

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SALT LICK WATER)	
ASSOCIATION, INC. FOR A RATE)	
ADJUSTMENT PURSUANT TO THE ALTERNATIVE)	CASE NO.
RATE FILING PROCEDURE FOR SMALL)	92-055
UTILITIES)	

O R D E R

On February 10, 1992, Salt Lick Water Association, Inc. ("Salt Lick") 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 Salt Lick'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 9th 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 SALT LICK WATER)
ASSOCIATION, INC. FOR A RATE)
ADJUSTMENT PURSUANT TO THE) CASE NO. 92-055
ALTERNATIVE RATE FILING PROCEDURE)
FOR SMALL UTILITIES)

STAFF REPORT

March 5, 1992

Prepared By: Karen Harrod
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
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Research Division

STAFF REPORT

ON

SALT LICK WATER ASSOCIATION, INC.

CASE NO. 92-055

A. Preface

On February 10, 1992, Salt Lick Water Association, Inc. ("Salt Lick") filed its application seeking approval 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 \$8,891 on an annual basis, an increase of 28 percent over normalized test year revenues of \$31,648.

In order to evaluate the requested increase, the Commission Staff ("Staff") would ordinarily perform a limited financial review of the utility's operations for the test period, calendar year 1990. However, in this instance, Salt Lick requested and received Staff assistance in preparing its application. As a result, the field review procedures were performed prior to the filing of the application. Karen Harrod, of the Commission's Division of Rates and Tariffs, conducted the review at the Citizens Deposit Bank in Vanceburg, Kentucky on December 12, 1991. 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 Staff's review have been reduced to writing in this report. Mr. Moore is responsible for the sections related

to operating revenues and rate design. The remaining sections of the Staff Report were prepared by Ms. Harrod.

During the course of the review, Salt Lick was advised that all proposed adjustments must be known and measurable to be considered for rate-making purposes. Based upon the findings of this report, Staff recommends that Salt Lick be authorized to increase its annual operating revenues from water sales by \$8,891.

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

Salt Lick's statement of operations shows operating revenue from water sales of \$32,920. The billing analysis filed in the application will produce revenue of \$31,648 at the present rates. The billing analysis filed as part of the application is based on a 12-month period ending December 31, 1991. Staff concurs with Salt Lick's billing analysis and has used the revenue produced by the billing analysis in its determination of revenue requirements. Under the proposed rate schedule, Salt Lick's billing analysis will produce operating revenues of \$40,539.

Operation and Maintenance Expenses

For the test year, Salt Lick reported operation and maintenance expenses of \$30,481 which it proposed to increase by

\$4,004. The pro forma adjustments to test period expenses are discussed in the following sections of this report.

Purchased Water

Salt Lick reported purchased water expense of \$18,851 for the test period. An adjustment was proposed to increase this amount by \$4,560 to reflect a monthly payment of \$380 to the City of Vanceburg ("Vanceburg") for debt service on the upgrading of Vanceburg's system. This charge began in January 1991 and, therefore, was not reflected in test year operations.

A decrease to purchased water expense of \$137 was proposed to normalize the test year expense. Staff concurs with the proposed adjustment which is based on normalized usage of 10,880,840 gallons, line loss of 6.39%, and a purchase price of \$1.61 per 1,000 gallons.

Based on the aforementioned adjustments, Staff recommends a net increase to test-year purchased water expense of \$4,423.

Contractual Services

For the test year, Salt Lick reported contractual services expense of \$1,019. This expense was incurred for billing services provided by Buffalo Trace Area Development District. By memorandum dated March 5, 1991, Salt Lick was notified that the billing rate of 55¢ per bill would increase by 10¢. Based on the current billing rate of 65¢ per bill, and a customer level of 160, Salt Lick's pro-forma billing expense would be \$1,248, an increase of \$219 over the test year level. Since this expense meets the criteria of being known and measurable, Staff recommends the increase be accepted for rate-making purposes.

Insurance

Salt Lick's test period operations reflected insurance expense of \$417. An adjustment was proposed to increase this amount to a level of \$899 based on insurance premiums paid subsequent to the test year. Staff has reviewed the invoices supporting the cost of insurance and recommends an increase of \$482 be included in the determination of Salt Lick's adjusted operations.

Depreciation

For the test year, Salt Lick reported depreciation expense of \$4,162. In its application an adjustment was proposed to decrease this by \$1,682, to a level of \$2,480, to reflect a composite depreciation rate of 2%.¹ After a review of the calculations supporting this adjustment, it is Staff's recommendation that the decrease be allowed for rate-making purposes.

