making purposes the Commission generally allows depreciation only on that portion of plant acquired through investment and not on the plant acquired through contributions. Thus, in determining

¹ Plant in Service 6/30/86 \$184,651
Depreciation Exp: test year 4,616
Depreciation Rate (\$4,616 ÷ \$184,651) = 2.499%

the reasonable depreciation expense, the Commission has excluded \$54,420 of plant representing West Marshall's contributions in aid of construction at the end of the test period resulting in a reduction of \$1,360 to test period depreciation expense.

Adjustments to West Marshall's test period operations produced the following results:

	<u>Actual</u>	<u>Company Adjustments</u>	<u>Commission Adjustments</u>	<u>Adjusted Balance</u>
Operating Revenues	\$25,089	\$ -0-	\$ -0-	\$25,089
Operating Expenses	<u>22,003</u>	<u>2,651</u>	<u><1,360></u>	<u>23,294</u>
Operating Income	<u>\$ 3,086</u>	<u>\$(2,651)</u>	<u>\$1,360</u>	<u>\$ 1,795</u>

REVENUE REQUIREMENTS

The Commission has determined West Marshall's average annual debt service for the 5 years subsequent to the test period to be \$7,565. The adjusted operating income of \$1,795 plus interest income in the amount of \$472 results in total income for rate-making purposes of \$2,267 and will allow West Marshall a debt service coverage ("DSC") of .30X.

Granting the entire amount requested in this case will provide West Marshall with a DSC of .65X. The Commission has determined that a 1.0X DSC is required to allow a company to break even. A cash flow analysis shows that with capital expenditures of \$4,468, West Marshall had a negative cash flow for the test period. A portion of the capital additions were financed from a special fund maintained by West Marshall. Exclusive of capital expenditures, West Marshall's cash position remains favorable at present; however, the Commission is concerned that continued

expenditures for capital additions comparable to those during the test year could deplete West Marshall's cash reserve and with only a .65X DSC could be detrimental to West Marshall's financial position.

The Commission advises West Marshall to closely monitor its financial position and to take appropriate action when necessary.

CONNECTION FEES

West Marshall provided cost justification to raise its 5/8 x 3/4-inch connection fee from \$90 to \$399. The Commission is of the opinion that West Marshall's proposed increase in its connection fee is fair, just and reasonable and should be approved.

SUMMARY

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

(1) West Marshall's proposed increase in its connection fee should be approved.

(2) The rates in Appendix A are fair, just and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

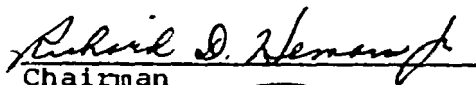
(1) West Marshall's proposed increase in its connection fee be and it hereby is approved.

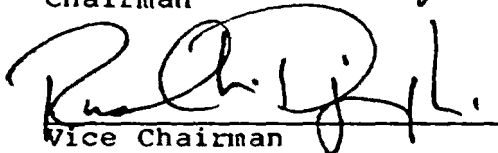
(2) The rates in Appendix A be and they hereby are approved for water service rendered by West Marshall on and after the date of this Order.

(3) Within 30 days from the date of this Order West Marshall shall file with this Commission its revised tariff sheets setting out the rates for water service approved herein.

Done at Frankfort, Kentucky, this 11th day of July, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9526 DATED JULY 11, 1986

The following rates and charges are prescribed for the customers in the area served by West Marshall 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

First 2,000 gallons	\$7.70 Minimum Bill
Next 3,000 gallons	2.75 per 1,000 gallons
Next 5,000 gallons	2.20 per 1,000 gallons
Next 10,000 gallons	1.93 per 1,000 gallons
Over 20,000 gallons	1.65 per 1,000 gallons

Connection Fee

5/8 X 3/4-Inch Connection \$399