

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SEDALIA WATER DISTRICT	)	
FOR A RATE ADJUSTMENT PURSUANT TO	)	CASE NO.
THE ALTERNATIVE RATE FILING PROCEDURE	)	91-462
FOR SMALL UTILITIES	)	

O R D E R

On December 18, 1991, Sedalia Water District ("Sedalia") 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 Sedalia'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 31st day of March, 1992.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SEDALIA WATER        )  
DISTRICT FOR A RATE ADJUSTMENT        ) CASE NO. 91-462  
PURSUANT TO THE ALTERNATIVE RATE        )  
FILING PROCEDURE FOR SMALL UTILITIES)

STAFF REPORT

March 26, 1992

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Analyst  
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Research Division

STAFF REPORT  
ON  
SEDALIA WATER DISTRICT  
CASE NO. 91-462

A. Preface

On December 18, 1991, Sedalia Water District ("Sedalia") filed an application with the Commission seeking to increase its rates pursuant to the Alternative Rate Filing Procedure for Small Utilities. The proposed rates were designed to generate additional revenues of approximately \$7,020, an increase of 35 percent over normalized test-year operating revenues of \$19,829.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Sedalia's operations for the test period, calendar year 1990. Karen Harrod and Jack Scott Lawless of the Commission's Division of Rates and Tariffs performed the review on February 4, 1992 at the offices of the Purchase Area Development District in Mayfield, Kentucky. Nicky Moore, of the Research Division, performed his review of the billing analysis 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 related to operating revenue and rate design. The remaining sections of the Staff Report were prepared by Karen Harrod and Scott Lawless.

Based upon the findings of this report, Staff recommends that Sedalia be allowed to increase its annual revenues by \$7,579, an increase of 38 percent.

### 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. Determination of Adjusted Test Period Operations

### Operating Revenues

Sedalia Water District's statement of operations filed in its application shows operating revenue from its water sales of \$19,377.01. The billing analysis shows \$19,828.75, a difference of \$451.74. The Staff concurs with Sedalia Water District's billing analysis and has used the revenue produced by the billing analysis in its determination of revenue requirements.

### Operating Expenses

For the test year Sedalia reported operating expenses of \$18,548 which it proposed to increase by \$2,358. The pro-forma adjustments to test-period expenses are discussed in the following sections of this report.

### Salaries and Wages

Sedalia reported test-year salaries and wages expense of \$5,640. An adjustment was proposed to increase this amount by \$600 to allow for a \$50 per month salary increase for the District's one employee. Sedalia's Board of Commissioners

approved this increase in October 1991. During the field review Staff was advised that the current salary level for this employee is \$450 per month. Accordingly, Staff recommends a decrease to test-year expense of \$240 to reflect an annualized salary expense of \$5,400.<sup>1</sup>

#### Taxes Other than Income Tax

For the test period Sedalia reported taxes other than income tax expense of \$431 to reflect FICA expense for test period wages. Based on the salary expense recommended in this report Staff has calculated FICA expense to be \$413<sup>2</sup>. Accordingly, Staff has made an adjustment to decrease test year expense by \$18 to reflect taxes other than income tax expense of \$413.

#### Materials and Supplies

In its application, Sedalia reported materials and supplies expense for the test period of \$2,999. Based on Staff's review, it was determined that \$437 of this expense was incurred for the purchase of meters and meter parts. Staff is of the opinion that it would be more appropriate to capitalize these expenditures, which results in a decrease to materials and supplies expense of \$437. It was also determined that Sedalia erroneously made a duplicate payment for the purchase of 4 meters at a cost \$152.70. Invoice No. 771313 from Henry A. Petter Supply Co. was paid by both check number 854 on January 8, 1990 and check number 858 on

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<sup>1</sup> \$450 x 12 mos. = \$5,400

<sup>2</sup> \$5,400 x 7.65% = \$413

January 9, 1990. Accordingly, test year operations reflect this expense twice. Staff has made an adjustment to decrease test year expense by \$153 to correct this error.

Based on the aforementioned adjustments, Staff recommends a net decrease to test-year materials and supplies expense of \$590.

