

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HAYMOND WATER COMPANY)	
FOR A RATE ADJUSTMENT PURSUANT TO THE)	CASE NO.
ALTERNATIVE RATE FILING PROCEDURE FOR)	91-255
SMALL UTILITIES)	

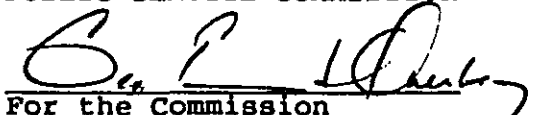
O R D E R

On July 29, 1991, Haymond Water Company ("Haymond") filed its application for Commission approval of a proposed increase in its rates for water service. Commission Staff, having performed a limited financial review of Haymond's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 28th day of February, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

FEB 25 1992

PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF HAYMOND WATER)
COMPANY FOR A RATE ADJUSTMENT)
PURSUANT TO THE ALTERNATIVE RATE) CASE NO. 91-255
FILING PROCEDURE FOR SMALL UTILITIES)

STAFF REPORT

February 7, 1992

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Public Utility Rate
Analyst
Communications, Water and
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Research Division

STAFF REPORT

ON

HAYMOND WATER COMPANY

CASE NO. 91-255

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PUBLIC SERVICE
COMMISSION

A. Preface

On July 29, 1991, Haymond Water Company ("Haymond") submitted an application to the Commission seeking to increase its rates pursuant to the Alternative Rate Filing Procedure for small utilities. The application was considered filed on September 18, 1991 when all deficiencies were cured. The rates proposed by Haymond would generate approximately \$13,272 annually in additional revenues, an increase of 79 percent over normalized test-year operating revenues from water sales of \$16,848.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Haymond's operations for the test period, calendar year 1990. Carl Combs of the Commission's Division of Rates and Tariffs attempted to conduct the review on August 13, 1991 at Haymond's office in Leburn, Kentucky. However, no test-year records were available for his review at that time. Subsequently, Mr. Combs resigned from his position with the Commission effective September 15, 1991. As of that date, this case was transferred to Karen Harrod for completion. Nicky Moore, of the Commission's Division of Research, performed his review of Haymond's revenues at the Commission's office in Frankfort, Kentucky.

The findings of Staff's review have been reduced to writing in this report. Nicky Moore is responsible for the sections

relating to operating revenue and rate design. The remaining sections of the Staff Report were prepared by Karen Harrod. Based upon the findings of this report, Staff recommends the increase proposed by Haymond be denied.

Scope

The scope of the review was limited to obtaining information to determine whether test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

B. Revenue Requirements Determination

Operating Revenues

Haymond Water Company's billing analysis filed in its application shows revenue from water sales in the amount of \$16,848.00 which is based on a test period ending December 31, 1990. The annual report shows that Haymond received revenue in the amount of \$12,768.40 for that same period of time. This difference of \$4,079.60 represents uncollectible accounts for the test year and was verified by letter dated August 28, 1991 from Mr. Darrell Madden, CPA, employed by Haymond Water Company.

Operations and Maintenance Expenses

For the test year, Haymond reported operating expenses of \$9,678 which it proposed to increase by \$24,100. The pro forma adjustments to test-period expenses are discussed in the following sections of this report.

It should be noted that the only records available to Staff were cancelled checks for the months of January 1990 through January 1991, and one invoice for chlorine purchased in August 1991. Mr. Combs requested additional information by phone and Mrs. Harrod requested additional information by letter dated September 23, 1991. No response was filed to either of those requests.

On November 22, 1991, an Informal Conference was held at the Commission's offices in Frankfort, Kentucky. As a result of this conference Mr. B. B. King, the owner of Haymond, provided additional documentation including a copy of an Agreed Order ("Agreed Order") with the Natural Resources and Environmental Protection Cabinet, dated May 3, 1991, which set forth certain requirements to be met by the utility. The copy filed was actually for Millstone Water Company ("Millstone"), another utility owned by Mr. King. According to Mr. King, the Agreed Orders for both Haymond and Millstone were the same, however, he did not have a copy of the Agreed Order for Haymond available for filing.

Salary Expense

Haymond did not report any salary expense for the test year. In its application, an adjustment was proposed to include salary expense of \$15,000 based on Haymond's understanding that "new regulations require personnel on site 24 hours per day." According to Mr. King, the "regulations" referred to are included in the Agreed Order. The Agreed Order required Haymond to obtain the services of a certified drinking water treatment operator by

December 1, 1990. During the Informal Conference Mr. King indicated that he agreed to hire an operator at a cost of \$200 per month plus gasoline expenses. The operator would make one trip per week to both Haymond and Millstone. Therefore, Staff recommends that 50% of the operator expense of \$2,400 or \$1,200, be allocated to Haymond. Accordingly, an adjustment has been made to include salary expense of \$1,200 for contract labor. The gasoline expenses will be addressed in the Fuel Power Section of this report.

Chemicals

For the test year, Haymond reported chemicals expense of \$2,475. An adjustment was proposed to increase this expense to a level of \$10,621 based on purchasing 52 barrels of chlorine at \$175 per barrel. Although a chlorine invoice was provided, it did not reflect a per barrel cost of \$175. In addition, no documentation was submitted to support the need for 52 barrels of chlorine. The Agreed Order requires Haymond to provide continuous, automatic disinfection by chlorination at all times. During the conference Mr. King indicated that Haymond would require 1 drum of chlorine per month at a cost of \$160 per drum. Based on 12 drums per year this results in an annual expense of \$1,920, a decrease of \$555 from the test year level. Accordingly, Staff recommends a decrease to chemicals expense of \$555.

