

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF KENTUCKY-AMERICAN)
WATER COMPANY) CASE NO. 94-197

O R D E R

On June 29, 1994, Kentucky-American Water Company ("Kentucky-American") filed a general rate application using as a forecasted test period the 12 months ending January 31, 1996. Kentucky-American proposed to increase rates effective July 30, 1994, which would generate additional annual revenue of \$2,502,713, an overall increase of approximately 8.16 percent over existing revenues.

To determine the reasonableness of the request, the Commission suspended the proposed rates for six months from their effective date pursuant to KRS 278.190(2). The Attorney General's office, Utility and Rate Intervention Division ("AG"), the Lexington Fayette Urban County Government ("LFUCG"), and Chetan Talwalkar intervened. A procedural schedule was established, the parties engaged in extensive discovery, and intervenor testimony was filed.

On November 29, 1994, the parties filed a Stipulation And Recommendation ("Stipulation"), attached as Appendix A,¹ which provides as follows:

1. Kentucky-American should be allowed to increase its rates to produce additional annual revenues of \$1,475,000 on and after

¹ Schedules omitted.

January 29, 1995, an overall revenue increase of approximately 4.9 percent. The rate increase would be allocated ratably to all service charges and classifications;

2. Kentucky-American would modify its existing underground leak detection policy to reduce from 50 percent to 25 percent the cost to residential customers for water lost through an undetected underground leak; and

3. All expenditures for the development and evaluation of source of supply options, the bulk of which are related to the proposed construction of a pipeline to transport water from the Louisville Water Company, would be excluded from current rates and Kentucky-American would spend no money on the design and engineering of this project until resolution of the supply and demand issues under investigation in Case No. 93-434.²

A hearing had been scheduled on November 30, 1994 to receive evidence relating to Kentucky-American's rate application. In response to a motion filed by the parties, the hearing was held as scheduled to receive evidence in support of the Stipulation.

The Stipulation sets forth the amount of additional revenue agreed to but not the underlying calculations and adjustments. In determining the overall reasonableness of the proposal to increase annual revenues by \$1,475,000, the Commission has evaluated all revenue and expense adjustments proposed by Kentucky-American in light of its traditional rate-making treatment. In addition, it

² Case No. 93-434, An Investigation of the Sources of Supply and Future Demand of Kentucky-American Water Company.

has considered current economic conditions and the rates of return on common equity which have been authorized in recent cases. Based on a review of all these factors and the evidence of record, the Commission finds that the stipulated \$1,475,000 revenue increase should result in earnings that fall within a range reasonable to both Kentucky-American and its customers and will result in fair, just, and reasonable rates for Kentucky-American.

Kentucky-American indicated that for many years it has applied an underground leak adjustment policy whereby residential and commercial customers are absolved from paying 50 percent of the tariffed rate for all water lost through an undetectable underground leak. Upon verification of such a leak and its repair, the customer's bill is recalculated to reflect a 50 percent credit to the excess water used with a concomitant credit to the amount payable. The parties have now stipulated that for residential customers only, the credit for excess water usage and the amount payable should rise to 75 percent.

This bill recalculation policy clearly falls within the statutory definition of a rate, KRS 278.010(10). Although this rate has never been on file with the Commission in a schedule as required by KRS 278.160(1), Kentucky-American has offered to do so if directed by the Commission. This policy is not applicable to situations where the water meter has malfunctioned, resulting in a bill for more (or less) water than actually consumed. Rather, it applies only when the meter has accurately recorded the water consumed, but such consumption is significantly in excess of

average due to a leak in the customer's service line. As set forth in the Commission's regulation on service connections, 807 KAR 5:066, Section 12(2), as between the utility and the customer, it is the customer's responsibility to "keep the service line in good repair."

A utility is prohibited from charging, collecting or receiving from any person less compensation for service rendered than that prescribed in its tariffs, KRS 278.160(2), and is further prohibited from giving an unreasonable preference or advantage to any person, KRS 278.170. Kentucky-American's underground leak adjustment policy, whether set forth in a tariff or not, violates both statutes.

Granting customers with underground leaks an arbitrary bill credit of 50 or 75 percent, allows such customers to receive water service for less compensation than other customers. This violates KRS 278.160(2). Furthermore granting such credits in varying amounts, i.e., 75 percent to residential, 50 percent to commercial, and zero percent to industrial, creates an unreasonable preference in violation of KRS 278.170.

Aside from these statutory infirmities, Kentucky-American's underground leak adjustment policy should be rejected as bad regulatory policy. As Kentucky-American acknowledged, prior to negotiating the Stipulation,

[I]t would be entirely inappropriate for the Company to take responsibility for volumes of water lost upon the customers [sic] premises. [T]he inequity of the Company absorbing such costs and either charging them to all

ratepayers, or forcing stockholders to subsidize them is apparent. Additionally, such an approach or policy would certainly not encourage wise use of water. In fact, precisely the wrong signal would be sent to customers that not fixing leaks can be done without penalty.³

The Commission is in complete agreement with this position. It is unreasonable to require the general body of ratepayers to pay for the water lost through a defective customer-owned service line.

