

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION AND NOTICE OF)
BOONESBORO WATER ASSOCIATION, INC.) CASE NO.
FOR AN ADJUSTMENT OF WATER RATES) 91-413

O R D E R

On November 15, 1991, Boonesboro Water Association Inc. ("Boonesboro") 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 Boonesboro's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Boonesboro'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 14th day of April, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director, Acting

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION AND NOTICE OF)
BOONESBORO WATER ASSOCIATION, INC.) CASE NO. 91-413
FOR AN ADJUSTMENT OF WATER RATES)

STAFF REPORT

March 31, 1992

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STAFF REPORT

ON

BOONESBORO WATER ASSOCIATION, INC.

CASE NO. 91-413

A. Preface

On November 15, 1991, Boonesboro Water Association, Inc. ("Boonesboro") submitted an application to the Commission seeking approval to increase its rates. The application was considered filed on November 25, 1991, when all deficiencies were cured. The proposed rates would generate approximately \$60,757 annually in additional revenues, an increase of 20 percent over normalized test-year revenues from water sales of \$303,936.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Boonesboro's operations for the 12-month test period ended August 31, 1991. Karen Harrod and Jack Scott Lawless of the Commission's Division of Rates and Tariffs conducted the review on January 17, 30-31, 1991 at Boonesboro's office in Winchester, Kentucky. Nicky Moore of the Commission's Research Division performed his review of the billing analysis at the Commission's office in Frankfort, Kentucky.

The findings of the field review have been reduced to writing in this report. Nicky Moore is responsible for the sections related to operating revenues and rate design. The remaining sections of the Staff Report were prepared by Karen Harrod.

During the course of the review, Boonesboro was advised that all proposed adjustments to test-year expenses must be supported by some form of documentation such as an invoice, and that all such adjustments must be known and measurable. Based upon the findings of this report, Staff recommends that Boonesboro be allowed to increase its annual revenues by \$59,161.

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

Boonesboro Water Association reported test year revenue of \$307,810 which includes \$3,874 in non-recurring charges. The Staff has determined that the revenue derived from water sales for the test period is \$303,936 and has used that number as present revenue in calculating revenue requirements.

Boonesboro filed a billing analysis that supports the indicated revenue and shows a monthly average of 988 customers.

Operation and Maintenance Expenses

For the test year, Boonesboro reported operation and maintenance expenses of \$323,167 which it proposed to increase by \$5,777. The pro forma adjustments to test-period expenses are discussed in the following sections of this report.

It should be noted that Boonesboro operates both water and sewer facilities. Expenditures which benefit both the water and sewer operations are allocated at a percentage rate of 93 percent and 7 percent, respectively. This apportionment method is based upon the number of customers of each utility and was recommended by Staff in its report issued in Case No. 10249.¹ The adjustments contained in this report are based on the 93:7 ratio where applicable.

Salaries and Wages

Boonesboro reported salaries and wages expense for its water operations of \$68,576 for the test period. In its application an adjustment was proposed to increase this amount by \$2,704 to account for the salary of a part-time employee hired in September 1991. This employee replaced a part-time employee who resigned in February 1991.

After reviewing the current schedule of employees and salaries, Staff has calculated the current salary level to be \$74,635. The water portion of this expense would be 93 percent or \$69,411, resulting in an increase of \$835. Accordingly, Staff recommends an increase to test-year salary and wages expense of \$835.

Contractual Services - Accounting

For the test period, Boonesboro's water operations reported accounting expenses of \$3,023 for the preparation of Forms, 1990

¹ Case No. 10249, The Application of Boonesboro Water Association, Inc. For An Adjustment of Rates, Order dated August 15, 1989.

Annual Reports, and the 1990 Annual Audit. Based on a quote reviewed by Staff, these same services will be provided for 1991 at a total cost of \$3,500, with 93 percent or \$3,255 being allocated to the water operations. Since this increase meets the rate-making criteria of being known and measurable, Staff recommends an increase to test-year expense of \$232.²

Contractual Services - Legal

Boonesboro reported test-year legal expenses of \$2,733 for its water division. A portion of this expense was incurred as a result of a monthly retainer fee of \$100 paid to Martin & Francis. Based on Staff's review, the test-year expense included only 11 months of that fee. Since this is an on-going expense, Staff recommends an increase of \$93 to include the water portion of an additional monthly retainer fee of \$100.

