

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DOWNSTREAM, INC. )  
FOR AN ADJUSTMENT OF RATES PURSUANT )  
TO THE ALTERNATIVE RATE FILING ) CASE NO. 95-240  
PROCEDURE FOR SMALL UTILITIES )

O R D E R

On June 19, 1995, Downstream, Inc. ("Downstream") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Downstream'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 6th day of October, 1995.

ATTEST:

  
Executive Director

PUBLIC SERVICE COMMISSION

  
For the Commission

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DOWNSTREAM,	)	
INC. FOR A RATE ADJUSTMENT	)	
PURSUANT TO THE ALTERNATIVE	)	CASE NO. 95-240
RATE FILING PROCEDURE FOR	)	
SMALL UTILITIES	)	

STAFF REPORT

Prepared By: Mark C. Frost  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division

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

STAFF REPORT  
ON  
DOWNSTREAM, INC.  
CASE NO. 95-240

On June 19, 1995 Downstream, Inc. ("Downstream") filed its application seeking to increase its rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). In order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of Downstream's test-period operations for the calendar year ending December 31, 1994.

The scope of the review was limited to obtaining information to determine whether the test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Mark Frost of the Commission's Division of Financial Analysis performed the limited review on August 22, 1995. Mr. Frost is responsible for the preparation of this Staff Report except for the determination of Normalized Operating Revenue, Rate Design, and Attachments E and F, which were prepared by John Geoghegan of the Commission's Division of Rates and Research.

The ARF regulation requires a utility to use its most recent Annual Report as the basis for determining the reasonableness of the proposed rates. Downstream identified the 1994 Annual Report as being its most recent report, but mistakenly used the 1993 Annual Report data as the basis for its pro forma adjustments. As

required by the regulation, Staff used the 1994 financial information in its review.

A comparison of Downstream's actual 1994 operations and pro forma operations is shown in Attachment A. Based upon Staff's recommendations, Downstream's operating statement would appear as set forth in Attachment B.

Downstream requested additional revenues of \$1,227. Since Downstream's proposed rates will produce a negative cash flow of \$564, as computed in Attachment C, Downstream's proposed rates should be denied. To eliminate the negative cash flow, Staff recommends that Downstream be allowed to increase its operating revenues by \$1,791, as shown in Attachment D.

Based on Staff's adjusted operations and the 88 percent operating ratio normally allowed by this Commission, Downstream could justify additional revenues of \$8,830, as shown in Attachment D. If Downstream chooses to amend its application to reflect rates that will generate additional revenue of \$8,830, Downstream should do so when filing comments to the Staff Report.

Because the rates recommended by Staff differ from those previously noticed to customers, Downstream should re-notice its customers of these recommended rates. Customer re-notification should also be made if Downstream requests the rates that produce the \$8,830 increase which Downstream could justify.

The rates contained in Attachment E will produce Staff's recommended revenue increase of \$1,791. Those contained in Attachment F will produce the revenue increase of \$8,830.

Signatures



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Prepared By: Mark C. Frost  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division



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

ATTACHMENT B  
STAFF REPORT CASE NO. 95-240  
STAFF'S RECOMMENDED PRO FORMA OPERATIONS

	1994 Annual Report	Pro Forma Adjustments	Foot- note Ref	Pro Forma Operations
Operating Revenue:				
Flat Rate Residential	\$5,800	\$232	A	\$6,132
Operating Expenses:				
Operation & Maint. Expenses:				
Other - Labor, Mat'ls., & Exp.	\$208	\$0		\$208
Fuel & Power	1,410	(115)	B	1,295
Routine Maintenance Fee	2,730	(390)	C	2,340
Maint. Treatment & Disposal	3,316	(1,645)	D	1,671
Office Supplies & Other Exp.	276	0		276
Outside Services	1,098	0		1,098
Insurance	1,333	(547)	E	786
Miscellaneous General	10	0		10
Total Operation & Maint. Exp	\$10,379	(\$2,697)		\$7,682
Depreciation Expense	4,721	176	F	4,897
Taxes Other Than Income Tax	241	0		241
Total Operating Expenses	\$15,341	(\$2,521)		\$12,820
Net Operating Income	(\$9,441)	\$2,753		(\$6,688)

**A. Operating Revenue:**

Revenue normalization using the current tariffed rate & end of test period customer level.

Current Rate	\$21.30
Multiplied by: End of Period Customer Level	24
<hr/>	
Average Monthly Collections	\$511
Multiplied by: 12 - Months	12
<hr/>	
Normalized Revenue from Rates	\$8,132
Less: Reported Revenue from Rates	5,900
<hr/>	
Staff's Recommended Adjustment	\$232
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**B. Fuel & Power:**

This adjustment is based on Staff's analysis of the actual test period electric invoices.

