

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WEST MCCRACKEN COUNTY)
WATER DISTRICT FOR (1) GENERAL RATE)
INCREASE, (2) REVISION OF TARIFFS, (3)) CASE NO. 94-450
APPROVAL OF SURCHARGE, AND (4) REQUEST)
FOR APPROVAL OF VARIANCE ON FINANCIAL DATA)

O R D E R

On December 22, 1994, West McCracken County Water District ("West McCracken") filed an application with the Commission requesting a general rate increase, a revision of its tariffs, approval of a surcharge, and approval of a variance of financial data. Commission Staff, having performed a limited financial review of West McCracken's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the application. 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. The parties are hereby notified that they are entitled to a hearing pursuant to KRS 74.395. If they wish to assert this right, they must notify the Commission within the time frame stated herein.

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, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 17th day of April, 1995.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director

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STAFF REPORT

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Public Utility Financial
Analyst, Chief
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STAFF REPORT

ON

WEST MCCRACKEN COUNTY WATER DISTRICT

CASE NO. 94-450

A. Preface

On November 21, 1994, West McCracken County Water District ("West McCracken") submitted an application seeking approval of an increase in general rates, a revision of its tariffs, approval of a surcharge, and approval of a variance on financial data. The application was considered filed on December 22, 1994, when all deficiencies were cured. The proposed rates would generate approximately \$106,227 in additional annual revenues from water sales, an increase of 40.6 percent over test-year revenues from water sales.

In order to evaluate the requested increase in rates, the Commission Staff ("Staff") chose to perform a limited financial review of West McCracken's operations for the test period, calendar year 1993. Karen Harrod and Scott Lawless of the Commission's Division of Financial Analysis performed the review on January 12-13, 1994 at the office of West McCracken, in Paducah, Kentucky. John Geoghegan, of the Commission's Division of Rates and Research, performed his review of the billing analysis, rate design, and tariff revisions at the Commission's office in Frankfort, Kentucky.

Staff's findings and recommendations are contained in this report. Mr. Geoghegan is responsible for the sections related to operating revenues, rate design, bulk sales, tariff revisions, and

Appendix C and Appendix D. The remaining sections of the Report were prepared by Ms. Harrod.

Based upon the findings of this report, Staff recommends that West McCracken be allowed to increase its annual operating revenues from water sales by \$96,303 and that West McCracken be granted its requested 5-year surcharge.

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 herein.

During the course of the review, West McCracken was advised that all proposed adjustments to test-year operations 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

Test Year Operations

In Exhibit 3, Table U of its application, West McCracken proposed its test year be based on the 1993 year end audit. Numerous adjustments were proposed to the 1993 income statement to reflect increased expenses resulting from growth in the system during 1994. These adjustments were based on estimates and did not meet the rate-making criteria of being known and measurable.

Accordingly, Staff has disallowed the majority of adjustments as proposed by West McCracken.

However, since Staff's review took place after the 1994 year end, actual figures for 1994 were available. In order to reflect the increased revenues and expenses which occurred during that time period, Staff has adjusted the 1993 test year to levels determined for 1994.

Appendix A to this report shows the 1993 test year adjusted to reflect 1994 actual revenues and expenses, with the exception of operating revenues from water sales. Staff's adjustment to water revenues is discussed in a subsequent section of this report and is reflected in Appendix B. Appendix A also includes a more detailed allocation of 1994 expenses which Staff has utilized as a basis for pro forma adjustments and for cost of service study purposes.

Operating Revenues

West McCracken's reported operating revenue from rates was \$261,557. This amount was increased by \$44,664 to adjust for new customers and by \$8,700 to reflect a billing analysis adjustment that was made. A purchased water adjustment decrease of \$5,822 was also included, resulting in normalized operating revenue from rates of \$309,099.

Operating Expenses

For the test year West McCracken reported operating expenses of \$251,905 which it proposed to increase by \$105,862. West McCracken's actual 1994 operating expenses were \$353,839, as shown

in Appendix A. This results in an increase of \$101,934 over the 1993 test year expenditures. It is the opinion of Staff that the adjustments made to reflect actual 1994 expenses should be allowed for rate-making purposes.

West McCracken's proposed adjustments which were not based on increased growth in 1994 and other adjustments recommended by Staff are discussed in the following sections of this report.

