

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE ELKHORN)
WATER DISTRICT (1) FOR A CERTIFICATE)
OF CONVENIENCE AND NECESSITY TO)
CONSTRUCT A WATER STORAGE TANK AND) CASE NO. 9896
ADDITIONAL LINES; (2) FOR APPROVAL)
OF FINANCING PLAN FOR SAID PROJECT;)
AND (3) FOR APPROVAL OF WATER RATES)
AND CHARGES)

O R D E R

On March 27, 1987, Elkhorn Water District ("Elkhorn") filed its application seeking approval of its proposed construction, financing and rate increase. An Interim Order was issued on August 14, 1987, addressing the pipeline construction portion of the proposed project and the related financing. On October 22, 1987, Elkhorn filed an amended application seeking a deviation from 807 KAR 5:066 Section 5(4), which requires "water storage to insure a minimum of one (1) day's supply of its average daily water usage...."

On May 12, 1987, the Commission staff conducted a field review of Elkhorn's test period financial records and issued its report on September 21, 1987, containing staffs' recommendations. On October 9, 1987, Elkhorn filed its response to the staff report indicating that the report did not allow sufficient revenues. Elkhorn requested that a hearing be held for cross-examination of those preparing the report.

An informal conference was held on November 30, 1987, followed by a public hearing held on January 14, 1988, at the Commission's offices in Frankfort, Kentucky. Marvin E. Duvall, d/b/a Elkhorn Mobile Home Park, whose August 19, 1987, Motion for Full Intervention had been granted, was an active participant in both proceedings.

At the hearing, both the Commission staff and Elkhorn made certain requests for information and calculations. Such requests were to be filed with the Commission by January 30, 1988. The Commission has considered those items that were filed January 30, 1988.

COMMENTARY ON WATER STORAGE DEVIATION REQUEST

By application filed October 22, 1987, Elkhorn requested a deviation from 807 KAR 5:066, Section 5(4). Said request asked that Elkhorn be relieved of the requirement to provide storage equal to one day's supply of its average daily usage.

In an effort to acquire sufficient information for an adequate and proper consideration of the deviation requested by Elkhorn, the Commission entered an Order on December 3, 1987, for additional information. Elkhorn's response to that Order indicates that it currently possesses 50,000 gallons of finished water storage. This was slightly more than one-half of its 1987 average day's usage of 93,000 gallons and less than one-third of its 1987 maximum day's usage of 161,000 gallons. Elkhorn estimated that its 1990 maximum day usage would be 165,000 gallons for 3 successive days. Elkhorn also responded that it was currently seeking funds from the Farmers Home Administration and

the Kentucky Pollution Abatement Authority in order to construct additional storage facilities. The Commission's review of this matter leads it to conclude that additional storage facilities are needed in order for Elkhorn to supply adequate and reliable service to the District's customers. However, the Commission is aware of the amount of time required to plan, finance and construct these types of facilities and will grant a limited deviation in this instance. Elkhorn should monitor its storage capability, and should notify the Commission of any changes that materially affect its ability to provide adequate storage (e.g., increases in water consumption, or inability to assure reliance on the storage capacity of the City of Frankfort).

REVENUE REQUIREMENT

At the hearing staff indicated that its September 21, 1987, report would be amended to include an additional decrease in interest income of \$874, based on testimony filed by Elkhorn on December 30, 1987.

Rate case expense was not recommended in the staff report for rate-making purposes due to the lack of sufficient documentation and the inability of the expense to meet the criteria of being known and measurable. As a result of testimony submitted both prior to and during the hearing, staff has amended its recommendation to include the portion of Elkhorn's proposed rate case expense consisting of \$29.25 for advertising and \$2,340 for fees charged by Elkhorn's consultant, Al Humphries. This results

in total rate case expense of \$2,369.25¹ to be amortized over a 3-year period resulting in test period expense of \$790.²

The Commission is aware that Elkhorn seeks total rate case expenses of approximately \$5,868, based upon exhibits filed August 31, 1987, and December 30, 1987. Based upon review of these exhibits, and testimony from the hearing, the Commission finds that Elkhorn has failed to produce sufficient proof that the proposed expenses are justified. Therefore, the staff recommendation for rate case expense has been accepted. Elkhorn is reminded that it has an obligation to seek the most reasonable and cost effective services available whenever outside services are required.

