

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MURRAY NO. 2 WATER)
DISTRICT FOR A RATE ADJUSTMENT) CASE NO. 92-519
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On November 20, 1992, Murray No. 2 Water District ("Murray") 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 Murray's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Murray'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 3rd day of February, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
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STAFF REPORT

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Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
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Prepared By: Brent Kirtley
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Research Division

STAFF REPORT

ON

MURRAY NO. 2 WATER DISTRICT

CASE NO. 92-519

A. Preface

On November 20, 1992, Murray No. 2 Water District ("Murray No. 2") filed its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water rates by 28 percent, an increase in annual operating revenues of \$6,591.

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, the twelve month period ending December 31, 1991. However, in this instance, Murray No. 2 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, CPA, of the Commission's Division of Rates and Tariffs conducted the review on August 12, 1992 at the offices of James D. Futrell, Real Estate Developer, in Murray, Kentucky. Brent Kirtley of the Commission's Research Division performed a review of Murray No. 2's reported revenues at the Commission's office in Frankfort, Kentucky.

The findings of Staff's review have been reduced to writing in this report. Mr. Kirtley is responsible for the sections related to operating revenues and rate design. The remaining sections of the report were prepared by Ms. Harrod. Based upon the findings contained herein, Staff recommends that Murray No. 2 be allowed to increase its annual operating revenues by \$6,091.

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 in this report.

During the course of the review, Murray No. 2 was advised that all proposed adjustments to test year expenses must be supported by some form of documentation and that all such adjustments must be known and measurable.

B. Analysis of Operating Revenues and Expenses

Operating Revenue

Murray No. 2 Water District reported test-year revenue of \$22,037 in their 1991 annual report. However, the Commission authorized a purchased water adjustment in Case No. 91-148 effective May 1, 1991. As a result, an adjustment of \$1,192 has been added to the test-year revenue total. The results of the billing analysis performed by Staff indicate that operations should generate \$23,702 in annual revenue at current rates, a difference of \$473 over PWA adjusted test-year revenue. For the purposes of this report, test-year revenue shall be considered to be \$23,702.

Operating Expenses

In its application Murray No. 2 reported operating expenses of \$21,320 for the test year. The pro-forma adjustments to test period expenses are discussed in the following sections of this report.

Purchased Water

For the test year Murray No. 2 reported purchased water expense of \$11,214. An adjustment was proposed in the application to increase this amount by \$1,119 to reflect purchased water expense based on normalized test-year usage of 9,567,400 gallons. Staff has reviewed the calculations supporting this adjustment and is of the opinion that it is reasonable and should be allowed for rate-making purposes. Accordingly, Staff recommends purchased water expense be increased by \$1,119 to a pro-forma level of \$12,333.

Contractual Services

Murray No. 2 reported test year contractual services expense of \$4,782 which included fees paid for monthly bookkeeping services. An adjustment was proposed to normalize bookkeeping expense of \$2.00 per customer per month. It is Staff's opinion that this adjustment meets the rate-making criteria of being known and measureable and should be included in the determination of Murray No. 2's revenue requirements. Therefore, test-year contractual services expense has been increased by \$620¹ to include annual bookkeeping expense of \$3,432.

Insurance Expense

For the test year Murray No. 2 reported insurance expense of \$284 which it proposed to increase by \$102 to include the annual premium on an encroachment permit bond. This expense was not incurred during the test year. Staff has reviewed the invoice associated with this expense

¹ 143 Customers x \$2 = \$286 x 12 months = \$3,432
Less: Test-Year Expense 2,812
Recommended Increase \$ 620

and is of the opinion that this is known and measurable. Accordingly, Staff has included an adjustment to increase test year insurance expense to a pro-forma level of \$386.

Utilities Expense

Murray No. 2 is operated out of the home of Mr. Sam Harris, Secretary of the District, rather than from a business office. During the test year Mr. Harris did not allocate any personal utility expenses to Murray No. 2. However, after a routine inspection performed on May 12, 1992, by the Engineering Division of the Public Service Commission, Murray No. 2 was advised that its telephone number was not properly published in all service areas to permit all customers to contact the utility without charge as specified in 807 KAR 5:006, Section 13(1a). As a result, it became necessary for Mr. Harris to list his telephone number both for residential purposes and under the District's name for business purposes. This resulted in a monthly increase to his telephone bill of \$18.94 which represents the increased cost of South Central Bell's charge for basic service for a business over basic service for a residential line.

An adjustment has been proposed in this application to include the increased expense of \$227² annually. Staff has reviewed the calculations supporting this adjustment and has verified the monthly rates with South Central Bell. Accordingly, Staff recommends that utilities expense of \$227 be included in test-year operations.

² \$18.94 x 12 months = \$227

Miscellaneous Expense

Murray No. 2 reported test year miscellaneous expense of \$773 which it proposed to decrease by \$75. This adjustment was proposed to eliminate a non-recurring penalty that was paid during the test year. Staff concurs with this adjustment and has included it in the calculation of Murray No. 2's revenue requirement.

Operations Summary

Based on the recommendations of Staff, Murray No. 2's operating statement would appear as set forth in Appendix B to this report.

