

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF W & W SERVICE)
COMPANY FOR AN ADJUSTMENT OF RATES)
PURSUANT TO THE ALTERNATIVE RATE) CASE NO. 96-024
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On March 5, 1996, W & W Service Company ("W & W") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of W & W'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, or 90 days after the date the application was filed, whichever is later, 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 31st day of May, 1996.

ATTEST:

PUBLIC SERVICE COMMISSION



Executive Director



For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF W & W)
SERVICE COMPANY FOR A RATE)
ADJUSTMENT PURSUANT TO THE) CASE NO. 96-024
ALTERNATIVE RATE ADJUSTMENT)
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: Chris Smith
Public Utility Rate Analyst
Communications, Water
and Sewer Rate Design Branch
Rates and Research Division

STAFF REPORT
ON
W & W SERVICE COMPANY
CASE NO. 96-024

On January 29, 1996, W & W Service Company ("W & W") submitted its application seeking to increase its rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities. However, due to filing deficiencies, W & W's application was not considered filed until March 5, 1996.

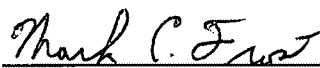
In order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of W & W's test-period operations for the 1995 calendar year. The scope of the review was limited to obtaining information to determine whether the test-period operating revenues and expenses 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 April 2, 1996. Mr. Frost is responsible for the preparation of this Staff Report except for the Operating Revenue Normalization adjustment and Attachment D, which were prepared by Chris Smith of the Commission's Division of Rates and Research.

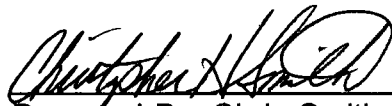
A comparison of W & W's actual and pro forma operations is shown in Attachment A. Based upon Staff's recommendations, W & W's operating statement would appear as set forth in Attachment B.

W & W determined that its pro forma operations support a revenue requirement of \$33,917, an increase in its revenue from rates of \$6,000. As shown in Attachment C, Staff's recommended operations result in a revenue requirement from rates of \$32,340. Therefore, Staff recommends that W & W be granted an increase to its annual operating revenues from rates of \$4,423. The rates contained in Attachment D will achieve Staff's recommended level of revenue.

Signatures



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



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

ATTACHMENT A
 STAFF REPORT CASE NO. 96-024
 W & W'S PROPOSED PRO FORMA OPERATIONS

	Actual Operations	Pro Forma Adjustments	Foot- Note Ref	Pro Forma Operations
Operating Revenue:				
Residential - Flat Rate	\$27,281	\$636		\$27,917
Operating Expenses:				
Operation & Maintenance Exp:				
Treatment Sys - Other	\$1,705	\$0		\$1,705
Fuel & Power	2,044	0		2,044
Chemicals	1,729	0		1,729
Misc Treatment & Disp	1,152	0		1,152
Maint. Treatment & Disposal System	9,381	0		9,381
Outside Services	10,877	0		10,877
Total Operation & Maintenance Exp	\$26,888	\$0		\$26,888
Depreciation	1,499	4,408		5,907
Taxes Other Than Income Taxes	205	0		205
Total Operating Expenses	\$28,592	\$4,408		\$33,000
Net Operating Income	(\$1,311)	(\$3,772)		(\$5,083)
Other Income:				
Interest Income	107	0		107
Net Income	(\$1,204)	(\$3,772)		(\$4,976)

ATTACHMENT B
 STAFF REPORT CASE NO. 96-024
 STAFF'S RECOMMENDED PRO FORMA OPERATIONS

	Actual Operations	Pro Forma Adjustments	Foot- Note Ref	Pro Forma Operations
Operating Revenue:				
Residential - Flat Rate	\$27,281	\$636	A	\$27,917
Operating Expenses:				
Operation & Maintenance Exp:				
Owner/Manager Fee	\$0	\$3,600	B	\$3,600
Treatment Sys - Other	1,705	0		1,705
Fuel & Power	2,044	226	C	2,270
Chemicals	1,729	0		1,729
Misc Treatment & Disp	1,152	0		1,152
Maint. Treatment & Disposal System	9,381	(3,540)	D	5,841
Outside Services	10,877	0		10,877
Total Operation & Maintenance Exp	\$26,888	\$286		\$27,174
Depreciation	1,499	(1,437)	E	62
Amortization	0	360	F	360
Taxes Other Than Income Taxes	205	0		205
Total Operating Expenses	\$28,592	(\$791)		\$27,801
Net Operating Income	(\$1,311)	\$1,427		\$116
Other Income:				
Interest Income	107	0		107
Net Income	(\$1,204)	\$1,427		\$223

A. Operating Revenue Normalization:

This adjustment reflects W & W 's current tariffed rate and its end-of-period customer level.

