

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF FOUNTAIN RUN WATER)
DISTRICT #1 FOR A RATE ADJUSTMENT) CASE NO. 93-018
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On March 24, 1993, Fountain Run Water District #1 ("Fountain Run") 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 Fountain Run's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Fountain Run'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 the 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 25th day of May, 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 FOUNTAIN RUN WATER)
DISTRICT #1 FOR A RATE ADJUSTMENT)
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

CASE NO. 93-018

STAFF REPORT

Prepared By: Karen S. Harrod, CPA
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Rates and Tariffs Division

Prepared By: Brent Kirtley
Public Utility Rate
Analyst
Communications, Water
and Sewer Rate Design Branch
Research Division

STAFF REPORT
ON
FOUNTAIN RUN WATER DISTRICT #1
CASE NO. 93-018

A. Preface

On March 24, 1993, Fountain Run Water District #1 ("Fountain Run") filed its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water rates by 25 percent, an increase in annual operating revenues of \$15,271.

In order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of the utility's operations for the test period, the twelve month period ending December 31, 1992. Karen Harrod, of the Commission's Division of Financial Analysis conducted the review on April 12, 1993 at Fountain Run's office, in Fountain Run, Kentucky. Brent Kirtley of the Commission's Rates and Research Division performed a review of Fountain Run'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 Fountain Run be allowed to increase its annual operating revenues by \$21,905, or 36 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 in this report.

During the course of the review, Fountain Run 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

The 1992 Fountain Run Annual Report listed test year total water operating revenue of \$64,487. This amount includes \$580 in other water revenues, which makes total sales of water \$63,907. A billing analysis performed by Staff calculated total sales of water to be \$60,979, for a difference of \$2,928. Only \$34 of this difference is attributed to the parameters of the billing analysis. The remaining \$2,894 is due to accounting methods and time differences between when the amount was billed and collected. For the purpose of this report, normalized test-year sales shall be considered to be \$60,979.

Operating Expenses

In its 1992 annual report Fountain Run reported operating expenses of \$60,737. Staff's recommended adjustments to test period expenses are discussed in the following sections of this report.

Salaries and Wages

For the test period Fountain Run reported salaries and wages expense of \$17,405. Currently, Fountain Run has two employees, a bookkeeper and a maintenance/field worker with salaries of \$9,100 and

\$12,480, respectively. Based on Staff's review, the bookkeeper's salary is charged to the water division and the field employee's salary is allocated 50:50 between the water and sewer divisions. Staff was not able to determine any basis for this allocation.

Since services are being performed for both water and sewer operations, Staff is of the opinion that it would be more appropriate to allocate both salaries between the two divisions based on number of customers. Currently the sewer division has 133 customers and the water division has 409 customers or 25 percent and 75 percent, respectively. Based on these percentages, the total salary expense to be allocated to the water division would be \$16,185. Accordingly, Staff has adjusted test year expense to be reflected at this level.

Commissioners Fees

In its annual report for the test year Fountain Run reported commissioners fees expense of \$1,800. According to the district's bookkeeper these fees are no longer being paid. Therefore, Staff has included an adjustment to decrease test year operating expenses by \$1,800.

Purchased Water

Test year purchased water expense was reported at a level of \$13,938. An adjustment was made to decrease this amount by \$200 to reflect the normalized purchased water expense of \$13,738, calculated as follows:

Normalized Test-Period Usage	20,463,000
Adjustment for 3% Line Loss per 1992 Annual Report	+ .97
	<u>21,095,876</u>
Water Used by Company per 1992 Annual Report	40,000
Recommended Usage	<u>21,135,876</u>
Current Purchased Water Rate (\$.65 per 1,000 gallons)	x .00065
Recommended Purchased Water Expense	\$ 13,738
Less: Test Year Expense	13,938
Recommended Decrease	<u>\$ 200</u>

Insurance

Fountain Run reported test year insurance expense of \$3,585. Based on Staff's review the most recent premium amounts paid by the district for property and liability insurance, workers compensation, and encroachment and fidelity bonds totaled \$3,979. Therefore, Staff has made an adjustment to increase test year insurance expense by \$394.

Payroll Taxes

For the test year Fountain Run reported payroll tax expense of \$1,468. Staff recommends an adjustment be made to increase payroll tax expense to allow for FICA and Medicare taxes associated with the recommended level of salaries and wages expense. Accordingly, payroll tax expense has been included at a level of \$1,238¹, a decrease of \$230 from the test year level.

