

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THELMA WASTE)
CONTROL, INC. TO UPGRADE ITS EXISTING) CASE NO. 92-100
SYSTEM, TO FINANCE, AND TO ADJUST)
ITS RATES)

O R D E R

On July 14, 1992, Thelma Waste Control, Inc. ("Thelma") 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 Thelma's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Thelma'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 9th day of February, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THELMA WASTE)
CONTROL, INC TO UPGRADE ITS EXISTING) CASE NO. 92-100
SYSTEM, TO FINANCE, AND TO ADJUST)
ITS RATES)

STAFF REPORT

Prepared By: Carl Combs
Public Utility Financial
Analyst
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
THELMA WASTE CONTROL, INC.
CASE NO. 92-100

A. Preface

On July 14, 1992, Thelma Waste Control, Inc. ("Thelma") filed an application with the Commission for a Certificate of Public Convenience and Necessity to construct sewage treatment facilities, for approval of its plan of financing and for approval of its proposed rates. Thelma's proposed rates would generate annual revenues of approximately \$21,280.

Normally, in a case involving rates, the Commission Staff ("Staff") would perform a limited financial review of the utility's operations for a 12-month test period. Thelma has not been operating long enough to have 12 months of financial records, but Staff determined that Thelma had sufficient information to warrant a field review. The review was conducted by Carl Salyer Combs of the Commission's Division of Rates and Tariffs at the home of Janie Fairchild, who maintains Thelma's financial records, in Thelma, Kentucky on September 23, 1992. Mr. Combs is responsible for this Staff Report except for the portion of Section B on operating revenue, Section D (Rate Design) and Appendix A, all of which were prepared by Nicky Moore of the Commission's Research Division.

During the course of the review, Thelma was advised that all proposed expenses must be supported by some form of documentation,

such as an invoice, or that such expenses must be known and measurable. Based upon the findings of this report, Staff recommends that Thelma be authorized annual operating revenues of \$21,280.

Scope

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

B. Analysis of Operating Revenues and Expenses

Operating Revenues

Insofar that Thelma does not have sufficient records to determine actual test year operating revenues, the Staff has used projected revenues to be collected from customers presently being served by the Company. Thelma at the present time has 48 customers connected and receiving service from its systems. At the proposed rates these customers will produce \$21,280 which is the amount the Staff has determined to be the proforma operating revenue.

Operating and Maintenance Expenses

At the time of the field review, Thelma requested inclusion of the following expenses: (1) sludge hauling; (2) water; (3) electricity; (4) chemicals; (5) routine maintenance; (6) office supplies and postage; (7) regulatory commission (testing fees and cost of Kentucky Pollutant Discharge Elimination System ("KPDES"))

permits); and (8) debt service. Staff's recommendations on those expenses are discussed in the following sections:

Sludge Hauling Expense

Thelma proposed an annual sludge hauling expense of \$750¹ based upon the judgement of Keith Fairchild, one of the owners of Appalachian Waste Control, Inc., Thelma's provider of routine maintenance services. As the Commission's Engineering Division is of the opinion that the proposed expense is reasonable, Staff recommends that annual sludge hauling expense of \$750 be included for rate-making purposes.

Water Cost

Thelma provided copies of invoices for water service to one plant for 3 months of 1992 totaling \$30.39. Based upon that amount, Staff recommends inclusion of annualized water cost of \$244² for rate-making purposes.

Electric Expense

Thelma provided copies of invoices for electric service for 9 months of 1992 totaling \$1,985.20. Based upon that amount, Staff recommends inclusion of annualized electric expense of \$2,647³ for rate-making purposes.

¹ \$125 per load x 6 loads = \$750

² \$30.39/.25 = \$121.56; \$122 x 2 plants = \$244

³ \$1,985.20/.75 = \$2,646.93

Chemicals Expense

Thelma proposed an annual chemicals expense of \$1,800 based upon the experience of Keith Fairchild of Appalachian. According to Mr. Fairchild, chemicals expense has been running \$150 per month. As the Commission's Engineering Division is of the opinion that the proposed expense is reasonable, Staff recommends that annual chemicals expense of \$1,800⁴ be included for rate-making purposes.

Routine Maintenance Fees

According to Mr. Fairchild, Appalachian provides routine maintenance services for Thelma's two sewage treatment plants for \$25 per week. Therefore, Staff recommends inclusion of annual routine maintenance expense of \$1,300⁵ for rate-making purposes.

Office Supplies and Other Expense

At the time of the field review, Thelma reported office supplies and postage expense of \$216 for approximately 9 months. Some items will not need to be purchased every month and Staff is of the opinion that an annual expense of \$250 is reasonable. Therefore, annual office supplies and other expense of \$250 has been included for rate-making purposes.