W & W 's Current Tariffed Rate	\$14.45
Multiplied by: End-of-Period Customer Level	161

Monthly Collections	\$2,326.45
Multiplied by: 12-Months	12

Normalized Revenue from Rates	\$27,917
Less: Reported Revenue from Rates	27,281

Staff's Recommended Adjustment	\$636

B. Owner/Manager Fee:

W & W did not pay or report an owner/manager fee during the test-period. The duties performed by W & W's owner/manager are comparable to the general oversight responsibilities of a water district commissioner.

According to KRS 74.020 (6), a water district commissioner shall receive an annual salary of not more than \$3,600. Given the similarity between the two positions, Staff is of the opinion that a \$3,600 owner/manager fee is reasonable and therefore, should be included in test-period operations.

Staff's Recommended Adjustment	\$3,600

C. Fuel & Power:

This adjustment is based on Staff's analysis of W & W's test period electric invoices.

Service Month	Amount
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Jan-94	\$96
Feb-94	105
Mar-94	127
Apr-94	174
May-94	184
Jun-94	208
Jul-94	218
Aug-94	175
Sep-94	326
Oct-94	117
Nov-94	318
Dec-94	222

Actual Fuel & Power Expense	\$2,270
Less: Reported Fuel & Power Expense	2,044

Staff's Recommended Adjustment	\$226

D. Maint. Treatment & Disposal System:

This adjustment reflects: (1) W & W expensed the cost to install a bridge/culvert, which is a capital item that will benefit more than one period. Therefore, this cost has been removed from test-period expenses and depreciated over its estimated useful life. (2) W & W expensed the cost to rebuild its tractor, which is a nonrecurring cost that has been removed from expenses and amortized for rate-making purposes.

Vendor	Description	Amount
1) Capital Expenditures:		
Kotter	Concrete bridge	(\$1,064)
Thomas Development	Labor to Install Bridge & Culvert	(1,281)
Tractor Supply	Culvert	(115)
2) Non-Recurring Expenditure:		
Ford	Rebuilt Tractor	(\$1,080)
Staff's Recommended Adjustment		<u>(\$3,540)</u>

E. Depreciation:

This adjustment reflects: (1) At the close of 1995, W & W's utility plant investment was fully depreciated. Since the utility plant investment has been recovered from the rate payers, the associated depreciation expense has been eliminated from test period operations. (2) After consulting with Ben Muncy of the Commission's Division of Engineering, it was determined that the bridge/culvert should be depreciated over 40 years.

	Amount	Estimated Useful Lives	Depreciation Expense
1) Test-Period Depreciation Expense			(\$1,499)
2) Bridge & Culvert	\$2,460	40	62
Staff's Recommended Adjustment			<u>(\$1,437)</u>

F. Amortization:

After consulting with Mr. Muncy, it was determined that the cost to rebuild the tractor should be amortized over 3 years.

	Amount	Estimated Useful Lives	Amortization Expense
Rebuilt Tractor	\$1,080	3	<u>\$360</u>

ATTACHMENT C
STAFF REPORT CASE NO. 96-024
REVENUE REQUIREMENT COMPARISON

Adjusted Operating Expenses	\$27,801
Divided by: Recommended Operating Ratio	88%

Subtotal	\$31,592
Less: Adjusted Operating Expenses	27,801

Net Income After Income Taxes	\$3,791
Multiplied by: Income Tax Gross-up Factor	1.2254902

Net Income Before Income Taxes & Interest Expense	\$4,646
Add: Adjusted Operating Expenses	27,801

Recommended Revenue Requirement	\$32,447
Less: Interest Income	107

Recommended Operating Revenue from Rates	\$32,340
Less: Normalized Operating Revenue from Rates	27,917

Recommended Revenue Increase	\$4,423

ATTACHMENT D
STAFF REPORT CASE NO. 96-024
CALCULATION OF MONTHLY RATE

Recommended Operating Revenue from Rates	\$32,340
Divided by: 12 Months	12

Recommended Monthly Revenue from Rates	\$2,695.00
Divided by: End-of-period Customer Level	161

Staff's Recommended Monthly Rates	\$16.74

