

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

WESTERN LEWIS-RECTORVILLE WATER AND)
GAS DISTRICT FOR AN INCREASE IN ITS) CASE NO. 9641
WATER RATES)

O R D E R

On July 16, 1986, Western Lewis-Rectorville Water and Gas District ("Western Lewis") filed an application with the Commission requesting authority to increase its water rates. The application was filed pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). Western Lewis stated that the increase was necessary to sustain customer service. The amount of increase requested was approximately \$18,039 annually, an increase of approximately 22.3 percent over normalized revenues. Based upon the determination herein, Western Lewis' operating revenue will increase by \$18,039 annually, an increase of 22.3 percent.

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 upon information contained in the application, written submissions, annual reports, staff reports and other documents on file in the Commission's offices.

COMMENTARY

Western Lewis is a non-profit water district serving approximately 680 residential customers in Mason and Lewis counties of Kentucky.

TEST PERIOD

Western Lewis has proposed and the Commission has accepted the 12-month period ending December 31, 1985, as the test period for determining the reasonableness of the proposed rates. In using the historic test period, the Commission has given full consideration to appropriate known and measurable changes found reasonable.

Staff Audit Report Adjustments

In the course of its investigation in this case, the Commission staff performed a limited audit to verify reported test year expenses and determined that accounting or classification changes might be appropriate. The Commission's objective was to substantially reduce the need for written data requests, thus reducing the expense to Western Lewis. The staff audit report of Western Lewis' financial operations for the calendar year 1985 was filed as a part of the record in this case.

The Commission hereby adopts the findings of that report to be used for rate-making purposes herein. Western Lewis filed no comments regarding the audit report.

The Commission has made additional adjustments to the test year, as determined in the audit report, based upon the following findings to reflect more normal and current operating conditions:

Maintenance of Treatment Plant

Western Lewis proposed a \$5,923 annual adjustment to maintenance of treatment plant based on a 3-year amortization of approximately \$17,770 of pump replacement costs. The Commission is of the opinion that depreciation expense is the proper method to recover such capital expenditures. Therefore, capital recovery and the time period for recovery will be discussed under depreciation expense.

Depreciation Expense

The staff audited depreciation expense was approximately \$14,443. As discussed earlier, the Commission feels that capital expenditures are best recovered through depreciation expense. Western Lewis proposed capital recovery of \$17,770 of pump replacement costs over a 3-year period. The Commission feels that a 10-year period of capital recovery is reasonable. Therefore, the Commission has increased Western Lewis' depreciation expense by \$1,777 to \$16,220 annually for rate-making purposes.

After consideration of the aforementioned adjustments, the Commission finds Western Lewis' adjusted operating results to be as follows:

	<u>Test Year Per Audit</u>	<u>Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues	\$80,999	\$ -0-	\$80,999
Operating Expenses	<u>70,672</u>	<u>5,044</u>	<u>75,716</u>
OPERATING INCOME	<u>\$10,327</u>	<u>\$<5,044></u>	<u>\$ 5,283</u>

REVENUE REQUIREMENTS

Western Lewis' total debt service over the next 5 years is approximately \$115,920 for an average annual debt service requirement of \$23,184. Western Lewis' operating income only provides a .228 debt service coverage. An annual increase in Western Lewis' operating revenues of \$18,039 should produce operating income of \$23,322 which should provide an adequate cash flow to service Western Lewis' debt obligations and provide a reasonable cash flow to continue Western Lewis' operations.

RATE DESIGN

Western Lewis' present rate structure is a declining block schedule which consists of six steps with the first step being a minimum usage allowance. The present rate structure along with the respective proposed rates shows little disparity which has made Western Lewis' rates a candidate for rate simplification. In response to an information request Western Lewis stated that it has no objections to reducing the number of steps in the rate structure.

After reviewing Western Lewis' present and proposed rates and its customers' usage patterns it was determined that the second and third, and fourth and fifth usage increments should be combined. The usage patterns shown in the billing analysis support combining the aforementioned steps. This reduction in the number of rate steps will additionally allow for a more equitable distribution of costs among Western Lewis' customers and is in the best interest of the customers and the company.

OTHER CHARGES

Western Lewis provided cost justification to increase its connection fee for a 5/8 inch connection from \$345 to \$410. After reviewing the cost justification provided the Commission is of the opinion that the proposed increase should be approved.

SUMMARY

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

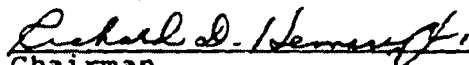
1. The revenues proposed by Western Lewis are fair, just and reasonable in that they do not produce excessive profits.
2. The rates in Appendix A will produce the fair, just and reasonable revenues proposed by Western Lewis.
3. Western Lewis' proposed increase in its 5/8 inch connection fee should be approved.

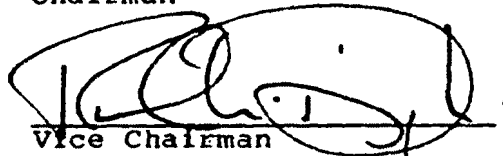
IT IS THEREFORE ORDERED that:

1. The rates in Appendix A are approved for service rendered on and after the date of this Order.
2. The proposed increase in Western Lewis' 5/8 inch connection fee be and hereby is approved.
3. Within 30 days from the date of this Order, Western Lewis shall file with this Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 4th day of February, 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. 9641 DATED 2/4/87

The following rates and charges are prescribed for the customers in the area served by Western Lewis-Rectorville 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 1,000 gallons	\$4.10 Minimum Bill
Next 4,000 gallons	1.65 per 1,000 gallons
Next 10,000 gallons	1.20 per 1,000 gallons
Over 15,000 gallons	1.00 per 1,000 gallons
Truck Sales	3.35 per 1,000 gallons
<u>Connection Fee</u>	
5/8 Inch Connection	\$410.00