#### Depreciation Expense

For the test period Sedalia reported depreciation expense of \$2,599. An adjustment was proposed to increase this amount by \$1,758 to allow for the 3-year depreciation of \$5,273 of expenses incurred, subsequent to the test year, for a pump and well repairs. After consulting with the Commission's Engineering Division, Staff is of the opinion that it would be more appropriate to depreciate this expense over a period of 5 years. Accordingly, an adjustment has been made to increase test-year depreciation expense by \$1,055.<sup>3</sup>

Based on the capitalized expenditures discussed in the materials and supplies section of this report, Staff has made an additional adjustment to depreciate meter expenses of \$437 over a period of 10 years. Accordingly, test-year depreciation expense has been increased by an additional \$44 resulting in a net increase of \$1,099.

#### Tank Painting Expense

In its application Sedalia indicated that its water tower would need to be painted in 1992. Based on an estimate from the

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<sup>3</sup>  $\$5,273 \div 5 \text{ yrs.} = \$1,055$

Pittsburg Tank & Tower Co., Inc., the cost to repaint the tank in accordance with current AWWA standards will range from \$25,000 - \$30,000. According to the Commission's Engineering Division, this expense should be amortized over a period of 10 years. Since this adjustment meets the rate-making criteria of being known and measurable, Staff recommends the inclusion of the amortization of tank-painting expense, in the amount of \$2,500,<sup>4</sup> in Sedalia's adjusted operations.

#### Operations Summary

Based on the recommendations of Staff contained in this report, Sedalia's operating statement would appear as follows:

	<u>Test Year Actual</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues:			
Metered Sales	\$ 19,377	\$ 452	\$ 19,829
Operating Expenses:			
Salaries & Wages	5,640	< 240 >	5,400
Chemicals	190		190
Purchased Power	2,156		2,156
Materials & Supplies	2,999	< 590 >	2,409
Contractual Services	1,675		1,675
Insurance	1,907		1,907
Regulatory Commission	50		50
Miscellaneous	901		901
Taxes Other than Income	431	< 18 >	413
Tank Painting Expense	-0-	2,500	2,500
Depreciation	2,599	1,098	3,697
Total Operating Expenses	<u>\$ 18,548</u>	<u>\$ 2,750</u>	<u>\$ 21,298</u>

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<sup>4</sup> \$25,000 + 10 yrs. = \$2,500

Operating Income	\$ 829	<\$ 2,298>	<\$ 1,469>
Other Income	<u>922</u>	<u>          </u>	<u>922</u>
Income Available for Debt Service	<u>\$ 1,751</u>	<u>&lt;\$ 2,298&gt;</u>	<u>&lt;\$ 547&gt;</u>

C. Revenue Requirements Determination

Staff has calculated Sedalia's average annual debt service to be \$5,860. Based on the adjusted test-period operations, Sedalia's debt service coverage ("DSC") is  $-.09x$ .<sup>5</sup> Staff is of the opinion that a DSC of 1.2x is necessary to allow Sedalia to meet its operating expenses, service its debt, and provide for reasonable equity growth. Therefore, Staff recommends that Sedalia be allowed to increase its annual revenues by \$7,579, calculated as follows:

Adjusted Operating Expenses	\$ 21,298
Annual Debt Service	5,860
20 Percent DSC	<u>1,172</u>
Total Revenue Requirement	\$ 28,330
Less: Operating Revenues	19,829
Other Income	<u>922</u>
Required Increase	<u>\$ 7,579</u>

D. Rate Design

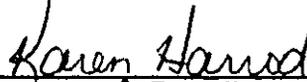
Sedalia Water District filed a schedule of its existing and proposed rates and did not propose any changes in the rate structure. The Staff agrees that the present rate structure should not be altered. Therefore, any increase granted in this

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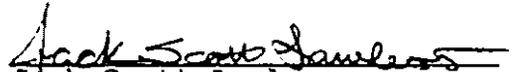
<sup>5</sup>  $\langle \$547 \rangle + \$5,860 = \langle .09 \rangle$

case has been added to the existing rate structure. The Staff recommends that the rates in Appendix A, attached hereto and incorporated herein, be approved for service.

E. Signatures



Prepared By: Karen Harrod  
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Analyst, Chief  
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Requirements Branch  
Rates and Tariffs Division



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Requirements Branch  
Rates and Tariffs Division



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Sewer Rate Design Branch  
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APPENDIX A  
TO STAFF REPORT CASE NO. 91-462

The Staff recommends the following rate be prescribed for customers of Sedalia Water District.

<u>Customer Class</u>	<u>Rates</u>
First 2,000 gallons	\$8.45
Next 2,000 gallons	2.75
All Over 4,000 gallons	1.35