Salary and Wage Expense

In its 1994 operations West McCracken reported total salary and wage expense of \$68,869. West McCracken currently has three full-time employees and one part-time employee. Based on the current salary levels of West McCracken's employees, Staff has calculated the District's annual salary expense to be \$83,900, an increase of \$15,031 over the 1994 level. Since this adjustment is known and measurable, Staff recommends it be allowed for rate-making purposes. The increase has been allocated to the various salary accounts as follows:

<u>Account Title</u>	<u>1994 Expense</u>	<u>Recommended Increase</u>	<u>1994 Adjusted</u>
Salaries - Mains, Tower & Pumping	\$ 9,635	\$ 3,165	\$12,800
Salaries - Meters	3,303	3,722	7,025
Salaries - Hydrants	2,953	2,812	5,765
Salaries - Accounting	26,459	1,592	28,051
Salaries - General	8,574	1,892	10,466
Salaries - Administration	11,002	808	11,810
Salaries - Meter Reading	<u>6,943</u>	<u>1,040</u>	<u>7,983</u>
Total	<u>\$68,869</u>	<u>\$15,031</u>	<u>\$83,900</u>

Employee Pensions and Benefits

For 1994 West McCracken reported employee pensions and benefits expense of \$18,785. This amount includes employee insurance, FICA, and retirement contributions. Staff recommends an adjustment be made to allow for FICA and retirement expenses associated with the recommended increase to salary and wages expense. Staff has calculated the increases for FICA and retirement expenses to be \$1,150¹ and \$1,118,² respectively.

West McCracken reported 1994 employee insurance expense of \$4,944. The insurance premiums currently being paid by West McCracken for employee health and life insurance total \$450.84 per month, or \$5,410 annually. This reflects an increase of \$466 over the test year level. Staff recommends this increase be included for rate-making purposes.

Based on the aforementioned adjustments, the total increase to employee pensions and benefits expense is \$2,734.

¹	Recommended Salary Increase	\$15,031
	Applicable FICA Rate	<u>7.65%</u>
	Recommended Increase to FICA	<u>\$ 1,150</u>
²	Recommended Salary Increase	\$15,031
	Less: Salary increase attributable to part-time employee not eligible for retirement benefits.	<u>2,354</u>
	Increase Subject to Retirement Benefits	\$12,677
	Applicable Retirement Contribution Rate	<u>8.82%</u>
	Recommended Increase to Retirement Expense	<u>\$ 1,118</u>

Purchased Water Expense

West McCracken reported purchased water expense of \$116,748 for 1994. Based on normalized usage of 83,440,082 gallons, as calculated by Mr. Geoghegan, and the maximum line loss generally allowed by the Commission of 15 percent, Staff recommends an increase to purchased water expense of \$3,243, calculated as follows:

Normalized test year usage	83,440,082 gallons
Adjustment for 15% line loss	<u>+ .85</u>
Allowable Purchased Water for Resale	98,164,802 gallons
Water Used by Company	<u>1,001,010 gallons</u>
Recommended Purchased Water	99,165,812 gallons
Current purchased water rate (\$1.21 per 1,000 gallons)	<u>x .00121</u>
Recommended expense	\$ 119,991
Less: 1994 expense	<u>116,748</u>
Recommended Increase	<u>\$ 3,243</u>

Therefore, Staff has included an adjustment to increase test year purchased water expense by \$3,243.

Electric Pumping

In its application West McCracken proposed an adjustment to eliminate electric pumping expense. The District plans to eliminate these pumps if the proposed surcharge is approved by the Commission. Since Staff recommends the surcharge be granted, an adjustment has been included to eliminate electric pumping expense of \$3,210.

Tank Painting

West McCracken proposed an adjustment to include \$3,000 per year to cover the cost of painting the tank every 15 years; however, no expenses were incurred during the test year for tank painting. After a review of the District's depreciation schedule Staff has determined that the depreciation of tank painting is already included in 1994 expense at a level of \$2,901. This was based on tank painting expense incurred in 1989 at a total cost of \$43,520.

Staff is of the opinion that there is no basis for the proposed adjustment and, accordingly, has disallowed this increase in the calculation of West McCracken's revenue requirement.

Office Expense

West McCracken reported office expenses of \$14,963 for 1994. Included in this amount was \$1,542 for monthly software payments. The last payment for software was made in July 1994. Staff is of the opinion that this is a non-recurring expense and should be disallowed for rate-making purposes. Accordingly, an adjustment has been included to decrease office expense by \$1,542.

