

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF 4-WAY ENTERPRISES,)
INC. FOR RATE ADJUSTMENT PURSUANT TO) CASE NO. 9765
THE ALTERNATIVE RATE FILING PROCEDURE)
FOR SMALL UTILITIES)

O R D E R

IT IS ORDERED that:

1. The Staff Report for 4-Way Enterprises, Inc., attached hereto as Appendix A shall be included as a part of the record in this proceeding. In the event a public hearing is held, Staff preparing the Staff Report will be available for cross-examination.

2. 4-Way Enterprises, Inc., shall have 10 days from the date of this Order to file written comments concerning the contents of Appendix A. In the event 4-Way Enterprises, Inc., desires a public hearing, it shall file a Motion requesting such hearing, with a copy to all parties of record.

Done at Frankfort, Kentucky, this 11th day of February, 1987.

By the Commission

ATTEST:

Forest M. Skaggs
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 9765 DATED 2/11/87

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

STAFF REPORT

ON

4-WAY ENTERPRISES, INC.

Prepared By:
Angela Schweickart
Public Utilities Financial
Analyst, Senior
Sewer and Water Revenue
Requirement Branch
Rates and Tariffs Division

COMMONWEALTH OF KENTUCKY
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STAFF REPORT
ON
4-WAY ENTERPRISES, INC.

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STAFF REPORT
ON
4-WAY ENTERPRISES, INC.
COOLBROOK SEWAGE TREATMENT PLANT
CASE NO. 9765

PREFACE

On November 19, 1986, 4-Way Enterprises, Inc., Coolbrook Sewage Treatment Plant, ("4-Way") filed an application seeking an increase in rates. The proposed rates would generate additional revenues of approximately \$14,994 over adjusted actual test year revenues of \$38,119, an increase of approximately 39 percent. As part of its endeavor to shorten and simplify the regulatory process for utilities, the Commission staff chose to perform a limited financial review of 4-Way's operations for the test year ending August 31, 1986. The Commission's objective was to eliminate the need for written data requests, decrease the time necessary to examine the application and, therefore, decrease the expense to the utility. Ms. Angela Schweickart and Mr. Mark Frost of the Commission's Division of Rates and Tariffs performed the review on December 9, 1986, at the offices of Weinberg and O'Koon, Certified Public Accountants, in Louisville, Kentucky.

On December 11, 1986, the Commission granted deviation from 807 KAR 5:076, Section 1 by allowing the test period to end on August 31, 1986.

SCOPE

The scope of the review was limited to obtaining information to determine whether the operating expenses as reported in 4-Way's

application for the period ending on August 31, 1986, were representative of normal operations and to gather information to evaluate the pro forma adjustments proposed in 4-Way's filing. Expenditures charged to test year operations were reviewed, including the invoices. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

FINDINGS

Operating Revenues

4-Way reported \$35,005 in operating revenues per the application. However, the limited review revealed that the actual revenues for the test period was \$39,119. Since 4-way has based the proposed increase on 253 customers, the average number during the test year, Staff is of the opinion that test year operating revenues should be normalized. Therefore, operating revenues have been increased by \$3,127 to a level of \$38,132 based upon 253 customers and the current monthly rate of \$12.56.

Operation and Maintenance Expenses

In the course of the audit, Staff examined invoices related to test period operation and maintenance expenses. In its filing, 4-Way proposed increases totaling \$2,380 to operation and maintenance expenses. These proposed pro forma adjustments are discussed in the following sections.

Collection Expense

4-Way's collection expense is based upon 15 percent of gross operating revenues. Due to the aforementioned adjustments resulting in an increase in operating revenues, the test year

collection expense has been increased by \$469 to a level of \$5,720.¹

Insurance Expense

4-Way reported insurance expense of \$904 for the test period. During the course of the review, 4-Way provided the current insurance liability invoice which is slightly higher than the test year expense. Therefore, the test year insurance expense has been increased by \$14 to reflect the current charges.

Legal and Accounting Expenses

4-Way reported legal and accounting expenses totaling \$826 for the test period. Pursuant to the Uniform System of Accounts, legal fees associated with easements should be capitalized and charged to the land account. Therefore, the legal expenses relating to easements have been reclassified resulting in a \$396 decrease in legal and accounting expenses.

Management Fee and Rent Expense

Per the application, 4-Way reported \$3,600 of management fees for the test year. The review revealed that half of this expense was rental expense for office space, office equipment, and use of a truck. Therefore, the management fee expense of \$3,600 has been reduced to \$1,800 while establishing rental expense of \$1,800 to properly reflect the actual services received.

Purchased Water Expense

4-Way reported purchased water expense of \$4,480 for the test year. The limited review revealed that the actual expense for the

¹ Normalized Revenues \$38,132 X 15 percent = \$5,720.

test period was \$4,425. Thus, the purchased water expense has been decreased by \$55.