Fuel Power Expense

For the test year Haymond reported fuel power expense of \$285. Based on Staff's review, this expense was for the purchase of gas. During the Informal Conference, Mr. King indicated that

he would reimburse the plant operator for gasoline and that the operator would be required to drive approximately 80 miles per week. Mr. King did not indicate whether gasoline expenses would be reimbursed according to actual cost or on a per mile basis. Therefore, Staff was not able to justify an adjustment to test year expense.

Contractual Services Expense

Haymond reported test-year contractual services expense of \$370. In reviewing Millstone's records Staff determined that this expense account was for testing and sampling expenses, however, Staff was not able to determine what types of expenses were included in this account for Haymond. To be consistent with the Millstone report, Staff has adjusted this account to reflect known and measurable water sampling and testing expenses.

Haymond's monthly testing services are performed by Standard Lab at a cost of \$11 per month or \$132 per year. Based on information filed subsequent to the Informal Conference, Haymond was charged \$435 in 1991 for additional compliance testing performed by Conjun Laboratories, Inc. This testing is required by the Agreed Order and, accordingly, will be a recurring expense. Therefore, Staff has adjusted test year expense to reflect total contractual services expense of \$567.¹

Miscellaneous Expense

Haymond reported test-year miscellaneous expense of \$3,608. Based on Staff's review, it appears that routine maintenance fees

¹ \$132 + \$435 = \$567.

of \$440 were included in this account. Staff is of the opinion that these fees have been accounted for in the salary expense recommended in this report. Therefore, Staff recommends a decrease to miscellaneous expense of \$440.

Depreciation Expense

For the test year Haymond reported depreciation expense of \$1,419. Based on Staff's review, \$848 of this expense was the write-off of a computer purchased during the test year. Staff is of the opinion that it would be more appropriate to depreciate the computer expense over a period of 10 years, resulting in an annual expense of \$85. Therefore, Staff has made an adjustment to decrease test-year depreciation expense by \$763.²

In the information filed subsequent to the Informal Conference, Haymond included documentation from Westfall Enterprises, Inc. which listed items that had been purchased by Mr. King for Haymond and Millstone. The listing did not include dates the items were purchased nor did it indicate which utility the items were purchased for. According to Mr. King each of these items were purchased for both Haymond and Millstone. The total amount of pumps, parts, etc. included on the list was \$4,725.08. Staff has decreased this amount by \$1,018.53 to eliminate expenses that appear to have been accounted for during the test year, based on the review of Haymond's cancelled checks. After consulting with the Commission's Engineering Division, the remaining pumps

² \$848 - \$85 = \$763.

and parts have been capitalized and depreciated over a period of 5 years, resulting in an increase to test-year depreciation expense of \$741.³

Based on the aforementioned adjustments, Staff recommends a net decrease to depreciation expense of \$22.

Operations Summary

Based on the recommendations made by Staff, Haymond's operating statement would appear as follows:

	<u>Test Year Actual</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues	\$12,768	\$ 4,080	\$16,848
Operating Expenses			
Salary Expense	-0-	1,200	1,200
Purchased Power	1,521		1,521
Fuel Power Production	285		285
Chemicals	2,475	<555>	1,920
Contractual Services	370	197	567
Miscellaneous	3,608	<440>	3,168
Depreciation Expense	<u>1,419</u>	<u><22></u>	<u>1,397</u>
Total Operating Expense	<u>9,678</u>	<u>\$ 380</u>	<u>10,058</u>
Net Income	<u>\$ 3,090</u>	<u>\$ 3,700</u>	<u>\$ 6,790</u>

Revenue Requirements Determination

The approach generally used by this Commission to determine revenue requirements for small, privately-owned utilities is an 88 percent operating ratio. Staff's adjusted operations provide

³ (\$4,725 - \$1019) ÷ 5 = \$741.

Haymond with an operating ratio of 60⁴ percent. An operating ratio of 88 percent, after taxes, would require revenue of \$11,430, calculated as follows:

Operating Expenses	\$ 10,058
Operating Ratio	+ .88
Required Operating Revenues	<u>\$ 11,430</u>

Since normalized test-year revenues are sufficient to cover Haymond's operating expenses and to provide for reasonable equity growth, Staff recommends that no adjustment be made to Haymond's rates at this time.

C. Other Issues

Haymond does not maintain adequate bookkeeping records. It is Staff's recommendation that Haymond maintain, at a minimum, a cash receipts and disbursements journal to record all revenues and expenditures of the company. Haymond should also maintain a permanent file of paid invoices. These procedures should be implemented immediately. Adequate record-keeping will prove beneficial to Haymond in routine business transactions and in future rate proceedings with this Commission.


D. Rate Design

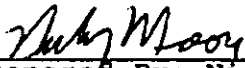
Under the existing rate schedule, all residential customers are paying a flat rate which allows an unlimited usage of water. Since no change in revenue is recommended in this case, Staff

⁴ \$10,058 + \$16,848 = .6.

recommends that Haymond's current rate design be maintained and that the schedule of rates previously approved for Haymond remain in effect.

E. Signatures


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Communications, Water and
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Research Division