Depreciation Expense

Based on West McCracken's existing assets, depreciation expense for 1994 was \$36,950. In its application an adjustment was proposed to increase depreciation expense by \$22,000 for the depreciation of new lines. Of that amount, documentation was provided to support an increase in depreciation expense of only

\$13,525 for lines that have been placed in service but are not reflected on the auditor's depreciation schedule. This increase was calculated as follows:

<u>Description</u>	<u>Cost</u>	<u>Estimated Service Life</u>	<u>Annual Depreciation</u>
Forrestdale	\$ 11,000	40 years	\$ 275
Bethel Church Road	390,000	40 years	9,750
Chickasaw	24,000	40 years	600
Wedel	17,000	40 years	425
Timberland	66,000	40 years	1,650
Bethel Heights	<u>33,000</u>	40 years	<u>825</u>
	<u>\$541,000</u>		<u>\$13,525</u>

Based on a review of 1994 expenses Staff determined that there were a number of purchases that should have been capitalized and depreciated rather than expensed. As a result, Staff recommends an adjustment be made to increase 1994 depreciation expense by \$1,226 and to decrease the appropriate expense accounts by a total of \$19,649. The following summarizes the calculation of these adjustments:

<u>Description</u>	<u>Cost</u>	<u>Estimated Service Life</u>	<u>Annual Depreciation Expense</u>	<u>Expense Account to be Decreased</u>
Tiller	\$ 499	5 years	\$ 100	Maint.- Services
Computer/Printer/Table	1,686	8 years	211	Office Expense
Heating/Air Cond. Unit	5,100	10 years	510	Maint.- Office
Meters	3,812	20 years	191	Maint.- Meters
Services	<u>8,552</u>	40 years	<u>214</u>	Maint.- Services
Total	<u>212,649</u>		<u>21,226</u>	

In its application West McCracken also proposed an adjustment to increase vehicle expense by \$4,000 to allow for the replacement of a truck every 5 years. During the field review West McCracken advised Staff that it intended to purchase a new truck and provided a quote for this vehicle in the amount of \$16,476. Depreciated

over a period of 5 years, this results in annual depreciation expense of \$3,291.51. Staff also determined that the 1994 depreciation expense included \$202.20 related to the District's old vehicle. Accordingly, an adjustment has been included to increase test year depreciation expense by \$3,089.³

Based on the aforementioned adjustments, Staff recommends a total increase to depreciation expense of \$17,840.

Operations Summary

Based on the adjustments to 1994 operations recommended by Staff, West McCracken's operating statement would appear as set forth in Appendix B to this report.

C. Revenue Requirements Determination

Staff has calculated West McCracken's average annual debt service to be \$43,040. Based on the adjusted test period operations, as shown in Appendix B, West McCracken's debt service coverage ("DSC") is -1.04x.⁴ Staff is of the opinion that a DSC of 1.2x is necessary to allow West McCracken to meet its operating expenses and service its debt. Therefore, Staff recommends that West McCracken be allowed to increase its annual revenues by \$96,303, calculated as follows:

Adjusted Operating Expenses	\$368,286
Average Annual Debt Service	43,040
20 Percent DSC	<u>8,608</u>
Total Revenue Requirement	\$419,934

³ \$3,291.51 - \$202.20 = \$3,089.31

⁴ (44,655) + 43,040 = -1.04

Less: Normalized Operating Revenues	309,099
Other Operating Revenues	13,907
Interest Income	<u>625</u>
Required Revenue Increase	<u>\$ 96,303</u>

D. Surcharge

In its application West McCracken requested a 5-year surcharge of \$0.47 per 1,000 gallons to allow the District to construct improvements and extensions which are considered necessary by the Commissioners of the District. Exhibit 2 of the Petition includes a priority list of these projects. Based on the current customer level Staff estimates that West McCracken will collect \$39,217 per year from surcharge revenues which would result in total receipts of \$196,084. This revenue alone would not be sufficient to fund the necessary projects which are listed at an estimated total cost of \$1,495,000. However, West McCracken anticipates that future growth in the system as well as the use of some of its depreciation reserves will provide the necessary funds.

