

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RATE ADJUSTMENT OF KENTON)
COUNTY WATER DISTRICT) CASE NO. 8572

O R D E R

On September 20, 1983, the Commission issued its Order on Rehearing of this matter in which reconsideration of the Commission's decision in its Order dated March 22, 1983, was afforded Kenton County Water District ("Kenton").

In its Rehearing Order, the Commission upheld its original decision to exclude depreciation expense of \$38,417 on contributed property and to include interest income of \$191,680 from a debt escrow account in determining Kenton's revenue requirement.

Kenton appealed the decision to the Franklin Circuit Court which rendered its decision in Civil Action No. 83-C1-1279 on February 17, 1987, reversing the Commission's decision on the above issues.

Kenton has requested, by way of a letter from counsel on May 7, 1987, that the Commission grant additional relief through the use of a surcharge to recover money that would have accrued as revenue if the Commission had allowed depreciation on contributed property as a rate-making expense. Kenton also requested that relief be granted in an amount equal to the interest earned on the

defeasement bonds in an escrow account and treated as income to the utility by the Commission.

The Kentucky Supreme Court has recently ordered this Commission to allow the use of depreciation on contributed property as an expense for rate-making purposes. The Commission has been granting additional relief to account for depreciation on contributed property on an ongoing basis, as new rate orders are issued. Given that this commission has been ordered by the Franklin Circuit Court to provide additional relief related to depreciation on contributed property, it is the Commission's opinion that rates should be granted which will allow Kenton to recover this expense, such rates to be effective on and after February 17, 1987. The Commission is also of the opinion that rates should be granted to allow an additional recovery of \$191,680 annually for interest in the escrow account formerly treated as income to the utility, such rates also being effective for service rendered on or after February 17, 1987.

Kenton has also requested that the Commission provide additional income, by way of a surcharge, to recover approximately \$840,000. This represents the amount that would have been recovered through rates if the Commission had allowed depreciation on contributed property as an operating expense and had not included interest in the escrow account as operating income, from the date of the Commission's original Order of March 22, 1983.

That Order which granted a rate increase remained lawful until such time as it was overturned by the Franklin Circuit Court. Therefore, it is the opinion of this Commission that to

grant a surcharge to recover those lost revenues would constitute improper retroactive rate-making.

The Commission recognizes that surcharges are not in and of themselves violative of legislative delegation. Indeed, a surcharge will be necessary in order to grant rate relief relating back to February 17, 1987, the date of the Circuit Court order. By granting relief, including a surcharge, to relate back to February 17, 1987, the Commission is of the opinion that it will be granting appropriate relief since revenue will equal the amount that would have been recovered had this Order been issued immediately after the Circuit Court decision.

FINDINGS AND ORDERS

After reviewing the record in this proceeding, including the Franklin Circuit court order, and being advised, the Commission is of the opinion and finds that:

1. The Commission's Order of March 22, 1983, in this matter should be amended to increase the rates which Kenton may charge for water service rendered on and after June 30, 1987, by \$230,097.¹

2. Kenton should be allowed a one time surcharge to collect \$86,286² in revenues that would have been earned from February 17, 1987, to June 30, 1987.

¹ \$38,417 depreciation on contributed property plus \$191,680 interest income = \$230,097.

² \$230,097 ÷ 12 months X 4.5 months = \$86,286.

IT IS THEREFORE ORDERED that:

1. The rates allowed in the Commission's Order of March 22, 1983, be amended as shown in Appendix A for service rendered on and after June 30, 1987.

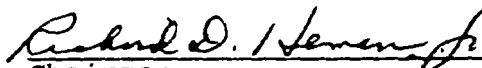
2. A one time surcharge as provided in Appendix B be levied with the initial billing for service rendered on and after June 30, 1987.


3. All provisions of the Commission's Order of March 22, 1983, not specifically amended herein still stand in full force and effect.

4. Within 30 days of the date of this Order, Kenton shall file its revised tariff setting out the rates approved herein.

Done at Frankfort, Kentucky, this 29th day of June, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 8572 DATED JUNE 29, 1987.

The following rates and charges are prescribed for the customers in the area served by Kenton County 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: Quarterly

First	600 Cubic Feet	\$6.00	Minimum Bill
Next	4,400 Cubic Feet	.86	per 100 Cubic Feet
Next	495,000 Cubic Feet	.77	per 100 Cubic Feet
Next	1,500,000 Cubic Feet	.64	per 100 Cubic Feet
Over	2,000,000 Cubic Feet	.49	per 100 Cubic Feet

WHOLESALE RATES

Boone County Water District	\$0.51	per 100 Cubic Feet
Bromley City of	.49	per 100 Cubic Feet
Campbell County Water District	.49	per 100 Cubic Feet
Cold Spring, City of	.51	per 100 Cubic Feet
Florence Water and Sewer	.51	per 100 Cubic Feet
Independence, City of	.51	per 100 Cubic Feet
Ludlow, City of	.49	per 100 Cubic Feet
Taylor Mill Water Department	.51	per 100 Cubic Feet
Walton, City of	.51	per 100 Cubic Feet
Winston Park Water Department	.49	per 100 Cubic Feet

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 8572 DATED JUNE 29, 1987.

A one time surcharge in the amount of \$2.80 shall be levied with the initial billing for service rendered on and after June 30, 1987.