

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WOODLAND ESTATES)
SEWAGE SYSTEM FOR A RATE ADJUSTMENT) CASE NO.
PURSUANT TO THE ALTERNATIVE RATE) 92-474
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On January 11, 1993, Woodland Estates Sewage System ("Woodland Estates") filed its application for Commission approval to increase its sewer rates. Commission Staff, having performed a limited financial review of Woodland Estates' 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 19th day of February, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
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THE APPLICATION OF WOODLAND ESTATES)
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STAFF REPORT

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Analyst
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

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Public Utility Rate
Analyst
Communications, Water and
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Rates and Research Division

STAFF REPORT

ON

WOODLAND ESTATES SEWAGE SYSTEM

CASE NO. 92-474

A. Preface

On January 11, 1993, Woodland Estates Sewage System ("Woodland Estates ") filed an application with the Commission seeking to increase its sewer rate pursuant to the Alternative Rate Filing Procedure for Small Utilities. The proposed rate would generate approximately \$4,827 annually in additional revenues, an increase of 176.6 percent over reported test-year revenues of \$2,733.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Woodland Estates' operations for the test period, calendar year 1991. Carl Salyer Combs of the Commission's Division of Financial Analysis conducted the review at Woodland Estates' office near Paintsville, Kentucky on December 17, 1992, and is responsible for this Staff Report except for the sections on operating revenues and rate design which were prepared by Nicky Moore of the Commission's Rates and Research Division. During the course of the review, Woodland Estates was advised that all proposed adjustments to test-year expenses must be supported by some form of documentation, such as an invoice, or that all such adjustments must be known and measurable. Based upon the findings of this report, Staff recommends that Woodland Estates be authorized to increase its annual operating revenues by \$4,069.

Scope

The scope of the review was limited to obtaining information to determine whether reported test-period operating revenues and expenses were 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

In its application, Woodland Estates reported test year revenue of \$2,733. For the purposes of this report, Staff accepts \$2,733 as the test year revenue.

Operating and Maintenance Expenses

Woodland Estates reported test-period operating expenses of \$3,458 which it proposed to increase by \$3,937. Staff's adjustments to test-period operations are discussed in the following sections:

Management Fee

Woodland Estates reported no test-year payments for management services, but requested a management fee of \$1,200. The Commission's past practice has been to allow a management fee for small sewer utilities of \$2,400. When informed of this practice, Woodland Estates opted to keep the management fee at \$1,200. Staff is of the opinion that Woodland Estates is entitled to an annual management fee and therefore, recommends including an annual management fee of \$1,200 for rate-making purposes.

Collection System - Labor, Materials and Expenses

Woodland Estates proposed to increase reported test-year collection system expense of \$109 by \$155 based upon increased billing expenses. However, at the field review, Woodland Estates stated that this was a mistake because charges to this account have nothing to do with billing and collections from customers. Therefore, Staff recommends inclusion of annual collection system expense of \$109 for rate-making purposes.

Sludge Hauling Expense

Woodland Estates proposed to increase reported test-year sludge hauling expense of \$300 by \$450 based upon advice from the operator of the Paintsville City Sewage System who opined that Woodland Estates should have approximately 6 loads of sludge hauled annually. In support of its proposed adjustment, Woodland Estates provided a quotation from Dave's Concrete Products of Hager Hill, Kentucky, stating that they would haul sludge at a cost of \$125 per load. According to the Commission's Engineering Division, 6 loads annually at \$125 per load is a reasonable amount. Therefore, Staff recommends inclusion of annual sludge hauling expense of \$750¹ for rate-making purposes.

Water Cost

Woodland Estates proposed to increase reported test-year water cost of \$76 by \$7 based upon the fact that the monthly water bill consistently runs \$6.90, the current minimum amount. Having

¹ 6 loads x \$125 per load = \$750.

reviewed invoices for test-year usage, Staff recommends that this adjustment be accepted and has included annual water cost of \$83 for rate-making purposes.

Electric Expense

Woodland Estates proposed to increase reported test-year electric expense of \$834 by \$25 based upon an average monthly bill of \$71.59 during 1992. At the time of the field review, electric bills for all of 1992 were not available and Staff reviewed the bills for the entire test year (1991) which totaled \$827. In the absence of electric bills for all of 1992, Staff recommends inclusion of annual electric expense of \$827 for rate-making purposes.

Chemicals Expense

Woodland Estates proposed to increase reported test-year chemicals expense of \$51 by \$49 based upon the need for additional chlorine due to being out of compliance with fecal coliform parameters. Staff's Engineering Division is of the opinion that the proposed adjustment is reasonable. Therefore, Staff recommends inclusion of annual chemicals expense of \$100 for rate-making purposes.