Ghasem Pour-Ghasemi, of the Commission's Engineering Division, has reviewed the projects listed and has determined that there is adequate engineering information to grant the requested surcharge for these purposes. However, Staff reminds West McCracken that before construction can begin, the District must take the appropriate steps to petition this Commission for a Certificate of Convenience and Necessity for these projects.

Staff recommends that West McCracken be granted the 5-year surcharge requested. The use of these funds should be limited to the projects specified in Exhibit 2 of the Petition which include:

1. Cunningham and Palestine School Roads
2. Replacement of Old Lines
3. PRV's, Pump and Chlorinator
4. Kelley, Magruder and Woodville Roads
5. Hinkleville and West Airport Roads
6. U.S. 60 and Steele Road
7. L. Harris, McKendree Church and Highway 286

If the surcharge is granted, the Commission should direct West McCracken to file semi-annual statements detailing surcharge revenues collected, including any interest earned thereon, and all expenditures made. Failure to file the semi-annual reports should warrant cessation of the surcharge and refunding of the monies previously collected. In addition, West McCracken should be reminded that if construction has not begun within five years after implementation of the surcharge, all funds must be returned to the ratepayers, together with interest and earnings.

Staff is of the opinion that the surcharge constitutes contributions, and should be accounted for in the manner prescribed by the Uniform System of Accounts for Class A and B Water Districts and Associations. The monthly billing should be debited to customer accounts receivable and credited to the contributions account. When the amount is collected, special funds would be debited and customer accounts receivable credited.

West McCracken requested that the surcharge receipts be deposited in the same account as its depreciation reserves.

However, in accordance with KRS 74.395, it is Staff's opinion that West McCracken should place all funds collected in a reserve trust account and such funds should be invested in securities issued or guaranteed by the United States government until needed.

D. Rate Design

West McCracken's current rates consist of declining block rate schedules ranging from seven steps for 5/8-inch meters to two steps for one of its 4-inch meters. It has proposed to change its rate design and has offered two alternatives. The first alternative is for a uniform rate regardless of the water sold, and the second alternative is a two step declining block rate. Both alternatives include a customer charge with no usage allowance. West McCracken proposed the two step rate design because it gives a lower rate to large volume users.

Staff prepared a cost of service study using the commodity-demand method for small utilities as set out in the Manual M-1. The commodity-demand method for small utilities recognizes a different cost for both the residential customer and the large user. Staff's cost of service study is attached as Appendix C.

After preparing the cost of service study, Staff agrees with West McCracken that a customer charge and a two step rate design are in the best interest of all its customers. The rates set out in Appendix D will generate the revenue required from water sales and Staff recommends that they be approved.

E. Bulk Sales

West McCracken has proposed a rate of \$5.00 per 1,000 gallons for water sold through its new bulk sales device. This rate is based on the cost of water plus an estimated cost of operating the device. Staff has no objection to the proposed rate. However, since it is based on an estimate, Staff recommends that the actual cost of operating the device be documented in order to determine a more accurate rate in the future.

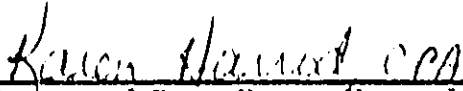
E. Tariff Revisions


West McCracken proposed several revisions to its current tariff. It proposed to: (1) alter its existing office hours, (2) delete references to 3/4-inch and 1 1/2-inch meters since those sizes of meters are not utilized, (3) revise its contract for water service, (4) alter meter reading and payment schedules, and (5) establish fax service. After reviewing the above referenced proposed changes, Staff finds that they are in compliance with Commission regulations and recommends that they be approved.

West McCracken also proposes to require prospective customers to contract for service for one year or more. West McCracken should include in its tariff qualifying language to make it clear that only those prospective customers who require an extension to receive service are subject to this contract requirement. See 807 KAR 5:066, Section 11 (1). Staff finds that the proposed change, qualified as described herein, will comply with Commission regulations, and Staff recommends it be approved.

West McCracken also proposed to eliminate subdivision developer paybacks, to revise its extension policy for an individual or group of customers and to require tap on fees for service connections in subdivisions for which there is a payback contract with the developer to be equal to the standard tap-on fee plus the amount of the payback. West McCracken identifies these revisions as Items 9, 10, and 11 in its application. According to Mr. Pour-Ghasemi, these proposed policies do not conform to the Commission's regulations and Staff recommends that they be denied.