Service From	Service To	Amount Billed
<hr/>	<hr/>	<hr/>
16-Dec-94	19-Jan-95	\$122
16-Feb-94	15-Feb-94	94
18-Mar-94	16-Mar-94	82
18-Apr-94	18-Apr-94	113
16-May-94	13-May-94	108
15-Jun-94	16-Jun-94	112
14-Jul-94	15-Jul-94	109
16-Aug-94	16-Aug-94	90
15-Sep-94	15-Sep-94	89
14-Oct-94	17-Oct-94	156
14-Nov-94	16-Nov-94	85
14-Dec-94	13-Dec-94	135
<hr/>		<hr/>
Actual Fuel & Power Expense		\$1,295
Less: Reported Fuel & Power Expense		1,410
<hr/>		<hr/>
Staff's Recommended Adjustment		(\$115)
<hr/>		<hr/>

**C. Routine Maintenance Service Fee:**

This adjustment reflects the current routine maintenance fee.

Current Monthly Maintenance Fee	\$185
Multiplied by: 12 - Months	12
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Annual Routine Maintenance Fee	\$2,340
Less: Reported Routine Maintenance Fee	2,730
	-----
Staff's Recommended Adjustment	(\$390)
	=====

**D. Maint. Pumping System:**

The following capital expenditures have been removed and depreciated.

Date	Vendor	Description	Amount
-----	-----	-----	-----
15-Mar-94	Terry Coker	Grinder Pump	(\$995)
08-Apr-94	Terry Coker	Chlorine Pump	(225)
31-Dec-94	Accounts Payable	Motor for Blower	(425)
			-----
Staff's Recommended Adjustment			(\$1,645)
			=====

**E. Insurance:**

This adjustment reflects the current insurance premiums paid by Downstream.

Commercial Gen. Liab.: Policy # MG128359L, Period 7/12/94 - 7/12/95	\$211
Gen. Liability: Policy # MG127220, Period 2/02/95 - 2/02/96	575
	-----
Current Insurance Premiums	\$786
Less: Reported Insurance Premiums	1,333
	-----
Staff's Recommended Adjustment	(\$547)
	=====

**F. Depreciation:**

This adjustment reflects depreciating test-period capital expenditures over the appropriate depreciable lives.

	Amount	Depreciable Lives	Depreciation Expense
	-----	-----	-----
Grinder Pump	\$995	10	\$100
Labor Cost for Grinder Pump	\$100	10	10
Chlorine Pump	\$225	10	23
Motor for Blower	\$425	10	43
			-----
Staff's Recommended Adjustment			\$178
			=====



ATTACHMENT C  
STAFF REPORT CASE NO. 95-240  
CASH FLOW CALCULATION

	Staff's Pro Forma Operations	Downstream's Requested Increase	Staff's Operations with Downstream's Increase
Operating Revenue	\$8,132	\$1,227	\$7,359
Less: Operating Expenses	12,820	0	12,820
Net Operating Income	(\$6,688)	\$1,227	(\$5,461)
Add: Depreciation Expense	4,897	0	4,897
Net Cash Flow	(\$1,791)	\$1,227	(\$564)

ATTACHMENT D  
STAFF REPORT CASE NO. 95-240  
REVENUE REQUIREMENT DETERMINATION

Requirement to Break-Even:	
Operating Expenses	\$12,820
Add: Depreciation Expense	4,897
	-----
Revenue Requirement	\$7,923
Less: Normalized Operating Revenue	6,132
	-----
Required Increase for Downstream to Break-Even	\$1,791
	-----

Increase Downstream Could Justify:	
Operating Expenses	\$12,820
Divided by: Recommended Operating Ratio	88%
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Subtotal	\$14,568
Less: Operating Expenses	12,820
	-----
Margin After Income Taxes	\$1,748
Multiplied by: Gross-up Factor	1.225490
	-----
Margin Before Income Taxes	\$2,142
Add: Operating Expenses	12,820
	-----
Revenue Requirement	\$14,962
Less: Normalized Operating Revenue	6,132
	-----
Increase Downstream Could Justify	\$8,830
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**ATTACHMENT E**  
**STAFF REPORT CASE NO. 95-240**

Staff recommends:

Monthly rate of \$27.51<sup>1</sup> per single-family residence.

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<sup>1</sup>  $\$7,923 \div 24 \text{ Customers} \div 12 \text{ Months} = \$27.51.$

**ATTACHMENT F**  
**STAFF REPORT CASE NO. 95-240**  
**THE RATE DOWNSTREAM COULD JUSTIFY BASED ON**  
**ADJUSTED OPERATIONS AND AN 88 PERCENT OPERATING RATIO**

Monthly rate of \$51.95<sup>2</sup> per single-family residence.

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<sup>2</sup>      \$14,962 + 24 Customers + 12 Months = \$51.95.