

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF THE GOSHEN)
UTILITIES, INC., SEWER DIVISION) CASE NO. 93-482

O R D E R

On February 7, 1994, Goshen Utilities, Inc. ("Goshen") completed the filing of its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Goshen'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.

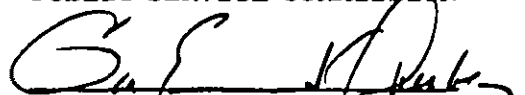
IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 17th day of June, 1994.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

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STAFF REPORT

Prepared By: Jack Scott Lawless
Public Utility Financial
Analyst
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

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

STAFF REPORT
ON
GOSHEN UTILITIES, INC.
CASE NO. 93-482

A. Preface

On February 7, 1994, Goshen Utilities, Inc. ("Goshen") submitted its application to the Public Service Commission ("Commission") seeking approval to increase its tariffed sewer rates by 67 percent. Goshen's application purports that this increase will result in an increase in annual operating revenues of \$133,389. The application was filed reflecting Goshen's operating results for the year ended September 30, 1993.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Goshen's operations for the test period. Jack Scott Lawless of the Commission's Financial Analysis Division began his review on March 1, 1994 at Goshen's office in Louisville, Kentucky. Brent Kirtley of the Commission's Division of Rates and Research performed a review of Goshen's reported revenues at the offices of the Commission.

The findings of the field review are contained in this report. Mr. Kirtley is responsible for the sections related to operating revenues and rate design. The remaining sections of this report were prepared by Mr. Lawless. Based upon the findings of this report, Staff recommends that Goshen be allowed to increase its normalized revenues by \$48,671 or 25 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.

During the course of the review, Goshen 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 as well as reasonable.

B. Determination of Adjusted Test Period Operations

Operating Revenue

Goshen reported test-period revenue from rates of \$196,174 in its application. In reviewing the application, Staff adjusted revenue from rates by deducting \$23. Goshen had \$5,257 in other operating revenue that was collected from late charges. Therefore, for the purpose of this report, total test-period normalized operating revenue shall be considered to be \$201,408.

Operating Expenses

Goshen reported operating expenses of \$269,723 for the test year which it proposed to increase by \$19,000. Staff has calculated pro forma adjustments that decrease operating expenses by \$50,805. Staff's adjustments are shown on Appendix B attached to this report. Goshen's and Staff's pro forma adjustments to test period operations are discussed in the following sections of this report.

Salaries and Wages

Goshen reported test year salaries and wages of \$77,125. Staff has increased this amount by \$5,183 to reflect Goshen's employees and their pay rates as of the date of Staff's field review.

Rent

Goshen's test year operating expenses did not include an amount for building rental while Goshen's water division reported building rent of \$3,736 for the twelve months ended September 30, 1993. Goshen shares the office building equally with the water utility and should therefore be charged for half of the rent. Staff has therefore increased Goshen's operating expenses by \$1,868.

Owner/Manager Fee

During the test year Goshen paid Mr. Al Schneider, part owner of Goshen Utilities, \$10,000 in managing fees. After reviewing the work being performed, Staff is of the opinion that the services provided by Mr. Schneider in this capacity are similar to those performed by the owners of similar utilities. Therefore, Staff recommends that this expense be decreased by \$7,600 so that Goshen may recover the maximum owner-manager fee currently allowable by the Commission of \$2,400.

Consulting Fee

Staff has decreased test year operating expenses by \$1,664 to eliminate consulting fees paid to Mr. James F. Stone under a contract which has since expired and was not renewed.

Rate Case Expense

Goshen reported test year rate case expense of \$7,592. Of this amount, \$1,638 was associated with this case with the remainder being the amortization of prior rate case expenses which have been fully amortized. Goshen proposed to increase this amount by \$6,000 (estimated rate case expense of \$18,000 amortized over a 3 year period). Goshen's estimate was based on the last rate case proceeding which included three informal conferences and one formal hearing. Staff does not anticipate that those proceedings will be necessary in this case and has decreased the rate case expense accordingly. Staff has calculated pro forma rate case expense of \$5,638, consisting of actual rate case expenses of \$1,638 and estimated rate case expense of \$4,000 as provided by Goshen's engineer, and proposes to amortize this amount over three years. Staff has therefore reduced Goshen's test-year expenses by \$5,713¹ to reflect this amortization.

¹ Rate case expenses	\$ 5,638
Amortize over 3 years	<u>3</u>
Annual recovery	1,879
Less: Test year	<u>(7,592)</u>
Adjustment	<u>\$ (5,713)</u>

Maintenance

Goshen increased test year maintenance expenses by \$13,000 to recover the annual cost associated with the installation of dechlorination and aeration systems. After consulting with the Commission's Division of Engineering, Staff determined that these items should have been capitalized and depreciated over their estimated useful lives. Therefore, Staff recommends that Goshen's adjustment to maintenance expenses be denied and that test-year depreciation be adjusted as discussed later in this report.

Depreciation

Goshen reported test year depreciation expense of \$56,647. It is the Commission's practice for rate-making purposes to disallow depreciation expense on property funded by Contributions in Aid of Construction ("CIAC") for private water utilities operating under its jurisdiction.