G. Signatures


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Prepared By: John Geoghagan
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**APPENDIX A
TO STAFF REPORT CASE NO. 94-450**

**West McCracken County Water District
Statement of Operations**

	Test Year per <u>1993 Audit</u>	Adjustments to Reflect <u>1994 Inc/(Dec)</u>	Test Year Adjusted to <u>1994 Actual</u>	<u>1994 Restated</u>	
OPERATING REVENUES					OPERATING REVENUES
Sales of Water	\$261,557	0	\$261,557	\$261,557	Sales of Water
Penalties	5,251	702	5,953	5,953	Penalties
Service Charge	300		300	300	Service Charges
Other	<u>7,752</u>	<u>(98)</u>	<u>7,654</u>	<u>7,654</u>	Other
Total Operating Revenues	\$274,860	0	\$275,464	\$275,464	Total Oper. Revenues
OPERATING EXPENSES					OPERATING EXPENSES
Water Purchased	\$103,310	0	\$103,310	\$103,310	Water Purchased
Electric Pumping	3,999	(789)	3,210	3,210	Electric Pumping
Maint.-Tower & Pumps	1,981	1,146	3,127 (a)	1,087 (a)	Maint.-Tower
Telemetry	1,444	(785)	659	659	Maint.-Telemetry
Maint.-Mains	8,160	9,772	17,941	2,040 (a)	Maint.-Mains
Maint.-Meters/Serv./Hydrants	15,164	26,264	41,428 (b)	17,941	Maint.-Meters
Truck Expense	2,466	819	3,305	3,298 (b)	Maint.-Services
Office & Acct. Supplies	29,149	5,884	35,033 (c)	29,638 (b)	Maint.-Hydrants
Billing Supplies	8,856	6,107	14,963	6,492 (b)	Maint.-Office
Repairs & Maintenance	0	39,673	39,673 (d)	7,226 (d)	Sal.-Mains/Tower/Pump.
Meter Reading	1,458	5,485	6,943	9,635 (d)	Sal.-Meters
Administrative Salaries	14,161	(3,159)	11,002	3,303 (d)	Sal.-Hydrants
Taxes & Empl. Benefits	10,592	8,193	18,785	2,883 (d)	Sal.-Accounting
Insurance	5,514	(1,327)	4,187	28,458 (c)	Sal.-General
Accounting	2,345	255	2,600	8,574 (c)	Sal.-Administration
Legal & Engineering	663	1,293	1,956	11,002	Sal.-Meter Reading
Chemicals	2,379	(1,928)	351	6,943	Contract Labor
Depreciation	34,179	2,611	36,990	4,160 (d)	Employee Benefits
Miscellaneous Expense	<u>6,016</u>	<u>(1,018)</u>	<u>4,978 (e)</u>	18,785	Training
Total Operating Expenses	\$251,205	\$101,924	\$353,839	140 (e)	Insurance
Operating Income	0 22,955	0 (101,330)	0 (78,375)	4,187	Office Expense
Interest Income	<u>217</u>	<u>408</u>	<u>625</u>	2,196 (d)	Testing
Income Available for Debt Service	<u>0 23,172</u>	<u>0 (100,922)</u>	<u>0 (77,750)</u>	3,305	Vehicle
				2,600	Audit
				1,956	Legal & Engineering
				351	Chemicals
				4,838 (e)	Miscellaneous
				<u>16,320</u>	Depreciation
				\$353,839	Total Operating Expenses
				0 (78,375)	Operating Income
				<u>625</u>	Interest Income
				0 (77,750)	Income Available for Debt Service

NOTE: The letters (a) - (e) represent the allocation of 1994 actual expenses to 1994 restated expenses.

