

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE U.S.)
60 WATER DISTRICT OF SHELBY AND) CASE NO. 96-318
FRANKLIN COUNTIES, KENTUCKY)

O R D E R

On July 29, 1996, U.S. 60 Water District of Shelby and Franklin Counties ("U.S. 60") filed an application with the Commission seeking to increase its water rates. Commission Staff, having performed a limited financial review of U.S. 60's operations, prepared a Staff Report containing Staff's findings and recommendations regarding the proposed rates. The Staff Report was issued October 18, 1996 with all parties being given the opportunity to review the report and to provide any written comments or requests for a hearing or informal conference within 15 days. A response was received from U.S. 60 on November 6, 1996, which requested that the Commission consider additional adjustments. Following an informal conference and the gathering of additional information, Commission Staff prepared the attached Amended Staff Report containing Staff's revised 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. Should U.S. 60 choose to place the rates contained in Attachment II into effect, it would be required to notify its customers of the amended rate proposal pursuant to 807 KAR 5:001, Section 10(4).

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 Amended 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. If all parties provide a written statement confirming that they are in agreement with the rates recommended in the Amended Staff Report, the case will be immediately submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 3rd day of March, 1997.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE)
U.S. 60 WATER DISTRICT OF SHELBY) CASE NO. 96-318
AND FRANKLIN COUNTIES, KENTUCKY)

AMENDED STAFF REPORT

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AMENDED STAFF REPORT

ON

CASE NO. 96-318

A. Preface

On July 29, 1996, U.S. 60 Water District of Shelby and Franklin Counties, Kentucky ("U.S. 60") filed an application with the Commission seeking to increase its water rates. According to U.S. 60's application, the proposed rates would generate an increase of \$47,702, or 11.65 percent, in annual revenues.

On October 18, 1996, the Commission Staff ("Staff") issued its initial report in which it recommended an increase of \$31,931 in U.S. 60's annual operating revenues. On November 6, 1996, U.S. 60 filed its response to the Staff Report in which it requested that the Commission consider additional adjustments. As a result of U.S. 60's response, the Commission scheduled an informal conference. U.S. 60 filed additional information with the Commission on November 27, 1996.

On December 11, 1996, an informal conference was held at the Commission's offices, at which time the Commission requested that U.S. 60 provide additional information to support one of its proposed adjustments. On December 19, 1996, U.S. 60 filed the information.

Based upon the findings of this amended report, Staff believes that U.S. 60 could justify an increase in its annual operating revenues of \$52,358, an increase of 12.8 percent over normalized revenue from water sales of \$409,388. However, since U.S. 60's proposed rates will produce a positive cash flow of \$62,077, Staff recommends that U.S. 60's proposed rates be accepted. As stated above, this would result in an increase in U.S. 60's annual operating revenues of \$47,702, an increase of 11.65 percent in annual revenues.

If U.S. 60 wishes to amend its application to reflect rates that will generate the additional revenue of \$52,358, Staff recommends that such amendment be filed with any comments on the amended Staff Report. Should U.S. 60 amend its application, Staff recommends that U.S. 60 be required to notify its customers of the amended rate proposal.

The following are Staff's amendments to its report of October 18, 1996. All other recommendations contained in Staff's original report remain intact.

B. Operating Expenses

Water Cost, Purchased Power, Depreciation Expense

U.S. 60 proposed to increase these expenses by \$1,768, \$180, and \$3,511, respectively, to reflect 22 additional customers. The calculations for proposed additional water cost and purchased power expense were provided by U.S. 60, reviewed by Ben Muncy of the Commission's Engineering Division, and found to be reasonable by Mr. Muncy. The proposed adjustment to depreciation expense is based upon the cost of the

Rockbridge Road extension project (\$140,440) depreciated over a 40-year period. Based upon the foregoing discussion, Staff recommends inclusion of \$5,459 in additional operating expense for rate-making purposes.

Salaries & Wages, Officers

At the time of the field review, Staff learned that U.S. 60 no longer had any employees which explained U.S. 60's proposed adjustment to eliminate salaries and wages for employees and officers. However, due to a misunderstanding, salaries for U.S. 60's commissioners were excluded for rate-making purposes.

In its response to the initial Staff Report, U.S. 60 stated that \$7,275 in annual compensation for its commissioners should be added back to annual operating expenses. Therefore, Staff recommends that annual salaries expense for officers of \$7,275 be included for rate-making purposes.

Materials and Supplies Expense

U.S. 60 reported test-year materials and supplies expense of \$4,659, but stated in its responses, filed with the Commission on November 6 and November 27, that this expense totaled \$17,680 for the first 10 months of 1996. In support of its proposal to have the additional expense included for rate-making purposes, U.S. 60 provided documentation to support the increased expense. However, based upon Staff's review of copies of invoices and additional information filed on December 27, 1997, Staff noted that \$6,209 in meter costs were included. These costs would be recovered through tap-on fees and should not be included in the materials and supplies expense account.