Contractual Services - Other

For the test year, Boonesboro reported contractual services - other expense of \$5,150. An adjustment was included to increase this amount by \$1,333 to allow for rate case expenses incurred as a part of this filing. Boonesboro estimated total rate case expense of \$4,000 and proposed that it be amortized over a period of three years. Based on invoices received to date, Boonesboro has incurred actual rate case expense of \$3,341. Therefore, Staff recommends the inclusion of the 3-year amortization of actual rate case expense in Boonesboro's adjusted operations which results in

² \$3,255 - \$3,023 = \$232.

an increase of \$1,114.³ It should be noted that, pursuant to the Uniform System of Accounts for Class A and B Water Districts and Associations, Account 665 has been established for reporting the amortization of rate case expense. Accordingly, rate case expense has been included as a separate line item rather than being classified as contractual services.

Payroll and Other Taxes

In its application, Boonesboro proposed to increase test-year FICA expense by \$207 in accordance with the proposed increase to salary expense. Based on Staff's recommended increase in salary expense of \$835, the appropriate increase to FICA would be \$64.⁴ Therefore, Staff recommends increasing test-period payroll and other taxes expense to a pro-forma level of \$10,006.

Utilities Expense

For the test year, Boonesboro reported utilities expense of \$1,907. An adjustment was proposed to increase this amount by \$765 to annualize the electrical expense associated with operating a new pump which was placed in service during the test year. Staff has reviewed the invoices and calculations supporting this adjustment and concurs with Boonesboro's methodology. Accordingly, Staff recommends that the increase to utilities expense be allowed for rate-making purposes.

³ $\$3,341 + 3 \text{ yrs.} = \$1,114.$

⁴ $\$835 \times 7.65\% = \$64.$

Rent Expense

Boonesboro incurred rent expense of \$300 per month for 11 months of the test year. In August 1991, the rent increased to \$325 per month resulting in test-year expense of \$3,625. The portion of that expense allocated to Boonesboro's water operations was \$3,371. Staff recommends that an adjustment be made to annualize rent expense at the current level. Therefore, Staff has increased test-year rent expense by \$256.⁵

During the test year, Boonesboro incurred additional rent expense which included \$75 for the rental of a barn for use as storage space. During the review, Staff was advised that the barn would no longer be needed. Accordingly, an adjustment has been made to decrease rent expense by that amount.

Based on the aforementioned adjustments, Staff recommends a net increase to test-year rent expense of \$181.

Transportation and Equipment Expense

During the test year, Boonesboro made monthly payments of \$741.76 for a backhoe purchased in October 1989 and \$518.40 for a pick-up truck and trailer purchased in December 1990. Boonesboro financed these purchases with a 5-year loan contract assigned to John Deere and a 4-year loan obtained from the First Security Bank of Clark County, respectively. Prior Commission approval of these loan commitments was not obtained as required in KRS 278.300. Staff is of the opinion that these purchases were made in good faith and were for reasonable and legitimate purposes, although

⁵ $\$3,900 \times .93 = \$3,627 - \$3,371 = \$256.$

Staff stresses that Boonesboro should seek the Commission's approval for such loan commitments in the future. Therefore, Staff recommends the expense be included in the calculation of Boonesboro's adjusted operations.

In its application Boonesboro proposed to include the annual payments on these notes as a component of its debt service requirement. Staff is of the opinion that it would be more appropriate to include this amount of \$15,122⁶ in Boonesboro's operating expenses.

Director Fees

Boonesboro currently has 6 directors and 1 president. The directors are paid \$75 per month and the president is paid \$100 per month. Based on this information the annualized expense for director fees would be \$6,600, with the water operations being allocated 93 percent of that amount or \$6,138. For the test year, Boonesboro reported only \$6,022 for the water portion of the expense. Accordingly, Staff recommends an increase of \$116 to test-period expenses.

Miscellaneous Expense

In its application, Boonesboro proposed several adjustments to test-year expenses which were classified as miscellaneous and totaled \$768. These adjustments included an increase of \$424 to annualize telemetry expenses which began in July 1991, an increase

⁶	\$741.76 x 12 mos. =	\$ 8,901
	\$518.40 x 12 mos. =	6,221
		<u>\$15,122</u>

of \$200 to account for increased postage rates, and an increase of \$144 to cover the increased cost of water analysis.

Based on a review of supporting calculations and documentation, Staff is in agreement with Boonesboro's adjustments related to telemetry and postage expenses. However, the adjustment for water analysis reflects a \$12 monthly increase for a 12-month period. Based on Staff's review, it has been determined that test-year expenses already reflect the increased rate for 5 months. Therefore, Staff has included an increase of only \$84.⁷

As a result of the aforementioned adjustments, Staff recommends an increase of \$708 to Boonesboro's test-period miscellaneous expense.

Interest Income

Boonesboro reported interest income for the test period in the amount of \$6,527. An adjustment was proposed to decrease this amount by \$216 to reflect 3 months of interest income from a Certificate of Deposit that Boonesboro cashed in December 1990. Staff concurs with this adjustment and has included the decrease in the calculation of Boonesboro's adjusted operations.