Fuel and Power Expense

4-Way reported fuel and power expense of \$16,620 for the test year. The limited review revealed that the actual test year fuel and power expense was \$14,502. Therefore, the fuel and power expense has been decreased by \$2,118.

Repairs Expense

4-Way reported \$4,427 of repairs expense for the test year. 4-Way expensed \$661 associated with painting the plant. It is Staff's opinion that this is not an annual expense and, thus, should be capitalized and amortized over 5 years to reflect normal operating conditions. Therefore, the repairs expense has been decreased by \$661 to a level of \$3,766.

Depreciation Expense

4-Way reported depreciation expense of \$1,905 for the test period. It is Staff's opinion that depreciation on contributed property should not be allowed for rate-making purposes as the utility did not incur the cost of the assets. Therefore, based upon the percentage of contributions to the gross plant account, \$1,524 of the test year depreciation expense has been disallowed for rate-making purposes.

With regard to the capitalization of the aforementioned \$661 expense for painting the plant, the allowed depreciation expense

has been increased by \$132.² Therefore, the test year depreciation expense has been decreased by \$1,392.

Permit Fees

4-Way proposed a \$425 adjustment to test year operating expenses based upon invoices for permit fees received outside the test period. Franklin County has established a new \$250 permit the utility must obtain annually. In addition, 4-Way received an \$880 invoice for its KPDES permit. Since the KPDES permit covers 5 years, 4-Way proposed to include 20 percent of the cost of the permit in test year operating expenses. Since these costs are known and measurable, Staff has included the \$425 proposed pro forma adjustment in operating expenses.

Rate Case Expense

4-Way stated in the application that the accounting and legal fees associated with the rate application are estimated to total \$3,400 and proposed to amortize the expense over 3 years.

The Commission established the alternative rate filing procedure to help small utilities lower and even eliminate some of the expenses associated with filing a rate application. The Commission stated in Case No. 9676, Newmarket, Inc. Sewage Plant Alternative Rate Filing, that rate case expenses totaling approximately \$1,000 are deemed reasonable. Staff believes that the amount included by 4-Way in the application is excessive.

A copy of the estimated invoice for legal services provided to Staff contained services that need not have been performed by

² \$661 ÷ 5 years = \$132 Annual depreciation expense.

an attorney, such as attending the filing of the application and attending the filing of notices. In addition, the invoice contained estimated costs for preparation for and attendance at the hearing. Pursuant to 807 KAR 5:076, the alternative rate filing procedure eliminates the necessity for formal hearings in most cases.

Staff is of the opinion that \$1,000 in rate case expenses is adequate given the complexity of the filing. Staff has, therefore, amortized the \$1,000 of allowed rate case expenses over a 3-year period resulting in a \$333 increase in operating expenses.

SUMMARY

Based on the recommendations proposed by Staff in this report 4-Way's operations are as follows:

<u>Revenues</u>	<u>Per the Application</u> \$35,005	<u>Staff Adjustments</u> \$ 3,127	<u>Recommended</u> \$38,132
<u>Operating Expenses:</u>			
Chemicals	\$ 263		\$ 263
Collection Expense	5,251	\$ 469	5,720
Depreciation	1,905	<1,392>	513
Insurance	904	14	918
Interest	294		294
Legal and Accounting	826	<396>	430
Management Fee	3,600	<1,800>	1,800
Rent	0	1,800	1,800
Office Supplies	46		46
Sludge hauling	2,460		2,460
Taxes and Licenses	400		400
Testing	460		460
Purchased Water	4,480	<55>	4,425
Fuel and Power	16,620	<2,118>	14,502
Routine Maintenance	2,400		2,400
Repairs	4,427	<661>	3,766
Telephone	23		23
Permits	0	425	425
Rate Case Expense	<u>0</u>	<u>333</u>	<u>333</u>

Total Operating Expenses	<u>44,359</u>	<u><3,381></u>	<u>40,978</u>
Net Income	<u>\$<9,354></u>	<u>\$ 6,508</u>	<u>\$<2,846></u>

Staff is of the opinion that this margin is neither fair, just, nor reasonable as required by KRS 278.030. Staff is further of the opinion that the proposed operating ratio method for determining revenue requirements is appropriate and that an operating ratio of .88 is reasonable. However, Staff is of the opinion that total operating expenses should be adjusted to reflect the increase in collection fees expense due to the increase in revenues. Therefore, Staff recommends that 4-Way be allowed to increase its revenues on an annual basis by \$10,167 calculated as follows:

$$\text{Operating Revenues} = \frac{\text{Operating expenses } \$40,978 - \text{Adjusted Test Year Collection Expense } \$5,720 + .15 (\text{operating revenues})}{.88}$$

Operating revenues =	\$48,299
Less Annualized Test period Revenues	<u><38,132></u>
Required Increase	<u>\$10,167</u>

Respectfully Submitted,

Angela Schweickart
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 Analyst, Senior
 Water and Sewer Revenue
 Requirements Branch
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