

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WILLOWCREST	)	
DEVELOPMENT, INC. FOR A RATE	)	CASE NO. 91-305
ADJUSTMENT PURSUANT TO THE RATE	)	
FILING PROCEDURE FOR SMALL UTILITIES	)	

O R D E R

On August 23, 1991, Willowcrest Development, Inc. ("Willowcrest") filed its application for Commission approval of a proposed increase in its rates for sewer service. Commission Staff, having performed a limited financial review of Willowcrest's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Willowcrest's 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

24th day of March, 1992.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director

COMMONWEALTH OF KENTUCKY

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ADJUSTMENT PURSUANT TO THE RATE	)	CASE NO. 91-305
FILING PROCEDURE FOR SMALL	)	
UTILITIES	)	

AMENDMENT

TO

STAFF REPORT

March 18, 1992

Prepared By: Mark C. Frost  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Rates and Tariffs Division

Prepared By: Nicky Moore  
Public Utility Rate Analyst  
Communications, Water and  
Sewer Rate Design Branch  
Research Division

STAFF REPORT

ON

WILLOWCREST DEVELOPMENT COMPANY, Inc.

CASE NO. 91-305

A. Preface

On August 23, 1991, Willowcrest Development, Inc. ("Willowcrest") filed its application seeking approval to increase its rates pursuant to the Alternative Rate Filing Procedure for Small Utilities. Willowcrest proposed to increase its annual operating revenue by \$26,096, an increase of 157 percent over test-period normalized revenues from rates of \$16,630.

The Commission Staff ("Staff") conducted a limited field review of Willowcrest's test-period financial records. On January 10, 1992, Staff issued its initial report recommending that Willowcrest increase its normalized revenues of \$16,630 by \$12,954. On January 22, 1992, Willowcrest filed its request for an informal conference to address the Staff Report recommendations.

On February 7, 1992, an informal conference was held at the Commission's offices, at which time Willowcrest agreed to file additional information. On February 26, 1992, Willowcrest filed its information.

B. Amendments to Staff Recommendations

Routine Maintenance Fee: Willowcrest proposed a pro forma level of routine maintenance fee expense of \$8,300, an increase of \$5,349 above its test-period level of \$2,941. Willowcrest

employed a new operator in 1991 and this adjustment reflects Willowcrest's estimate of its new operator's annual fee.

Willowcrest's new operator is paid a flat monthly rate of \$550 for working a minimum of 40 hours per month and \$9 per hour for any hours worked in excess of the minimum. Based on the flat rate of \$550 per month, 112 hours of test period overtime, and \$9 per hour overtime rate, Staff determined that Willowcrest's routine maintenance fee would be \$7,608 and therefore, recommended that routine maintenance fee expense be increased by \$4,667.

At the informal conference, Willowcrest stated that its new operator works more overtime hours than its operator worked in the test period. Willowcrest attributed the increased overtime to the treatment plant's age and to assuring that the plant operates within the appropriate regulatory guidelines.

To comply with an agreement it has with the Human Resources and Environmental Protection Cabinet ("Natural Resources") to improve the operation of its treatment facility, Willowcrest hired Noel Norton as its plant operator. In its letter dated February 19, 1992, Natural Resources stated that since May 13, 1991, "there has been a complete turnaround in the operation and maintenance of the plant and a 40 percent increase in the rate of compliance with all parameters found on KPDES permit No. KY0042552." Natural Resources attributed this improvement in Willowcrest's compliance rate in part to the hiring of Mr. Norton.

In the information provided February 26, 1992, Willowcrest filed its invoices from Norton Water Treatment Operations for the period of May 14, 1991 through February 15, 1992. These invoices

showed that on average Mr. Norton worked approximately 2 hours<sup>1</sup> per day or 730 hours<sup>2</sup> on a annual basis. Based on the flat rate of \$550 per month, 250 hours<sup>3</sup> of overtime, and the current overtime rate of \$9 per hour, Willowcrest's routine maintenance fee expense would be \$8,850.<sup>4</sup>

An adjustment based on the increased fee and hours would meet the rate-making criteria of known and measurable. Staff is of the opinion that the improvement in the operation of the treatment plant noted by Natural Resources would justify the continued use of Mr. Norton as plant operator and that Willowcrest adequately documented Mr. Norton's overtime hours. Therefore, routine maintenance fee expense has been increased by \$1,242.

Testing: During the test-period, Willowcrest paid Kenvirons, Inc. a fee of \$100 per month for effluent testing required by the Division of Water. Staff determined that Willowcrest's testing expense was \$1,264 based on the annualization of the monthly testing fee and including a \$64 charge for Kenvirons' participation in the Commission's annual inspection of Willowcrest's treatment plant.