Regulatory Commission Expense

Thelma provided a copy of an invoice from McCoy & McCoy Laboratories, Inc. for \$93.50, the amount of quarterly testing

⁴ \$150 per month x 12 months = \$1,800

⁵ \$25 per week x 52 weeks = \$1,300

fees. Based upon that amount, Staff has included an annual expense of \$374⁶ related to testing fees for rate-making purposes.

As mentioned previously, Thelma requested inclusion of the cost of its required KPDES permits. According to an employee of the Division of Water of the Kentucky Natural Resources and Environmental Protection, the total cost of Thelma's two permits is \$2,500. The permits cover a period of 5 years which results in a prorated annual expense of \$500 and Staff recommends that that amount be included for rate-making purposes. Together with the aforementioned recommendation of \$374 related to testing fees, Staff recommends total annual regulatory commission expense of \$874⁷ for rate-making purposes.

Depreciation Expense

According to Thelma, the total cost of the treatment plants is \$108,073 which Thelma plans to finance over a period of 20 years through the Kentucky Association of Counties Leasing Trust. Staff is of the opinion that 20 years is a reasonable period over which to depreciate the cost of the treatment plants. Therefore, Staff recommends inclusion of annual depreciation expense of \$5,404⁸ for rate-making purposes.

⁶ \$93.50 per quarter x 4 quarters = \$374

⁷ \$500 + \$374 = \$874

⁸ \$108,073/20 years = \$5,403.65 annually

Taxes Other Than Income Tax Expense

Since Thelma did not request inclusion of the minimum Public Service Commission assessment of \$50, Staff recommends inclusion of annual taxes other than income tax expense of \$50 for rate-making purposes.

Operations Summary

Based on the recommendations of Staff contained in this report, a summary of Thelma's revenues and operating expenses would appear as follows:

PROFORMA OPERATING REVENUE	\$21,280
OPERATING EXPENSES:	
Sludge Hauling	\$ 750
Water	244
Electricity	2,647
Chemicals	1,800
Routine Maintenance	1,300
Office Supplies and Other	250
Regulatory Commission	874
Depreciation	5,404
Taxes Other Than Income	50
Total Operating Expenses	<u>\$13,319</u>
Net Operating Income	\$ 7,961
Interest Expense	<u>\$ <6,127></u>
NET INCOME	<u>\$ 1,834</u>

C. Revenue Requirements Determination

The approach frequently used by the Commission to determine revenue requirements for small, privately-owned utilities is the calculation of an operation ratio.⁹

The ratio generally used by the Commission in order to provide for equity growth is 88 percent. In this instance, the use of an

⁹ Operating Ratio = Operating Expense/Operating Revenue

88 percent operating ratio applied to operating expenses, plus allowing a dollar-for-dollar coverage of a 5-year average of interest expense, results in a total revenue requirement of \$21,262.¹⁰ Since Staff's determination of the annual revenue requirement is so close to Thelma's proposed annual revenues of \$21,280, Staff recommends that Thelma be authorized annual operating revenues of \$21,280.

D. Rate Design

The customers of Thelma are served from two separate sewage treatment plants, the Thelma All-Electric system which serves 39 customers and the Jim Hughes system which serves 9 customers. In its application, Thelma has proposed to have different rates for each system. Insofar that Thelma is a non-profit corporation formed by the residents of the above mentioned systems and is owned and controlled by the residents, with each resident being equal, the Staff agrees that in this instant case it would be improper for residents in one system to subsidize residents in another because of the magnitude of the subsidy.

Thelma filed cost of service studies to support their proposed rates. Staff has reviewed these cost of service studies and have adjusted them to reflect the expenses found reasonable in this report for the respected systems. Staff has developed rates that

¹⁰	Adjusted Operating Expense/Operating Ratio	\$13,319/.88
	Required Operating Revenue	15,135
	Add: 5-Year Average of Interest Payments Due	6,127
	Total Revenue Requirement	<u>\$21,262</u>

are supported by the adjusted studies. The rates developed by the Staff will produce \$21,280, the revenue required to meet annual operating expenses.

Therefore, Staff recommends that the rates in Appendix A be approved for services rendered.

E. Signatures

Carl Salver Combs
Prepared By: Carl Combs
Public Utility Financial
Analyst
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. 92-100

The Staff recommends the following rate be prescribed for customers of Thelma Waste Control, Inc.

Jim Hughes Subdivision

<u>Customer Class</u>	<u>Flat Rate</u>
Residential	\$61.90

Thelma All-Electric Subdivision

<u>Customer Class</u>	<u>Flat Rate</u>
Residential	\$31.30