

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF REID VILLAGE)
WATER DISTRICT FOR AN ADJUSTMENT) CASE NO. 93-437
OF RATES)

O R D E R

On March 8, 1994, Reid Village Water District ("Reid Village") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Reid Village'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 no more than 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, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 2nd day of May, 1994.

ATTEST:



Executive Director

PUBLIC SERVICE COMMISSION



For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF REID VILLAGE)
WATER DISTRICT FOR AN ADJUSTMENT) CASE NO. 93-437
IN RATES)

STAFF REPORT

Prepared By: Karen Harrod, CPA
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

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

STAFF REPORT
ON
REID VILLAGE WATER DISTRICT
CASE NO. 93-437

A. Preface

On November 19, 1993, Reid Village Water District ("Reid Village") submitted its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water rates by \$13,547 over the test-year level, or 10 percent. The application was considered filed on March 8, 1994, when all deficiencies were cured.

In order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of Reid Village's operations for the test period, the twelve month period ending December 31, 1992. Karen Harrod, CPA, of the Commission's Division of Financial Analysis, conducted the review on February 2, 1994 at Reid Village's office, in Mt. Sterling, Kentucky. John Geoghegan of the Commission's Division of Rates & Research performed a review of Reid Village'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. Geoghegan 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 Reid Village be allowed to increase its annual operating revenues by the proposed amount of \$13,547.

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, Reid Village 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

Reid Village provided a billing analysis for the test year showing revenue from water sales of \$134,091. Exhibit A of the district's application shows revenue from water sales in 1992 of \$135,473, an adjustment of \$1,382.

Operating Expenses

In its application Reid Village reported operating expenses of \$137,204 for the test year. The pro-forma adjustments to test period expenses are discussed in the following sections of this report.

Salaries & Wages

For the test year Reid Village reported salary expense of \$24,881. Based on Staff's review, the current salary levels of Reid Village's two employees total \$23,667, a decrease of \$1,214 from the test year level. Staff has included this decrease in the calculation of Reid Village's revenue requirement.

Purchased Water

Reid Village reported test year purchased water expense of \$69,166. Based on normalized test year usage of 48,355,000 gallons and a line loss of 9.52 percent in 1992, Staff has calculated allowable purchased water to be 53,442,750 gallons or 7,145,296 cubic feet. When applied to the current rate schedule charged Reid Village by its supplier, Mt. Sterling Water and Sewer, it produces a purchased water expense of \$75,243, an increase of \$6,077 over the test year level. Accordingly, Staff has included an adjustment to increase purchased water expense by this amount.

Rent Expense

During the test period Reid Village incurred rent expense of \$2,509. Currently, the district pays monthly rent of \$230, consisting of \$200 for office space and \$30 for a storage building. Therefore, Staff has included an adjustment to increase test year rent expense by \$251, to the pro forma level of \$2,760.

Transportation Expense

Reid Village reported test year transportation expense of \$5,160. This expense is incurred to compensate employees for the use of their personal vehicles for utility business as transportation is routinely required in the administration, operation and maintenance of a water utility. The monthly compensation is primarily to cover expenses incurred by employees for business-related gas and vehicle maintenance. Reid Village currently pays the office manager and plant manager \$145 and \$320 per month, respectively, or total annual transportation expense

of \$5,580. Staff is of the opinion that this expense is reasonable and should be allowed for rate-making purposes. Accordingly, an adjustment has been included to increase test year transportation expense by \$420.

Although Staff agrees that this is a reasonable level of expense, it is Staff's opinion that it would be more appropriate to pay transportation expense based on mileage or some other tangible basis. Therefore, Staff recommends that Reid Village begin maintaining records of mileage and other pertinent information related to the use of personal vehicles for utility business. This would provide Reid Village with sufficient documentation to support the monthly transportation expense and to ensure that employees are being compensated at the appropriate level.

Miscellaneous Expense

For the test year, Reid Village reported miscellaneous expense of \$6,833. Included in this account was \$1,092 for health insurance. The district currently pays \$127.66 per month, per employee, for health insurance. The employees pay the balance of the monthly premium. Therefore, Staff has included an adjustment to increase miscellaneous expense by \$1,972 to reflect health insurance expense of \$3,063.

Rate Case Expense

Based on Staff's review, it has been determined that Reid Village incurred rate case expense of \$495 for services performed by its CPA in the preparation of this rate application. Staff is of the opinion that rate case expenses should be amortized over a period of three years. Accordingly, an adjustment has been made to include annual rate case

expense of \$165 in the calculation of Reid Village's revenue requirement.