APPENDIX B
TO STAFF REPORT CASE NO. 94-450

West McCracken County Water District
Statement of Adjusted Operations

	<u>Test Year Adjusted for 1994 Actual</u>	<u>Staff Recommended Adjustments</u>	<u>Staff Recommended Test Year</u>
OPERATING REVENUES			
Sales of Water	\$261,557	\$ 47,542	\$309,099
Penalties	5,953		5,953
Service Charges	300		300
Other	<u>7,654</u>		<u>7,654</u>
Total Operating Revenues	<u>\$275,464</u>	<u>\$ 47,542</u>	<u>\$323,006</u>
OPERATING EXPENSES			
Water Purchased	116,748	3,243	119,991
Electric Pumping	3,210	(3,210)	0
Maint. - Tower	1,087		1,087
Maint. - Telemetry	659		659
Maint. - Pumps	2,040		2,040
Maint. - Mains	17,941		17,941
Maint. - Meters	5,298	(3,812)	1,486
Maint. - Services	29,638	(9,051)	20,587
Maint. - Hydrants	6,492		6,492
Maint. - Office	7,226	(5,100)	2,126
Salaries - Mains/Tower/Pumping	9,635	3,165	12,800
Salaries - Meters	3,303	3,722	7,025
Salaries - Hydrants	2,953	2,812	5,765
Salaries - Accounting	26,459	1,592	28,051
Salaries - General	8,574	1,892	10,466
Salaries - Administration	11,002	808	11,810
Salaries - Meter Reading	6,943	1,040	7,983
Contract Labor	4,360		4,360
Employee Benefits	18,785	2,734	21,519
Training	140		140
Insurance	4,187		4,187
Office Expenses	14,963	(3,228)	11,735
Testing	2,196		2,196
Vehicle	3,305		3,305
Audit	2,600		2,600
Legal & Engineering	1,956		1,956
Chemicals	351		351
Miscellaneous	4,838		4,838
Depreciation	<u>36,950</u>	<u>17,840</u>	<u>54,790</u>
Total Operating Expenses	<u>\$353,839</u>	<u>\$ 14,447</u>	<u>\$368,286</u>
Operating Income	\$(78,375)	\$ 33,095	\$(45,280)
Interest Income	<u>625</u>		<u>625</u>
Income Avail. for Debt Serv.	<u>\$(77,750)</u>	<u>\$ 33,095</u>	<u>\$(44,655)</u>

APPENDIX C

**COST OF
SERVICE STUDY**

ALLOCATION OF PLANT VALUE

	Total	Commodity	Demand	Customer
Source of Supply & Pumping Plant	49,873	0	49,873	0
Treatment Plant	156,105	0	156,105	0
Transmission, Distribution Mains & Storage	1,192,463	0	1,192,463	0
Services	134,260	0	0	134,260
Meters	101,803	0	0	101,803
Hydrants	39,135	0	0	39,135
Subtotal	1,673,639	0	1,398,441	275,198
General Plant(1)	38,201	0	31,920	6,281
TOTAL	\$1,711,840	\$0	\$1,430,361	\$281,479

(1) Allocated based on overall weighted allocation of all other plant value.

SOURCE: Response to filing deficiencies received 12/22/94

ALLOCATION OF OPERATION AND MAINTENANCE EXPENSE

	TOTAL	COMMODITY	DEMAND	CUSTOMER
Water Purchased	119,991	119,991		
Maintenance - Tower	1,087		1,087	
Maintenance - Telemetry	659		659	
Maintenance - Pumps	2,040		2,040	
Maintenance - Mains	17,941		17,941	
Maintenance - Meters	1,486			1,486
Maintenance - Services	20,587			20,587
Maintenance - Hydrants	6,492			6,492
Salaries - Mains, Tower, and Pumping	12,800		12,800	
Salaries - Meter	7,025			7,025
Salaries - Hydrants	5,765			5,765
Salaries - Meter Reading	7,983			7,983
Chemicals	351	351		
Subtotal (1)	204,207	120,342	34,527 41.17%	49,338 58.83%
Miscellaneous	4,838		1,992	2,846
Legal - Engineering	1,956		805	1,151
Maintenance - Office	2,126		875	1,251
Audit	2,600		1,070	1,530
Vehicle	3,305		1,361	1,944
Testing	2,196		904	1,292
Office Expenses	11,735		4,831	6,904
Ins., Bonds, Unemploy	4,187		1,724	2,463
Training	140		58	82
Employee Benefits	21,519		8,859	12,660
Contract Labor	4,360		1,795	2,565
Salaries - Administration	11,810		4,862	6,948
Salaries - General	10,466		4,309	6,157
Salaries - Accounting	28,051		11,549	16,502
TOTAL O & M	\$313,496	\$120,342	\$79,521	\$113,633

(1) Percentages based on subtotal less commodity.
All allocations after subtotal based on percent allocated to demand and customer.