The parties revealed at the hearing that in addition to the provisions in the Stipulation, they have also agreed to begin meeting informally to discuss and consider the impacts of monthly billing for all Kentucky-American customers. These meetings are to commence upon the conclusion of this case and be open to participation by Commission Staff.

The Commission has recognized for some time that Kentucky-American's current practice of quarterly billings for most customers is a serious impediment to the adoption of certain demand-side management programs such as seasonal rates. In addition, quarterly billings fail to provide customers important consumption data on a timely basis and may well be a major factor in high billings due to underground leaks. Due to the importance of each of these factors, the Commission heartily endorses such a dialogue and will expect Kentucky-American to address the issue of monthly billings in a thorough manner in its next rate case.

³ Kentucky-American Response to AG's First Data Request, Item No. 110.

An additional advantage of monthly billings would be the generation of more detailed demand data for use in designing rates that equitably allocate costs to the cost causers. Equally important in designing rates is a reliable class cost-of-service study that shows the costs to serve large water users. Since Kentucky-American has not historically classified commercial customers on the basis of consumption, a class cost-of-service study should be prepared, for filing in its next rate case, which identifies the costs to serve large commercial water users and small commercial water users.

With the exception of the underground leak adjustment policy, the Stipulation is in the public interest and should be accepted for rate-making purposes. The Commission's approval of the remaining provisions of the Stipulation is based solely on their reasonableness in toto and does not constitute the approval of any particular rate-making adjustment or revenue allocation.

IT IS THEREFORE ORDERED that:

1. The Stipulation set forth in Appendix A to this Order be and it is hereby incorporated into this Order as if fully set forth herein.
2. The terms and conditions set forth in the Stipulation, except as rejected below, be and they hereby are adopted and approved.
3. The underground leak adjustment policy be and it hereby is rejected as contrary to law and unreasonable on public policy grounds.

4. In the event that any party elects to withdraw from the Stipulation, a written notice of such withdrawal shall be filed with the Commission by January 30, 1995.

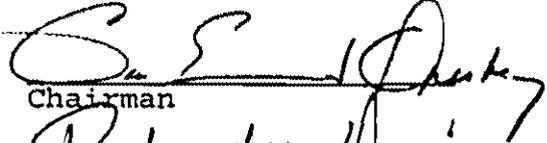
5. The rates and charges proposed by Kentucky-American be and they are hereby denied.

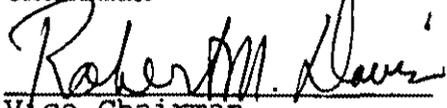
6. The rates set forth in Appendix B, attached hereto and incorporated herein, be and they hereby are approved for service rendered by Kentucky-American on and after January 29, 1995.

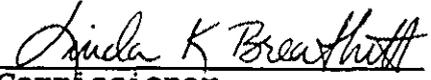
7. Kentucky-American shall file revised tariffs setting forth the rates contained in Appendix B within 30 days from the date of this Order.

Done at Frankfort, Kentucky, this 25th day of January, 1995.

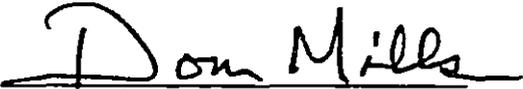
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE) CASE NO. 94-197
RATES OF KENTUCKY-AMERICAN)
WATER COMPANY EFFECTIVE ON)
AND AFTER JULY 30, 1994)

STIPULATION AND RECOMMENDATION

All of the parties to this proceeding, Chetan Talwalkar, Lexington-Fayette Urban County Government, the Attorney General of the Commonwealth of Kentucky and Kentucky-American Water Company do hereby jointly stipulate and agree that Kentucky-American Water Company should be permitted to adjust its rates to recover approximately \$1,475,000 in additional annual revenues effective for service on and after January 29, 1995.

Kentucky-American Water Company's annual revenues at existing rates are \$30,682,034 as shown on Exhibit 36, Schedule M-3, page 2 of 2, line 26. The effect of this stipulation and recommendation is to authorize Kentucky-American Water Company to recover total revenues on an annual basis of \$32,157,034 (\$30,682,034 plus \$1,475,000). The additional revenue stipulated herein as reasonable, \$1,475,000, shall be added to Kentucky-American's rates as authorized in Case 92-452 ratably throughout all service charges and service classifications.

The increase authorized herein is 4.89% to Kentucky-American Water Company's customers based upon revenue received from its

customers in the current amount of \$30,150,161 as shown in Exhibit 36, Schedule M-3, page 2 of 2, line 16.

The parties hereto also stipulate that from and after January 29, 1995, Kentucky-American Water Company shall modify its existing underground leak detection policy for residential customers to provide for a division of the tariffed cost of water lost through an undetectable underground leak to three-fourths to Kentucky-American Water Company and one-fourth to the residential customer.