Taxes Other than Income Tax

Salt Lick reported test-year taxes other than income tax expense of \$1,428. This amount includes employee payroll tax withholdings of \$700, sales and usage tax of \$173, and school tax of \$65. These taxes are not actual expenses of the utility in that Salt Lick merely serves as an agent of the various taxing authorities to collect and remit these monies. Accordingly, an

¹ Utility Plant in Service @ 12/31/90	\$ 124,013
Depreciation Rate	x 2%
Depreciation Expense	<u>\$ 2,480</u>

adjustment was proposed to decrease taxes other than income tax expense by \$938. It is the opinion of Staff that this adjustment is appropriate and should be included in the calculation of Salt Lick's adjusted operations.

Meter Testing, Cleaning and Repair

In its application, Salt Lick proposed to increase test-year expenses to include the cost of implementing a meter testing, cleaning, and repair program. Salt Lick estimates that meters should be checked every five years which would result in 32 meters per year at a cost of \$25 per meter or \$800 per year. Staff has reviewed the documentation and calculations supporting this adjustment and recommends the increase be allowed for rate-making purposes.

Accounting Services

Salt Lick did not incur expenses for professional accounting services during the test year. However, in its application, Salt Lick proposed to include an increase of \$700 to allow for the cost of an annual audit and the preparation of Salt Lick's annual report to the Commission. A quote has been submitted and reviewed by Staff in support of the \$700 increase. Since this adjustment meets the rate-making criteria of being known and measurable, Staff recommends the inclusion of accounting services expense in Salt Lick's adjusted operations.

Operations Summary

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

	<u>Test Year Actual</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues:	\$ 32,920	\$< 1,272>	\$ 31,648
Operating Expenses:			
Salaries & Wages	\$ 3,800		\$ 3,800
Purchased Water	18,851	\$ 4,423	23,274
Materials & Supplies	525		525
Contractual Services	1,029	219	1,248
Insurance	417	482	899
Miscellaneous	269		269
Depreciation	4,162	< 1,682>	2,480
Taxes other than Income	1,428	< 938>	490
Meter Testing & Repair	-0-	800	800
Accounting Services	-0-	700	700
Total Operating Expenses	<u>\$ 30,481</u>	<u>\$ 4,004</u>	<u>\$ 34,485</u>
Operating Income	\$ 2,439	\$< 5,276>	\$< 2,837>
Interest Income	<u>398</u>	<u> </u>	<u>398</u>
Income Available for Debt Service	<u>\$ 2,837</u>	<u>\$< 5,276></u>	<u>\$< 2,439></u>

C. Revenue Requirements Determination

With regard to existing long-term debt, Salt Lick's average annual debt service requirement is \$5,377. Based on the adjusted test-period operations, Salt Lick's debt service coverage ("DSC") is $\sim .45x$.² Staff is of the opinion that a DSC of 1.2x is necessary to allow Salt Lick to meet its operating expenses, service its debt, and provide for reasonable equity growth. Therefore, Staff recommends that Salt Lick be allowed to increase its annual revenues by the proposed amount of \$8,891, calculated as follows:

² $\$<2,439> + \$5,377 = <.45>$.

Operating Expenses	\$ 34,485
Annual Debt Service	5,377
20 Percent DSC	1,075
Total Revenue Requirement	<u>\$ 40,937</u>
Less:	
Normalized Operating Revenues	31,648
Interest Income	398
Required Increase	<u>\$ 8,891</u>

D. Rate Design

As part of its application, Salt Lick filed a schedule of its existing and proposed rates. Salt Lick did not propose to change its current rate structure, therefore, any increase granted in this case should be added to the existing rate structure.

Staff recommends that the rates as set out in Appendix A be approved for services rendered.

E. Signatures

Karen Harrod
Prepared By: Karen Harrod
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

APPENDIX A
TO STAFF REPORT CASE NO. 92-055

The Staff recommends the following rate be prescribed for customers of Salt Lick Water Association, Inc.

First 1,500 gallons	\$12.12 Minimum Bill
Next 3,500 gallons	2.31 per 1,000 gallons
Next 5,000 gallons	2.06 per 1,000 gallons
Next 10,000 gallons	1.96 per 1,000 gallons
Next 20,000 gallons	1.86 per 1,000 gallons