ALLOCATION OF TEST YEAR DEPRECIATION

	Total	Commodity	Demand	Customer
Pumping Plant	2,437	0	2,437	0
Reservoir & Standpipe	78,552	0	78,552	0
Transportation & Distribution Mains	253,720	0	253,720	0
Services	32,004	0	0	32,004
Meter	30,399	0	0	30,399
Hydrants	15,836	0	0	15,836
Land & Land Rights	0	0	0	0
Office Equipment	5,718	0	0	5,718
Subtotal (1)	418,666	0	334,709	83,957
Structure & Improvements	27,358	0	21,872	5,486
Transportation	11,929	0	9,537	2,392
Tools & Shop Equip.	6,638	0	5,307	1,331
Communication Equip.	2,917	0	2,332	585
TOTAL	\$467,508	\$0	\$373,756	\$93,752
Percentages		0.0%	79.9%	20.1%

(1) All allocations after subtotal based on percent allocated to demand and customer.

ALLOCATION OF COST OF SERVICE

	Total	Commodity	Demand	Customer
Allocated Plant Value	1,711,840	0	1,430,361	281,479
Percentages	100.00%		83.56%	16.44%
Operation and Maintenance	313,496	120,342	79,521	113,633
Depreciation (1)	54,790	0	43,777	11,013
Debt Service (2)	51,648	0	43,155	8,493

General Water Service	419,934	120,342	166,454	133,138
Less: Other Revenue	13,907			13,907
Interest Income	625			625

Rev. Required from Rates	\$405,402	\$120,342	\$166,454	\$118,606

 1 Depreciation allocated based on test year percentages

2 Debt Service allocated based on percentage of allocated plant value.

CALCULATION OF CUSTOMER CHARGE

Meter Size	No. of Meters	Equivalent ratio	Equivalent 5/8" Meter	Weighted	Fixed(1)	Customer Charge
5/8"	1000	1.0	1,000.0	\$2.12	\$7.45	\$9.57
1"	5	5.0	25.0	10.60	7.45	18.05
2"	1	8.0	8.0	16.97	7.45	24.42
3"	2	15.0	30.0	31.81	7.45	39.26
4"	2	25.0	50.0	53.02	7.45	60.47
	1010		1,113.0			

 (1) Includes all operation and maintenance expenses allocated on a percentage basis plus meter reading

ALLOCATION OF COSTS OF SERVICE TO RATE BLOCKS
AND CALCULATION OF WATER RATES

	TOTAL	First 100,000 GALLONS	Over 100,000 Gallons

Actual Water Sales			
Thousand Gallons	83,440,082	64,533,480	18,906,602
Percent	100	77.34%	22.66%
Weighted Sales for Demand:			
Thousand Gallons	147,973,562	129,066,960	18,906,602
Percent	100	87.22%	12.78%
Allocation for Volumetric Costs:			
Commodity	\$120,342	\$93,074	\$27,268
Demand	\$166,454	\$145,186	\$21,268

TOTAL	\$286,796	\$238,260	\$48,536
 Rate per 1,000 gallons		 \$3.69	 \$2.57

VERIFICATION OF RECOMMENDED RATES

CUSTOMER CHARGES

Meter Size	Meters	Customer Charge	Revenue
5/8"	1,000	\$9.57	\$9,570.00
1"	5	18.05	90.25
2"	1	24.42	24.42
3"	2	39.26	78.52
4"	2	60.47	120.94
			\$9,884.13

\$9,884.13 X 12 billings =

\$118,609.56

WATER CHARGES

Increments	Gallons	Rate	Revenue
First 100,000 gallons	64,533,480	\$3.69	\$238,129
Over 100,000 gallons	18,906,602	\$2.57	\$48,590
			\$286,719

Customer Charge \$118,610

Water Charge \$286,719

Other Revenue \$14,532

Total Revenue \$419,860

APPENDIX D
TO STAFF REPORT CASE NO. 94-450

The following rates are recommended for the customers of West McCracken Water District in Case No. 94-450.

MONTHLY RATES

Customer Charge

5/8 Inch Connection	\$ 9.57
1 Inch Connection	18.05
2 Inch Connection	24.42
3 Inch Connection	39.26
4 Inch Connection	60.47

All Usage

First 100,000 gallons	\$ 3.69 per 1,000 gallons
Over 100,000 gallons	\$ 2.57 per 1,000 gallons

Surcharge

\$0.47 per 1,000 gallons for a period of five years from the date of the Commission's Final Order.