After consideration of the aforementioned adjustments, the Commission finds Elkhorn's test year operations to be as follows:

	Test Year Actual Per Audit Report (Excluding Proposed Construction)	Commission Adjustments	Adjusted Test Year
Operating Revenues	\$ 59,595	\$ -0-	\$ 59,595
Operating Expenses	70,389	790	71,179
Net Operating Income	<u>\$ <10,794></u>	\$ <790>	<u>\$ <11,584></u>
Other Income:			
Interest	<u>1,468</u>	<u><874></u>	<u>594</u>
Income Available for Debt Service	<u>\$ <9,326></u>	<u>\$ <1,664></u>	<u>\$ <10,990></u>

1	Advertising	29.25
	Humphries	<u>2,340.00</u>
		<u>\$2,369.25</u>

2	Total Rate Case Expense Allowed	\$2,369
	Amortized over 3 years	<u>+ 3</u>
	Test Year Expense	<u>\$ 790</u>

Based on adjusted operating expenses of \$71,179, and a 1.2X DSC of \$8,970³ a revenue increase of \$19,960 is recommended. The Commission is of the opinion that a 1.2X DSC is fair, just and reasonable and will allow Elkhorn sufficient revenue to pay operating expenses, service its debt and provide for future equity growth. Therefore, the Commission affirms staff's recommended increase of \$19,960.

Billing Analysis and Rate Design

In its application, Elkhorn proposed to change the rate design for its general customers by combining the second and third rate steps. After review of the bill, usage and revenue distribution, staff recommended acceptance of the proposed rate design change.

Elkhorn also proposed to place its three mobile home customers, previously serviced under separate rate schedules, on the same rate schedule as general customers. Although staff agreed with Elkhorn that a large portion of the water sold during the test year to the mobile home parks, and billed at the lowest rate steps, produced insufficient revenue, they did not agree with Elkhorn's proposal to bill the mobile home parks under the general rate schedule. Staff proposed that the minimum usage and the minimum bill be established for each mobile home park based upon the number of spaces available, allowing half the general customer

³ Staff Report on Elkhorn Water District, Case No. 9896, p. 10.

minimum usage and half the minimum bill for each available space. Any excess usage above the minimum would be billed through the general rate schedule.

As a part of the discussion on rate design, it is stated in the Staff Report⁴ that source of supply, pumping, transportation and distribution expenses indicate the cost of water is approximately \$1.33 per 1,000 gallons. At the hearing, staff testified that additional calculations were done based on information filed after issuance of the report and adjustments were made to expenses, which showed a lower cost of water of approximately \$1.06 per 1,000 gallons delivered. Staff was requested to furnish a copy of the calculations. This has been filed as a part of the record considered herein.⁵

Testimony at the hearing⁶ indicates that Elkhorn views this lower estimate of the cost of delivering 1,000 gallons of water as improperly reducing the amount of revenue to be realized by the utility. As explained in prior sections of this Order, the revenue allowed is based on adjusted operating expenses and a 1.2X DSC, and includes an adjusted expense allowance for purchased water. The purpose of this particular calculation is for use as a

⁴ P. 12.

⁵ Staff Exhibit.

⁶ Transcript of Evidence ("T.E."), January 14, 1988, pp. 103, 137, 138, 144-148.

tool in determining the rate design to assure that the lowest rate step of the rate schedule includes the actual cost of purchased water plus an allowance for other expenses, and does not affect the dollar amount of revenue found reasonable.

Elkhorn does not have a recent cost of service study on file with the Commission, nor was such study filed with this case. While a cost of service study would, of course, more fully reflect the details of the costs involved, the Commission is of the opinion that to require the expense and time involved in obtaining the study would be detrimental to Elkhorn at this time. The Commission is also of the opinion, after review of staff's calculations, that they provide a reasonable estimate of water costs and accepts them for use in determining rate design.

On September 25, 1987, Elkhorn filed a notice with the Commission containing entirely different rates and rate design from those proposed in the application. On October 1, 1987, Elkhorn filed notice that it intended to place the original proposed rates into effect. The suspension period having ended on October 1, the Commission ordered the rates into effect on October 5, subject to refund. The Commission interpreted the notice filing on October 1 as an act intended to supersede Elkhorn's filing of September 25. Consequently, the second set of proposed rates was not suspended. The Commission was then surprised when Elkhorn placed the second set of proposed rates into effect on October 25, 1987. At the hearing, Mr. Humphries testified that these currently effective rates, which incorporated a different rate design, were the result of a complaint filed by the

Intervenor, Marvin Duvall, and were intended to give him a "break."⁷ No other justification was presented for this rate design. Notably, the new rates produced total annual revenues that were within \$5,000 of the amount recommended in the original staff report.

The Staff Report is quite detailed as to the review of customer usage patterns, bill and revenue distribution as reflected in the information provided by Elkhorn. Based on that review, staff recommended that the rate design proposed by Elkhorn in its application for general customers be accepted.