Customer Records Expense

Woodland Estates proposed to increase reported test-year customer records expense of \$151 by \$113 to reflect the annual cost of billing 21 customers per month at \$1 per bill. Staff is of the opinion that the cost of \$1 per bill is reasonable and recommends

inclusion of annual customer records expense of \$252² for rate-making purposes.

Outside Services Expense

Woodland Estates reported no test-year outside services expense, but proposed an annual expense of \$250 for accounting services such as having the PSC annual report prepared, etc. At the time of the field review, no written quotation was available. Subsequent to the review, a quotation from Wells & Company, a CPA firm in Paintsville, was submitted. Since that quotation reflects a fee of \$300, Staff recommends inclusion of annual outside services expense of \$300 for rate-making purposes.

Regulatory Commission Expense

Woodland Estates reported no test-year regulatory commission expense, but proposed to include the cost of a permit required by the Kentucky Natural Resources and Environmental Protection Cabinet's Division of Water. In its application, Woodland Estates identified that cost as \$1,000, but stated at the field review that the cost is actually \$1,500. That amount was supported by a document from the aforementioned Division of Water. The permit covers a period of 5 years which results in a prorated annual expense of \$300. Therefore, Staff recommends that annual regulatory commission expense of \$300 be included for rate-making purposes.

² 21 monthly bills x \$1 x 12 (months) = \$252 annually.

Depreciation Expense

Woodland Estates reported no test-year depreciation expense, but proposed to include the cost of a new backup motor at a cost of \$688. At the field review, no support was available to show the cost of the motor. However, subsequent to the review, a quotation for \$638 from Highland Electrical Supply of Paintsville, KY was provided. Staff recommends that this item be capitalized and depreciated. According to the Commission's Engineering Division, five years is an appropriate period over which to depreciate the motor. Since Staff recommends that the motor be capitalized and depreciated, annual depreciation expense of \$128³ has been included for rate-making purposes.

Operations Summary

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

	<u>Test Year Actual</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
OPERATING REVENUES:	\$ 2,733	-0-	\$ 2,733
OPERATING EXPENSES:			
Management Fee	\$ -0-	\$ 1,200	\$ 1,200
Collection System	109	-0-	109
Sludge Hauling	300	450	750
Water Cost	76	7	83
Treatment System Other			
Labor, etc.	123	-0-	123
Electric Power	834	<7>	827
Chemicals	51	49	100
Routine Maintenance	1,560	-0-	1,560

³ \$638/5 years = \$128 annually.

Customer Records	151	101	252
Office Supplies	102	-0-	102
Outside Services	-0-	300	300
Regulatory Commission	-0-	300	300
Depreciation	-0-	128	128
Taxes Other Than Income	152	-0-	152
	<u> </u>	<u> </u>	<u> </u>
Total Oper. Expenses	\$ 3,458	\$ 2,528	\$ 5,986
	<u> </u>	<u> </u>	<u> </u>
NET INCOME	\$ <725>	\$ < 2,528>	\$ < 3,253>

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 operating ratio.⁴

This approach is used primarily when there is no basis for a rate-of-return determination or due to the fact that the cost of the utility plant has fully, or largely, been recovered through the receipt of contributions, either in the form of grants or donated property. The ratio generally used by the Commission in order to provide for equity growth is 88 percent. In this instance, the use of an 88 percent operating ratio applied to the adjusted operating expense results in a total revenue requirement of \$6,802 and an increase of \$4,069⁵ in annual revenues.

⁴ Operating Ratio = Operating Expense/Operating Revenue.

⁵

Adjusted Operating Expense/Operating Ratio	\$5,986/.88
Revenue Requirement	\$6,802
Less: Test-Year Operating Revenues	<2,733>
Amount of Increase Required	<u>\$4,069</u>

D. Rate Design

As part of its application, Woodland Estates filed a schedule of its existing and proposed rates. Woodford Estates did not propose to change its current rate structure, therefore, any increase granted in this case should be added to the existing rate structure. The rates in Appendix A will produce \$6,802 in revenue. Further, Staff recommends that the rates as set out in Appendix A, be approved for services rendered.

E. Signatures

Carl Salyer Combs
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Public Utility Financial
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Nicky Moore
Prepared By: Nicky Moore
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APPENDIX A
TO STAFF REPORT CASE NO. 92-474

The Staff recommends the following rate be prescribed for customers of Woodland Estates Sewage System.

<u>Customer Class</u>	<u>Rates</u>
Residential	\$27.00