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1	Hours Billed 5/14/91 Through 2/15/92	\$ 532
	Days Worked 5/14/91 Through 2/15/92	+ 249
	Average Daily Hours Worked	<u>2</u>
2	2 Average Daily Hours Worked x 365-Days = 730 Annual Hours.	
3	730 Annual Hours - 480 Minimum Hours = 250 Overtime Hours.	
4	Flat Fee	\$550 x 12-Months = \$ 6,600
	Overtime Hours	\$ 9 x 250-Hours = + 2,250
	Routine Maintenance Fee	<u>\$ 8,850</u>

At the informal conference, Willowcrest informed Staff that Kenvirons increased its monthly testing fee from \$100 to \$300 per month in 1991. In the information provided February 26, 1992, Willowcrest provided its Kenvirons' invoices for the period of April 7, 1991 through January 4, 1992. The annualization of this fee results in a normalized testing expense of \$3,600.<sup>5</sup>

An adjustment based on the increased fee would meet the rate-making criteria of being known and measurable. Therefore, testing expense has been increased by \$2,336.

Administrative and General Salaries: Willowcrest reported test-period administrative and general salaries expense of \$3,600, which Willowcrest represented as the owner/manager fee it paid to Glen D. Purdy. Based on the Commission's past practice of limiting owner/manager fees to a maximum of \$2,400 per year, Staff recommended that this expense be decreased by \$1,200.

At the informal conference, Willowcrest informed Staff that the \$3,600 fee included Willowcrest's compensation of Mildred Purdy, wife of the President of Willowcrest, for secretarial duties she performed. In the information provided February 26, 1992, Willowcrest provided a list of those duties performed by Ms. Purdy and a detailed breakdown of the time spent performing them.

Based on the secretary's duties and responsibilities, Staff is of the opinion that an annual salary of \$1,200 is reasonable

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<sup>5</sup> \$300 Monthly Fee x 12-Months = \$3,600.

and has increased administrative and general salary expense by \$1,200.

Amortization: Willowcrest proposed a pro forma level of rate case expense of \$300, based on amortizing its projected cost of preparing this rate case over a 3-year period. Willowcrest was requested and failed to provide documentation to support its projected rate case cost and therefore, Staff recommended that Willowcrest's adjustment be rejected.

In the information filed February 26, 1992, Willowcrest provided an invoice from its accountant showing that the rate case cost to date is \$1,478. Amortizing this cost over a 3-year period, Staff has calculated amortization expense of \$493<sup>6</sup> and has increased amortization expense by this amount.

#### Operations Summary

Based on the recommendations of Staff contained in this report, Willowcrest's operating statement would appear as set forth in Appendix B to this report.

#### C. Revenue Requirement Determination

Staff's amended operations provide Willowcrest with an operating ratio of 188<sup>7</sup> percent. Combined with Willowcrest's

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<sup>6</sup> \$1,478 ÷ 3-Years = \$493.

<sup>7</sup>

Amended Operating Expenses	\$ 31,305
Normalized Operating Revenue	+ 16,630
Operating Ratio	<u>188%</u>



Staff is of the opinion that an 88 percent operating ratio would allow Willowcrest sufficient revenues to cover its operating expenses and to provide for future equity growth. An operating ratio of 88 percent results in a revenue requirement of \$35,574.<sup>9</sup> Therefore, Staff recommends a revised revenue increase of \$18,944<sup>10</sup> and that the rates set out in Appendix A be approved.

#### D. Signatures

Mark C. Frost  
Prepared By: Mark C. Frost  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Rates and Tariffs Division

Nicky Moore  
Prepared By: Nicky Moore  
Public Utility Rate Analyst  
Communications, Water and  
Sewer Rate Design Branch  
Research Division

$$^8 \quad \$31,305 + (\$16,630 + \$26,096) = 73\%.$$

<sup>9</sup> \$31,305 ÷ 88% = \$35,574.

10	Revenue Requirement	\$ 35,574
	Less: Normalized Operating Revenue	<u>- 16,630</u>
	Amended Revenue Increase	\$ 18,944

APPENDIX A  
TO STAFF REPORT CASE NO. 91-305

The Staff recommends the following rate be prescribed for customers of Willowcrest Development, Inc.

<u>Customer Class</u>	<u>Rates</u>
Residential	\$21.80

# APPENDIX B

## TO STAFF REPORT CASE NO. 91-305

	Staff Report	Amended Adjustments	Amended Operations
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Operating Revenues:			
Residential Flat Rate	\$ 16,630	\$ 0	\$ 16,630
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Operating Expenses:			
Operating & Maint Exp:			
Routine Maintenance Fee	\$ 7,608	\$ 1,242	\$ 8,850
Utilities	2,609	0	2,609
Misc Supplies & Exp	325	0	325
Maintenance Expense	5,375	0	5,375
Testing Expense	1,264	2,336	3,600
Chemical Expense	2,028	0	2,028
Administrative & General Exp	2,400	1,200	3,600
Office Supplies Expense	547	0	547
Interest Expense	0	0	0
Rent Expense	936	0	936
Rate Case Expense	0	0	0
Sludge Hauling Expense	1,530	0	1,530
Postage Expense	310	0	310
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Total Operation & Maint	\$ 24,932	\$ 4,778	\$ 29,710
Depreciation Expense	236	0	236
Amortization Expense	675	493	1,168
Taxes Other Than Income Taxes	191	0	191
	-----	-----	-----
Total Operating Expenses	\$ 26,034	\$ 5,271	\$ 31,305
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Net Operating Income	\$ (9,404)	\$ (5,271)	\$ (14,675)
	=====	=====	=====