All of the parties hereto understand that this stipulation and recommendation is not binding upon the Public Service Commission of the Commonwealth of Kentucky. The parties hereto do not agree on any specific item of change as requested by Kentucky-American Water Company nor any specific theory supporting the appropriateness of the change recommended herein; however, consistent with the Public Service Commission's determination in Case 92-452 that expenditures for Budget Projects 92-12 (Development of Source of Supply) and 90-14 (Evaluation of Source of Supply) should not be included in rate base, and consistent with its previously announced policy, Kentucky-American Water Company will not spend any money on the design and engineering of Budget Project 92-12 until resolution of the issues in Case 93-434 by the Public Service Commission. Chetan Talwalkar, the Attorney General of the Commonwealth of Kentucky, the Lexington-Fayette Urban County Government and Kentucky-American Water Company negotiated the recommendation contained herein and all of the diverse interests and contentions of all of the parties were discussed. All of the parties to this proceeding, evidenced

by their signatures hereto, do hereby agree that the increase in rates stipulated herein is reasonable, viewed in the context of a resolution of Kentucky-American Water Company's case, is in fact a reasonable resolution of all of the issues in the proceeding and is fair, just and reasonable to the shareholders and ratepayers of Kentucky-American Water Company.

In support of the conclusion of the reasonableness of the increase stipulated herein, the parties desire to state that if the Commission adopts the recommendation, it will not be necessary for the parties to continue to expend time, energy and resources in contesting this matter and the possibility of any request for rehearing or appeal of the Commission's decision is eliminated.

All of the parties hereto waive cross-examination of all witnesses unless the Public Service Commission does not approve this stipulation and recommendation. This stipulation and recommendation is agreed to for the purposes of Case 94-197 only, shall not be binding upon the parties hereto in any other proceeding before this Commission or any court, and it shall not be offered or relied upon in any other proceeding involving Kentucky-American Water Company or any other utility regulated by the Public Service Commission of the Commonwealth of Kentucky.

If the Public Service Commission adopts this stipulation and recommendation in its entirety, each of the parties hereto agrees that it shall not file an application for rehearing with the Commission nor appeal this case or any part thereof to the Franklin Circuit Court.

If the Public Service Commission of the Commonwealth of Kentucky does not adopt this stipulation and recommendation in its entirety, each party hereto reserves the right to withdraw from it and to request that Case 94-197 proceed as if no stipulation and recommendation had been entered into, and in such event this stipulation and recommendation shall not be binding upon any of the parties hereto, shall not be admitted into evidence or relied upon in any manner by any of the parties hereto, the Commission, or its staff.

There is attached hereto tariffs of Kentucky-American Water company to be effective January 29, 1995, including the \$1,475,000 additional revenues as stipulated herein and a bill analysis showing that the rates stipulated herein will generate approximately the total revenues as stipulated herein.

AGREED TO THIS THE 25th DAY
OF NOVEMBER, 1994.

ATTORNEY GENERAL OF THE
COMMONWEALTH OF KENTUCKY

BY: William E. Doyle

LEXINGTON-FAYETTE URBAN
COUNTY GOVERNMENT

BY: Edmund G.

Chetan Talwalkar
CHETAN TALWALKAR

KENTUCKY-AMERICAN WATER COMPANY

BY: Lindsey Ingram

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 94-197 DATED JANUARY 25, 1995

The following rates and charges are prescribed for the customers in the area served by Kentucky-American Water Company. 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.

SERVICE CLASSIFICATION NO. 1

METER RATES

The following shall be the rates for consumption, in addition to the service charges provided for herein.

<u>Customer Category</u>	<u>Rate per 1,000 Gallons All Consumption</u>	<u>Rate Per 100 Cubic Feet - All Consumption</u>
Residential	\$1.96096	\$1.47072
Commercial	\$1.89864	\$1.42398
Industrial	\$1.58527	\$1.18895
Municipal and Other Public Authority	\$1.66965	\$1.25224
Sales for Resale	\$1.58695	\$1.19021

SERVICE CHARGES

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

<u>Size of Meter</u>	<u>Service Charge</u>	
	<u>Per Month</u>	<u>Per Quarter</u>
5/8 Inch	\$ 5.85	\$ 17.55
3/4 Inch	8.77	26.31
1 Inch	14.60	43.80
1-1/2 Inch	29.19	87.57
2 Inch	46.70	140.10
3 Inch	87.55	262.65
4 Inch	145.94	437.82
6 Inch	291.87	875.61
8 Inch	467.01	1,401.03

SERVICE CLASSIFICATION NO. 3

AVAILABILITY OF SERVICE

Available for municipal or private fire connections used exclusively for fire protection purposes.

RATES

<u>Size of Service</u>	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
2" Diameter	\$ 3.64	\$ 43.68
4" Diameter	14.55	174.60
6" Diameter	32.75	393.00
8" Diameter	58.20	698.40
10" Diameter	90.95	1,091.40
12" Diameter	130.99	1,571.88
14" Diameter	178.26	2,139.12
16" Diameter	232.85	2,794.20

SERVICE CLASSIFICATION NO. 4

RATES FOR PUBLIC FIRE SERVICE

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
For each public fire hydrant contracted for or ordered by urban county, county, state, or federal governmental agencies or institutions	\$22.79	\$273.48

RATES FOR PRIVATE FIRE SERVICE

For each private fire hydrant contracted for by industries or private institutions	\$32.75	\$393.00
--	---------	----------