

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ADJUSTMENT OF RATES OF THE)
WEST SHELBY WATER DISTRICT) CASE NO. 93-448

O R D E R

On November 30, 1993, West Shelby Water District ("West Shelby") submitted its application for Commission approval of proposed water rates. The application was considered filed on February 8, 1994, when all deficiencies were cured. Commission Staff, having performed a limited financial review of West Shelby'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 7th day of March, 1994.

ATTEST:



Executive Director

PUBLIC SERVICE COMMISSION



For the Commission

FILED

MAR 08 1994

**PUBLIC SERVICE
COMMISSION**

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STAFF REPORT

Prepared By: Karen S. Harrod, CPA
Public Utility Financial
Analyst, Chief
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Prepared By: Nicky Moore
Public Utility Rate
Analyst
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Division of Rates and Research

STAFF REPORT
ON
WEST SHELBY WATER DISTRICT
CASE NO. 93-448

A. Preface

On November 30, 1993, West Shelby Water District ("West Shelby") submitted its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its rates by 7 percent, an increase in annual operating revenues of \$30,871. The application was considered filed on February 8, 1994, when all deficiencies were cured.

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, 1992. However, in this instance, West Shelby 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, of the Commission's Division of Financial Analysis conducted the review on May 13 and 17, 1993 at West Shelby's office, in Simpsonville, Kentucky. John Geoghegan and Nicky Moore of the Commission's Division of Rates and Research performed a review of West Shelby's reported revenues.

The findings of Staff's review have been reduced to writing in this report. Mr. Moore 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 West Shelby be allowed to increase its annual operating revenues by the proposed amount of \$30,871.

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, West Shelby 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

West Shelby reported test-year operating revenue from metered water sales of \$410,879. An adjustment of \$7,276 was made to normalize the metered water sales making the total normalized operating revenue from metered water sales \$418,155. In addition, West Shelby reported other operating revenue of \$27,287. Metered sales and other operating revenue for the test year for the purpose of this report is \$445,442.

Operating Expenses

In its application West Shelby reported test year operating expenses of \$370,816 which it proposed to increase by \$13,655. The calculations to support West Shelby's proposed adjustments are included in Exhibit 5, Schedule B of the application. The proforma adjustments to test period expenses are discussed in the following sections of this report.

Salary Expense

West Shelby reported test year salary expense of \$61,332. An adjustment was proposed to increase this amount by \$6,308 to reflect the current salary levels. Staff has determined that this adjustment meets the rate-making criteria of being known and measurable. Accordingly, Staff has included an increase to test year salary expense of \$6,308.

Employee Pensions & Benefits

West Shelby's test period operations reflected employee pensions and benefits expense of \$10,164. An adjustment was proposed to increase this amount by \$950 to include retirement contributions and health insurance premiums at their current level. Staff has determined that this increase is reasonable and should be included for rate-making purposes.

Payroll Tax Expense

West Shelby reported test-year payroll tax expense of \$4,963 which it proposed to increase by \$212. This adjustment was based on the increase in payroll tax expense resulting from the proposed increase in salary expense. Staff is of the opinion that this increase should be included which results in a proforma level of payroll tax expense of \$5,175.

Purchased Water Expense

West Shelby reported test year purchased water expense of \$160,582. An adjustment was proposed to increase this to a level of \$161,576 in order to reflect the total normalized usage of 131,417,100 gallons and line loss of 9.52 percent. Staff has reviewed the calculations

supporting this adjustment and recommends an increase of \$994 be included for rate-making purposes.

Legal Expense

In its test-year operations West Shelby included legal expenses of \$3,527. An adjustment was proposed to increase this amount by \$73 to reflect the annualization of its current monthly retainer of \$300. Staff has included this adjustment to reflect a \$3,600 proforma level for legal expense.

Rent Expense

West Shelby reported test year rent expense of \$4,140 which it proposed to decrease by \$60. The district currently incurs monthly rent expense of \$340, or \$4,080 annually. Accordingly, Staff has included this adjustment in the calculation of West Shelby's pro forma operations.

Insurance Expense

For the test year West Shelby included insurance expense of \$6,674. In its application an adjustment was proposed to increase this amount by \$386 to reflect the current annual premiums for property and liability insurance and workman's compensation insurance. Staff is of the opinion that this is a known and measurable adjustment and has included it for rate-making purposes.

Miscellaneous Expense

West Shelby reported test year miscellaneous expense of \$4,901. An adjustment was proposed to decrease this amount by \$1,000 to eliminate a settlement payment to Norfolk Southern Railway that is not likely to

recur. Staff agrees with this adjustment and has included miscellaneous expense at a level of \$3,901 in West Shelby's adjusted operations.

Tank Painting

In its test year operations West Shelby included \$3,857 for the amortization of tank painting expense that was included in a previous rate case¹ but never actually incurred. Based on Staff's review, West Shelby received new bids on the tank painting on June 4, 1993 with the lowest bid price being \$44,400. In calculating a proforma level of tank painting expense West Shelby deducted amortization expense allowed since Case No. 91-367 in the amount of \$3,857 to determine the base amount to be amortized of \$40,543. Staff is of the opinion that an amortization period of seven years, as proposed by West Shelby, is appropriate. Accordingly, Staff has included an adjustment to increase tank painting expense by \$1,935, to reflect a proforma level of \$5,792.