Taxes Other Than Income

Reid Village reported taxes other than income tax expense of \$1,678 for the test period. This account includes payroll tax expenses paid by the district. Based on the recommended decrease in salary expense of \$1,214, Staff has made an adjustment to decrease payroll tax expense by \$93¹. This results in a pro forma level of taxes other than income tax expense of \$1,585.

Interest Income

In its test year operations Reid Village reported interest income of \$3,119. Based on Staff's review, \$317 of this interest was related to customer deposits. Since this interest is restricted in that it will be paid to the customers upon refund of the deposits, Staff has made an adjustment to eliminate this income from adjusted operations. Accordingly, interest income has been included at a level of \$2,802.

Operations Summary

Based on the recommendations of Staff, Reid Village's operating statement would appear as set forth in Appendix B to this report.

¹ Recommended Salary Decrease	\$ 1,214
Applicable FICA/Medicare Tax Rate	x .0765
Recommended Payroll Tax Decrease	<u>\$ 93</u>

C. Revenue Requirements Determination

Reid Village requested additional revenue of \$13,547. Based on the staff adjusted operating expenses and the debt service coverage normally allowed by the Commission,² Staff believes Reid Village could justify additional revenue of \$19,394.³ However, since Reid Village's proposed rates will meet its actual debt service requirements and produce a positive cash flow of \$8,850,⁴ Staff recommends that the proposed rates be accepted.

If Reid Village chooses to amend its application to reflect rates that will generate the additional revenue of \$19,394 which Staff believes could be justified, it should do so when filing comments to the staff report. In the event that Reid Village does request rates that differ from those previously noticed to its customers, it should be required to renotify its customers of the new proposed rates.

² The Commission generally allows a 1.2 debt service coverage.

³ Staff Recommended Operating Expenses	\$ 144,782
Average Annual Debt Service	14,782
20 Percent Debt Service Coverage	2,956
Total Revenue Requirement	<u>\$ 162,520</u>
Less: Normalized Operating Revenues	134,091
Other Operating Revenues	6,233
Interest Income	2,802
Required Revenue Increase	<u>\$ 19,394</u>

⁴ Adjusted Operations	\$ (1,656)
Add: Proposed Revenue Increase	13,547
Depreciation Expense	11,741
	<u>\$ 23,632</u>
Less: Annual Debt Service	14,782
Net Cash Flow	<u>\$ 8,850</u>

D. Rate Design

Reid Village's current rate design consists of two steps, a minimum bill of 2,000 gallons, and a rate for all usage over 2,000 gallons. Reid Village has proposed no change to the rate design and Staff is of the opinion that none is necessary. The rates set out in Appendix A will produce \$147,638 annually in revenue from water sales.

E. Signatures



Prepared By: Karen Harrod, CPA
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis



Prepared By: John Geoghegan
Public Utility Rate
Analyst
Communications, Water and
Sewer Rate Design Branch
Rates & Research Division

**APPENDIX A
TO STAFF REPORT CASE NO. 93-437**

The Staff recommends the following rate be prescribed for customers of Reid Village Water District.

Monthly Rates

First 2,000 gallons	\$10.03 (Minimum Bill)
Over 2,000 gallons	\$ 1.99 per 1,000 gallons

APPENDIX B
TO STAFF REPORT CASE NO. 93-437

Reid Village Water District
Statement of Adjusted Operations
Test Year Ended 12/31/92

	<u>Test Year per Annual Report</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues			
Water Sales	\$135,473	\$ (1,382)	\$134,091
Other Operating Revenues	<u>6,233</u>	<u> </u>	<u>6,233</u>
Total Operating Revenues	\$141,706	\$ (1,382)	\$140,324
Operating Expenses			
Salaries & Wages	24,881	(1,214)	23,667
Purchased Water	69,166	6,077	75,243
Materials & Supplies	13,573		13,573
Rents	2,509	251	2,760
Transportation Expenses	5,160	420	5,580
Insurance	1,663		1,663
Miscellaneous	6,833	1,972	8,805
Depreciation Expense	11,741		11,741
Taxes other than Income	1,678	(93)	1,585
Rate Case Expense	<u>-0-</u>	<u>165</u>	<u>165</u>
Total Operating Expenses	<u>\$137,204</u>	<u>\$ 7,578</u>	<u>\$144,782</u>
Utility Operating Income	\$ 4,502	\$(8,960)	\$ (4,458)
Interest Income	<u>3,119</u>	<u>(317)</u>	<u>2,802</u>
Income Available for Debt Service	<u>\$ 7,621</u>	<u>\$(9,277)</u>	<u>\$ (1,656)</u>