Tank Painting Expense

Fountain Run did not include tank painting expense in its test year operations. However, in 1990 this expense was incurred in the amount

¹ Recommended Salaries and Wages Expense \$16,185
Applicable FICA and Medicare Rate
(FICA - 6.2%, Medicare - 1.45%)
Recommended Payroll Tax Expense \$ 1,238
x 7.65%

of \$29,250. Staff is of the opinion that this expenditure should have been amortized over its estimated source life. After consulting with the Commission's Division of Engineering, Staff has determined that the appropriate service life for tank painting is seven years. Therefore, Staff has made an adjustment to include tank painting expense of \$4,179² for the determination of Fountain Run's revenue requirement.

Miscellaneous Nonutility Expense

In its test year operations Fountain Run included miscellaneous nonutility expense of \$102. According to the district's bookkeeper, this expense was for the correction of an error that occurred when the withholding rates changed during the test period. Since this expense is non-recurring Staff has included an adjustment to eliminate this expense from test-year operations.

Operations Summary

Based on the recommendations of Staff, Fountain Run'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, Fountain Run's average annual debt service requirement is \$18,520. Based on the adjusted test period operations, Fountain Run's average debt service coverage ("DSC") is .02x.³ Staff is of the opinion that a DSC of 1.2x is necessary to allow Fountain Run to meet its operating expenses and service its debt.

² $\$29,250 \div 7 = \$4,179.$

³ $\$319 \div \$18,520 = .02.$

Therefore, Staff recommends Fountain Run be allowed to increase its annual revenues by the amount of \$21,905, calculated as follows:

Adjusted Operating Expenses	\$ 61,988
Average Annual Debt Service	18,520
20 Percent DSC	3,704
Total Revenue Requirement	<u>\$ 84,212</u>
Less: Normalized Operating Revenues	\$ 61,559
Interest Income	<u>748</u>
Required Increase	<u>\$ 21,905</u>

D. Rate Design

The application filed by Fountain Run included a schedule of present and proposed rates and did not propose any changes in rate design. Staff is in agreement that the present rate structure should not be altered. Therefore, any increase granted in the case has been added to the existing rate structure. The rates in Appendix A are the rates recommended by Staff and will generate revenue from water sales of \$82,884. This figure combined with \$748 in interest income and \$580 in other water revenue results in the total revenue requirement of \$84,212.

E. Signatures

Karen S. Harrod CPA
Prepared By: Karen S. Harrod, CPA
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Rates and Tariffs Division

Brent Kirtley
Prepared By: Brent Kirtley
Public Utility Rate
Analyst
Communications, Water and
Sewer Rate Design Branch
Research Division

APPENDIX A
TO STAFF REPORT CASE NO. 93-018

The Staff recommends the following rate be prescribed for customers of Fountain Run Water District No. 1.

First 2,000 gallons	\$10.40 Minimum Bill
Next 3,000 gallons	3.00 per 1,000 gallons
Next 5,000 gallons	2.40 per 1,000 gallons
Next 10,000 gallons	2.00 per 1,000 gallons
Over 20,000 gallons	1.75 per 1,000 gallons

**APPENDIX B
TO STAFF REPORT CASE NO. 93-018**

**Fountain Run Water District #1
Statement of Adjusted Operations
Test Year Ended 12/31/92**

	Test Year Per Annual Report	Staff Recommended Adjustments	Test Year Adjusted
Operating Revenues			
Water Sales	\$63,907	(\$2,928)	\$60,979
Other Operating Revenues	580		580
Total Operating Revenues	\$64,487	(\$2,928)	\$61,559
Operating Expenses			
Salaries & Wages	17,405	(1,220)	16,185
Commissioners Fees	1,800	(1,800)	0
Purchased Water	13,938	(200)	13,738
Materials & Supplies	275		275
Contractual Services	5,667		5,667
Transportation Expense	933		933
Insurance	3,585	394	3,979
Miscellaneous	62		62
PSC Assessment	117		117
Payroll Taxes	15,487		15,487
Depreciation	1,468	(230)	1,238
Amortization	128		128
Tank Painting	0	4,179	4,179
Total Operating Expenses	\$60,865	\$1,123	\$61,988
Operating Income	\$3,622	(\$4,051)	(\$429)
Other Income			
Interest Income	\$738		\$738
Nonutility Income	10		10
Misc. Non-utility Expense	(102)	102	0
Total Other Income	\$646	\$102	\$748
Income Available for Debt Service	\$4,268	(\$3,949)	\$319