Operations Summary

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

C. Revenue Requirements Determination

West Shelby has outstanding long-term debt with the Farmer's Home Administration ("FHA") and the Louisville Water Company ("LWC"). The outstanding debt to LWC originated in 1988 as payment for the installation of a water main extension, constructed by LWC, to provide treated water to West Shelby. The repayment plan was included as part

¹ Case No. 91-367, Adjustment of Rates of the West Shelby Water District effective April 23, 1992.

of a contract between the two parties that was approved by the Commission in June 1988. The annual payment due to LWC is \$18,145.

West Shelby requested additional revenue of \$30,871. Based on the staff adjusted operating expenses, the 1.2x debt service coverage normally allowed by the Commission, and a dollar for dollar coverage of the annual debt payment to LWC, Staff believes West Shelby could justify additional revenue of \$42,902 (\$12,031 more than requested) as reflected in Exhibit 5, Schedule C of the application. However, since West Shelby's proposed rates will meet its actual debt service requirements and produce a positive cash flow of \$67,294,² Staff recommends that the proposed rates be accepted.

If West Shelby chooses to amend its application to reflect rates that will generate the additional revenue of \$42,902 which Staff believes could be justified, it should do so when filing comments to the Staff Report. In the event that West Shelby 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.


D. Rate Design

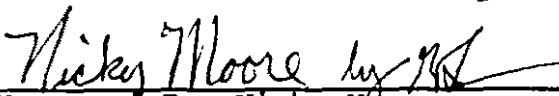
In its application, West Shelby filed a schedule of present and proposed rates that did not include any changes in its rate design. Staff agrees that the current rate structure should not be altered. The

²	Adjusted Operations	\$ 77,975
	Add: Proposed Revenue Increase	30,871
	Depreciation Expense	62,203
		<u>\$171,049</u>
	Less: LWC Annual Debt Service	18,145
	FHA Annual Debt Service	85,610
	Net Cash Flow	<u>\$ 67,294</u>

recommended rates will generate the operating revenue requirement from water sales of \$449,026. Therefore, Staff recommends rates in Appendix A be approved for West Shelby service.

E. Signatures


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Division of Financial Analysis


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APPENDIX A
TO STAFF REPORT CASE NO. 93-448

The Staff recommends the following rate be prescribed for customers of West Shelby Water District.

Usage Blocks

First 2,500 gallons	\$11.70 (Minimum Bill)
Next 7,500 gallons	4.05 per 1,000 gallons
Next 20,000 gallons	3.42 per 1,000 gallons
Next 200,000 gallons	2.92 per 1,000 gallons
Over 230,000 gallons	2.56 per 1,000 gallons

MINIMUM BILLS

<u>Meter Size</u>	<u>Gallons Allowed</u>	<u>Monthly Minimum</u>
5/8 inch	2,500	\$ 11.70
3/4 inch	3,500	15.75
1 inch	5,000	21.81
1-1/2 inch	10,000	42.03
2 inch	16,000	62.57
3 inch	30,000	110.51
4 inch	50,000	159.30
6 inch	100,000	305.36

APPENDIX B
TO STAFF REPORT CASE NO. 93-448

WEST SHELBY WATER DISTRICT
Statement of Adjusted Operations
Test Year Ended 12/31/92

	<u>Test Year Operations</u>	<u>Proposed Adjustments</u>	<u>Proposed Operations</u>
Operating Revenues			
Metered Water Sales	\$ 410,879	\$ 7,276	\$ 418,155
Fire Protection Revenue	14,904		14,904
Forfeited Discounts	5,348		5,348
Misc. Service Revenues	<u>7,035</u>		<u>7,035</u>
Total Operating Revenues	\$ 438,166	\$ 7,276	\$ 445,442
Operating Expenses			
Salaries	\$ 61,332	\$ 6,308	\$ 67,640
Commissioner Fees	10,800		10,800
Employee Pensions & Benefits	10,164	950	11,114
Purchased Water	160,582	994	161,576
Purchased Power	6,816		6,816
Materials & Supplies	13,575		13,575
Accounting	6,260		6,260
Legal	3,527	73	3,600
Rent	4,140	(60)	4,080
Transportation	72		72
Insurance	6,674	386	7,060
Bad Debt	2,225		2,225
Miscellaneous	4,901	(1,000)	3,901
Depreciation	62,203		62,203
Amortization	8,185		8,185
Payroll Taxes	4,963	212	5,175
PSC Assessment	540		540
Tank Painting	<u>3,857</u>	<u>1,935</u>	<u>5,792</u>
Total Operating Expenses	\$ 370,816	\$ 9,798	\$ 380,614
Operating Income	\$ 67,350	\$ (2,522)	\$ 64,828
Interest Income	13,426		13,426
Interest Expense	<u>279</u>		<u>279</u>
Income Available for Debt Service	<u>\$ 80,497</u>	<u>\$ (2,522)</u>	<u>\$ 77,975</u>