C. Revenue Requirements Determination

With regard to existing long-term debt, Murray No. 2's average annual debt service requirement is \$5,400. Based on the adjusted test period operations, Murray No. 2's average debt service coverage ("DSC") is .44x³. Staff is of the opinion that a DSC of 1.2x is necessary to allow Murray No. 2 to meet its operating expenses and service its debt. Therefore, Staff recommends Murray No. 2 be allowed to increase its annual revenues by the proposed amount of \$6,091, calculated as follows:

Adjusted Operating Expenses	\$23,313
Annual Debt Service	5,400
20 Percent DSC	<u>1,080</u>
Total Revenue Requirement	\$29,793
Less: Normalized Operating Revenues	<u>23,702</u>
Required Increase	<u>\$ 6,091</u>

³ $\$2,402 + \$5,400 = .44$

D. Rate Design

In its application, Murray No. 2 Water District filed a schedule of present and proposed rates and did not propose any changes in the rate structure. The Staff is in agreement that the present rate structure should not be altered.

In its application Murray No. 2 proposed an adjustment to include the depreciation of 100 meters to be purchased and installed at an estimated cost of \$50 each. Murray No. 2 had routinely tested and repaired or replaced its meters up until 1992. At that time it was determined that it would be more cost effective to replace the meters instead of first testing the meters and then repairing or replacing them. Most of the meters were installed in 1969 and, according to the Engineering Division of the Public Service Commission, it is not an uncommon practice to replace meters that are that old.

Staff is of the opinion that Murray No. 2 should be allowed to earn sufficient revenues to enable it to replace the 100 meters. However, Staff recommends that revenues be collected over a period of two years through a surcharge rather than through general rates. Based on the total cost of 100 meters at \$50 each, the total revenue to be collected is \$5,000. As of the date of this filing Murray No. 2 had 150 customers which would result in a monthly surcharge of \$1.40.⁴

Surcharge revenues should be deposited in a separate account and should be collected until the total receipts of that account have reached a level of \$5,000, but no longer than 24 months. A statement

⁴ $\$5,000 \div 150 = \$33.33 \div 24 \text{ months} = \$1.39 \approx \$1.40$

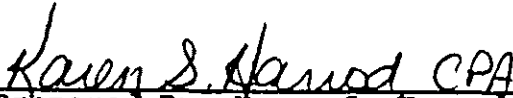
should be filed with Murray No. 2's annual report showing the revenues and disbursements of the surcharge account. The only expenditures authorized from this account would be for the purchase and installation of new meters. Any funds remaining in the surcharge account after all authorized disbursements are made should be transferred to the operation and maintenance fund of the district.


Any increase granted in the case, with the exception of the above-mentioned surcharge has been added to the existing rate structure. Staff recommends that the rates in Appendix A, attached hereto and incorporated herein, be approved for services rendered.

Non-Recurring Charges

Murray No. 2 filed cost justification relating to various non-recurring charges. Cost justification was provided for a \$475 connection fee, a \$15 service fee, a \$25 re-connection fee, a \$10 returned check fee, a 10 percent late payment penalty, and a \$30 charge for a requested meter test. The Staff is of the opinion that the cost justification provided for these services is reasonable and recommends that the schedule of non-recurring charges in Appendix A, attached hereto and incorporated herein, be approved for services rendered.

E. Signatures


Prepared By: Karen S. Harrod, CPA
Public Utility Financial
Analyst, Chief
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Requirements Branch
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Communications, Water and
Sewer Rate Design Branch
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**APPENDIX A
TO STAFF REPORT CASE NO. 92-519**

The Staff recommends the following rates be prescribed for customers of Murray No. 2 Water District.

SCHEDULE OF RATES

First 1,500	\$ 5.75 Minimum Bill
Next 8,500	3.00 per 1,000 gallons
Next 40,000	2.25 per 1,000 gallons
Over 50,000	1.75 per 1,000 gallons

NON-RECURRING CHARGES

1. Connection Fee:	\$ 475.00
2. Service Charge:	15.00
3. Re-connection Fee:	25.00
4. Requested Meter Test:	30.00
5. Returned Check Charge:	10.00
6. Late Payment Penalty:	10%

SURCHARGE

A surcharge of \$1.40 per bill shall be charged for a period of 24 months or until a total of \$5,000 is collected.

APPENDIX B
TO STAFF REPORT CASE NO. 92-519

Murray No. 2 Water District
Statement of Adjusted Operations
Test Year Ended 12/31/91

	<u>Test Year per 1991 Annual Rpt.</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues	\$ 22,037	\$ 1,665	\$ 23,702
Operating Expenses			
Purchased Water	\$ 11,214	\$ 1,119	\$ 12,333
Materials & Supplies	1,078		1,078
Contractual Services	4,782	620	5,402
Rent	300		300
Insurance	284	102	386
Reg. Commission Expense	50		50
Utilities Expense	-0-	227	227
Miscellaneous	773	(75)	698
Depreciation Expense	<u>2,839</u>	<u>-0-</u>	<u>\$ 2,839</u>
Total Operating Expenses	<u>\$ 21,320</u>	<u>\$ 1,993</u>	<u>\$ 23,313</u>
Operating Income	\$ 717	\$ (328)	\$ 389
Interest Income (Restricted)	<u>2,513</u>		<u>2,513</u>
Income Available for Debt Service	<u>\$ 3,230</u>	<u>\$ (328)</u>	<u>\$ 2,902</u>