Operations Summary

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

⁷ \$12 x 7 mos. = \$84

Revenue Requirements Determination

Staff has calculated Boonesboro's average annual debt service to be \$29,404. Based on the adjusted test-period operations, Boonesboro's debt service coverage ("DSC") is $-.8x$.⁸ Staff is of the opinion that a DSC of $1.2x$ is necessary to allow Boonesboro to meet its operating expenses, service its debt, and provide for reasonable equity growth. Therefore, Staff recommends an allowance for a 20 percent DSC or \$5,881.⁹

In summary, Staff recommends that Boonesboro be allowed to increase its annual revenues by \$59,161, calculated as follows:

Adjusted Operating Expenses	\$342,397
Annual Debt Service	29,404
20 Percent DSC	<u>5,881</u>
Total Revenue Requirement	<u>\$377,682</u>
Less: Operating Revenues	312,210
Interest Income	<u>6,311</u>
Required Increase	<u>\$ 59,161</u>

C. Rate Design

In its application, Boonesboro filed a schedule of present and proposed rates and proposed to add to their tariff a rate schedule for a 3 inch meter connection. The Staff agrees that the addition of the 3 inch meter connection is proper and should be approved. The cost justification provided by Boonesboro to support the connection fee appears reasonable and Staff recommends approval.

⁸ $\$(23,876) + \$29,404 = -.8.$

⁹ $\$29,404 \times .2 = \$5,881.$

No other changes were proposed in the rate structure. The Staff further agrees that the remaining rate structure should not be altered, therefore, any increase granted in this case has been added to the existing rate structure. The Staff recommends that the rates in Appendix B, attached hereto, be approved for services rendered.

D. Signatures



Prepared By: Karen Harrod
Public Utility Financial
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Water and Sewer Revenue
Requirements Branch
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Prepared By: Nicky Moore
Public Utility Rate Analyst
Communications, Water and
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Research Division

APPENDIX A
TO STAFF REPORT FOR CASE NO. 91-413

Boonesboro Water Association
Statement of Adjusted Operations

	<u>Test Year Per Application</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues			
Water Sales	\$307,810	<\$ 3,874>	\$303,936
Other Operating Revenues	8,274		8,274
Total Operating Revenues	<u>\$316,084</u>	<u><\$ 3,874></u>	<u>\$312,210</u>
Operating Expenses			
Purchased Water	\$156,944		\$156,944
Salaries & Wages	68,576	\$ 835	69,411
Contr. Services-Accounting	3,023	232	3,255
Contr. Services-Legal	2,733	93	2,826
Contr. Services-Other	5,150		5,150
Depreciation Expense	30,729		30,729
Payroll & Other Taxes	9,942	64	10,006
Regulatory Assessment Fees	468		468
Utilities	1,907	765	2,672
Materials & Supplies	12,537		12,537
Rent	5,026	181	5,207
Transportation Expense	5,289	15,122	20,411
Insurance	6,120		6,120
Directors Fees	6,022	116	6,138
Miscellaneous Expense	8,701	708	9,409
Rate Case Expense	-0-	1,114	1,114
Total Operating Expenses	<u>\$323,167</u>	<u>\$19,230</u>	<u>\$342,397</u>
Operating Income	<\$ 7,083>	<\$23,104>	<\$30,187>
Interest Income	<u>6,527</u>	<u><216></u>	<u>6,311</u>
Income Available for Debt Service	<u><\$ 556></u>	<u><\$23,320></u>	<u><\$23,876></u>

APPENDIX B
TO STAFF REPORT CASE NO. 91-413

The Staff recommends the following rate be prescribed for customers of Boonesboro Water Association.

5/8 Inch x 3/4 Inch Meters

Rate

First 1,000 gallons	\$11.07 Minimum Bill
All Over 1,000 gallons	2.10 per 1,000 gallons

1 Inch Meters

First 10,000 gallons	\$29.97 Minimum Bill
All Over 10,000 gallons	2.10 per 1,000 gallons

1 1/2 Inch Meters

First 30,000 gallons	\$71.99 Minimum Bill
All Over 30,000 gallons	2.10 per 1,000 gallons

2 Inch Meters

First 50,000 gallons	\$114.01 Minimum Bill
All Over 50,000 gallons	2.10 per 1,000 gallons

3 Inch Meters

Connection Fee	\$5,132.00
First 75,000 gallons	166.47 Minimum Bill
All Over 75,000 gallons	2.10 per 1,000 gallons

Trailer Park

First 180,000 gallons	\$1,992.79 Minimum Bill
Over 180,000 gallons	2.10 per 1,000 gallons