Staff did not agree with Elkhorn's proposal to place mobile home customers on the same rate schedule as general customers, and proposed to establish minimum bills and usage for each mobile home park based on the number of spaces available with excess usage over the minimum billed under the general rate schedule. Although the staff proposal results in a larger percentage increase for these customers, due to the low rates previously paid, it is less than that which would result from either of Elkhorn's proposed rate designs.

The Commission recognizes that the mobile home parks are businesses for the owners, but it also recognizes that the ultimate recipients of service and the ultimate ratepayers are residential users. There is no ideal method of billing master-metered services of this type. However, the Commission is of the opinion that the billing method proposed by staff

⁷ T.E., January 14, 1988, pp. 84, 85.

adequately considers the effects and benefits for the utility, the mobile home park owners, and the ultimate users and should be accepted.

Further, the rate design proposed by the September 25, 1987, notice and placed into effect by the October 25, 1987, tariff filing is not supported by either filed information or testimony and should be denied.

Elkhorn also proposed minimum bills for meters larger than the standard 5/8 inch meter. Mr. Humphries testified that the minimum bills were based on a comparison of the ratios of test flow minimums.⁸ The Commission's policy is to establish minimum usage for larger meters according to the capacity flow of each meter size as determined by standard engineering criteria and a minimum bill equal to the cost of that usage under the rate schedule. Elkhorn's proposed minimum bills do not reflect this policy and should be denied.

The rates and rate design in Appendix A are fair, just and reasonable in that they will produce the revenue of \$79,689 allowed herein.

Refunds

The rate schedules proposed by Elkhorn and placed into effect on October 1, 1987, and on October 25, 1987, respectively, produce revenue in excess of that allowed herein. All charges in excess of those approved should be refunded within 60 days of the date of

⁸ T.E., January 14, 1988, p. 95.

this Order. Within 30 days thereafter, Elkhorn should file information with the Commission identifying the customers, amounts charged, and amounts refunded to each, with a statement as to whether such refunds were made by check or by credits to the customers' bills.

FINDINGS AND ORDERS

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

1. The rates and charges proposed by Elkhorn and placed into effect on October 25, 1987, produce revenues in excess of those found reasonable herein and should be denied.

2. The change in rate design proposed by Elkhorn is not supported by the evidence and should be denied.

3. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by Elkhorn in that they should produce annual revenues of \$79,555. These revenues will be sufficient to meet Elkhorn's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

4. Within 60 days of the date of this Order, Elkhorn should refund to its customers all charges in excess of those approved herein. Within 30 days thereafter, Elkhorn should file information with the Commission identifying the customers, amounts charged, and amounts refunded to each, with a statement as to whether such refunds were made by check or by credits to customers' bills. Adjustments should also include any difference resulting from minimum bills charged and those allowed herein.

5. Within 30 days of the date of this Order, Elkhorn should file with this Commission its revised tariff sheets setting out the rates approved herein.

6. Elkhorn be granted a limited deviation from 807 KAR 5:066, Section 5(4) in order to plan, finance and construct improvements to its water storage facilities.

IT IS THEREFORE ORDERED that:

1. The rates placed into effect by Elkhorn on October 25, 1987, be and they are hereby reduced.

2. Elkhorn's rate design be modified to conform to Appendix A of this Order.

3. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by Elkhorn for water service rendered on and after the date of this Order.

4. Elkhorn shall make refunds and adjustments to customers' bills and file information pertaining thereto in accordance with Finding No. 4.

5. Within 30 days from the date of this Order, Elkhorn shall file with this Commission its revised tariff sheets setting out the rates approved herein.

6. Deviation from 807 KAR 5:066, Section 5(4), be and it hereby is granted until July 1, 1991.

7. Elkhorn shall review its water storage situation prior to the expiration date of this deviation and construct the amount of storage necessary to supply adequate and reliable service to its customers.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9896 DATED 2/10/88

The following rates and charges are prescribed for the customers in the area served by Elkhorn 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.

General Service

First 2,000 gallons	\$7.35 Minimum Bill
Next 3,000 gallons	2.60 per 1,000 gallons
Next 5,000 gallons	2.20 per 1,000 gallons
Over 10,000 gallons	1.40 per 1,000 gallons

Minimum Bills

General Service Meters*

5/8 inch	2,000 gallons	\$ 7.35
1 inch	5,000 gallons	15.15
1 1/2 inch	10,000 gallons	26.15
2 inch	16,000 gallons	34.55

* All usage in excess of the minimum shall be billed according to the General Rate Schedule.

Mobile Home Parks**

McConnell	15,000 gallons	\$ 55.20
Elkhorn	76,000 gallons	279.68
Capital	125,000 gallons	460.00

** Minimums for mobile home parks are determined by multiplying the number of spaces available by one half the minimum usage allowance and minimum bill for general service. All usage in excess of the minimum is billed at general service rates.