Staff has determined that 85.77 percent² of Goshen's test-year depreciation expense is on property funded by CIAC and should be disallowed. Therefore, this expense has been decreased by \$48,587. This is the same methodology that was used in Case No. 89-081, Goshen's previous rate case.³

² Sewer 1992 Contributions in Aid of Construction	\$1,240,314
Divided by: Sewer 1992 Utility Plant in Service	<u>1,446,053</u>
Unallowable depreciation	<u>85.77%</u>

³ Adjustment of Rates of the Goshen Utilities, Inc., Sewer Division, Order dated February 22, 1990.

Staff has increased test year depreciation by \$5,708 to allow for the recovery of the following items previously discussed in this report:

<u>Plant Item</u>	<u>Cost</u>	<u>Useful⁴ Life</u>	<u>Annual Expense</u>
Remove existing aerators and bridges	\$ 3,500	5	\$ 700
Bridges	9,217	25	369
Blower and motor	9,077	5	1,815
Header	6,016	20	301
Diffuser and service man start-up	5,925	10	593
Ultraviolet disinfection system	38,620	20	<u>1,931</u>
Total Adjustment			<u>\$5,708</u>

C. Revenue Requirements

The approach frequently used by this Commission to determine revenue requirements for small, privately owned utilities is the operating ratio. This approach is used primarily when there is no basis for rate of return determination or the cost of the utility plant has fully or largely been recovered through the receipt of contributions. Staff recommends the use of this approach in determining Goshen's revenue requirements in this case.

In this proceeding, an operating ratio of 88 percent and an allowance for interest expense and the appropriate state and

⁴ Per PSC Division of Engineering

federal income taxes results in a revenue requirement of \$260,488⁵. Staff recommends that Goshen be allowed to increase its annual operating revenue by \$48,671⁶.

Rate Design

In its application, Goshen filed a schedule of proposed rates that did not include any changes in rate design. Staff agrees that the current rate structure should not be altered, and any increase granted in the case has been added to the existing rate design. The rates recommended by Staff will generate the required operating revenue from rates of \$244,822. Therefore, Staff recommends the rates in Appendix A be approved for sewer service.

5	Recommended operating expense before income taxes	\$ 218,918
	Divide by: Operating ratio	88%
	Required revenue before tax	248,770
	Plus: Income Taxes	7,649
	Interest Expense	4,069
	Required revenue	\$ 260,488
6	Revenue requirement	\$ 260,488
	Less: Other Operating Income	(5,257)
	Interest Income	(10,409)
	Revenue required from rates	244,822
	Less: Normalized revenues	(196,151)
	Required increase in revenues	\$ 48,671

E. Signatures

Jack Scott Lawless, CPA

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Public Utility Financial
Analyst
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Requirements Branch
Financial Analysis Division

Brent Kirtley

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

APPENDIX A

TO STAFF REPORT CASE NO. 93-482

The Staff recommends the following rates be prescribed for customers of Goshen Utilities, Inc.

Schedule of Rates

First	2,000 gallons	\$9.25 Minimum Bill
Next	13,000 gallons	2.00 per 1,000 gallons
Next	15,000 gallons	1.70 per 1,000 gallons
Next	20,000 gallons	1.30 per 1,000 gallons
Over	50,000 gallons	.95 per 1,000 gallons

APPENDIX B
TO STATE REPORT CASE 12-183

Fishes, Utah, 1906 & 1907
Statement of Total Revenue and Expenses

	1906 Year	Adjustments	1907 Year	Percent Ratio
Operating Revenues				
Revenue from Sales	196,174	(33)	196,141	
Forfeited Discounts	5,257		5,257	
Total Operating Revenues	201,431	(33)	201,400	
Operating Expenses				
Treatment Plant Expenses -				
Operation				
Labor and Related Expense	30,561	9,100	39,661	
Purchased Power	35,657		35,657	
Chemicals	1,609		1,609	
Repairs	1,215	1,260	2,475	
Heavy Supplies	1,500		1,500	
Treatment Plant Expenses -				
Maintenance				
Maintenance of Collection Sews	1,290		1,290	
Maint. of Pumping Sews	3,635		3,635	
Maint. of Treatment Plant	2,675		2,675	
Customer Account Expense				
and Debt	1,771		1,771	
General Administration Expenses				
Printing	46,536	2,300	48,836	
Telephone	1,000		1,000	
Travel	1,000		1,000	
Interest on Bonds	1,000		1,000	
Interest on State Bonds	4,900		4,900	
Interest on Municipal Bonds	5,500	1,000	6,500	
Printing - Treasuries	1,500		1,500	
Expenses - Treasuries	1,000		1,000	
Blackboard and other Expense	1,200		1,200	
Books and Stationery	1,000		1,000	
Food and other Expenses	1,200		1,200	
Interest on Bonds - State				
Interest on Bonds	10,000	1,000	11,000	
Interest on Debt	10,000	1,000	11,000	
Interest on Bonds - Municipal				
Interest on Bonds	1,000	1,000	2,000	
Interest on Bonds - Other				
Interest on Bonds	1,000	1,000	2,000	
Interest on Bonds - Total				
Interest on Bonds	1,000	1,000	2,000	