Deducting the \$6,209 in meter costs from the \$17,680 yields \$11,471 or \$6,812 more than the \$4,659 recommended in the initial Staff Report. Based upon the additional information provided by U.S. 60, Staff recommends that additional materials and supplies expense of \$6,812 be included for rate-making purposes.

Insurance Expense

In its response of November 6, 1996, U.S. 60 stated that it had received notice of an annual assessment of \$881 from the Kentucky Association of Counties All Lines Fund. Neither Staff nor U.S. 60 was aware of this additional expense at the time the Staff Report was prepared. As U.S. 60 provided documentation to support this adjustment, Staff recommends that additional insurance expense of \$881 be included for rate-making purposes.

Other Income - Interest

In its response of November 6, 1996, U.S. 60 stated that its projected interest income for 1996 was \$5,378 less than the amount earned during the test year, and that a calculation of revenue requirements should take that into account. The reduction in annual interest income is due to a reduction in the rate of interest paid on investments. Interest rates may fluctuate either up or down at any time. Therefore, Staff recommends no change in annual interest income for rate-making purposes.

Summary

Based upon the aforementioned adjustments, U.S. 60's total operating expense would be \$320,790, an increase of \$20,427 over that recommended in the initial Staff Report.

C. Revenue Requirements Determination

U.S. 60's revised revenue requirement is \$508,646, with a corresponding increase in annual revenues of \$52,358, calculated as follows:

1.2X DSC	\$187,856
Revised Operating Expense	<u>320,790</u>
Total Revenue Requirement	\$508,646
LESS:	
Adjusted Test-Year Revenues	409,388
Other Income	23,212
Surcharge Revenues	<u>23,688</u>
Increase Required	<u>\$ 52,358</u>

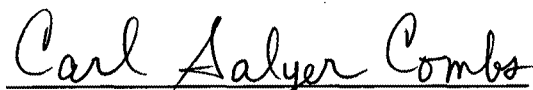
Although U.S. 60's amended operations could justify an increase of \$52,358, the rates proposed in its application would result in an increase in annual revenues of \$47,702 and a debt service coverage of 1.17X. Since U.S. 60's proposed rates will produce a positive cash flow of \$62,077, Staff recommends an increase in annual revenues of \$47,702.

D. Rate Design

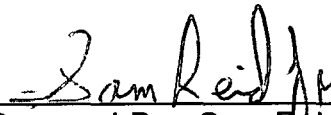
U.S. 60's application did not include any changes in rate design. U.S. 60 proposed an across the board rate increase to its current rates. Staff agrees that the current rate structure should not be altered at this time. Staff recommends an 11.65% increase to annual revenues in the amount of \$47,702. The rates set out in Attachment

I will produce revenues sufficient to satisfy the revenue requirement from water sales of \$457,090. Based on the additional information filed by U.S. 60, in response to the initial Staff Report, the revenue requirement from water sales would be \$461,746, a 12.8% increase over normalized test year revenues. The rates set out in Attachment II will produce revenues sufficient to satisfy the revenue requirement from water sales of \$461,746.

E. Signatures



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ATTACHMENT I

TO THE AMMENDED STAFF REPORT IN CASE NO. 96-318

NORMALIZED TEST YEAR REVENUE	409,388
REVENUE REQUIRED FROM WATER SALES	457,090
INCREASE	47,702
PERCENT OF INCREASE	11.65%

CURRENT RATES

11.65% INCREASE OF CURRENT RATES

5/8" METER

FIRST 1,000 GALLONS	\$9.49 minimum bill
NEXT 2,000 GALLONS	4.66 per 1,000 gallons
NEXT 2,000 GALLONS	3.67 per 1,000 gallons
OVER 5,000 GALLONS	3.19 per 1,000 gallons

FIRST 1,000 GALLONS	\$10.60 minimum bill
NEXT 2,000 GALLONS	5.20 per 1,000 gallons
NEXT 2,000 GALLONS	4.10 per 1,000 gallons
OVER 5,000 GALLONS	3.56 per 1,000 gallons

1" METER

FIRST 5,000 GALLONS	\$26.15 minimum bill
OVER 5,000 GALLONS	3.19 per 1,000 gallons

FIRST 5,000 GALLONS	\$29.20 minimum bill
OVER 5,000 GALLONS	3.56 per 1,000 gallons

2" METER

FIRST 25,000 GALLONS	89.95 minimum bill
OVER 25,000 GALLONS	3.19 per 1,000 gallons

FIRST 25,000 GALLONS	\$100.43 minimum bill
OVER 25,000 GALLONS	3.56 per 1,000 gallons

BULK SALES

\$1.75 per 1,000 gallons

\$1.95 per 1,000 gallons

ATTACHMENT II

TO THE AMMENDED STAFF REPORT IN CASE NO. 96-318

NORMALIZED TEST YEAR REVENUE	409,388
REVENUE REQUIRED FROM WATER SALES	461,746
INCREASE	52,358
PERCENT OF INCREASE	12.8%

CURRENT RATES

12.8% INCREASE OF CURRENT RATES

5/8" METER

FIRST 1,000 GALLONS	\$9.49 minimum bill
NEXT 2,000 GALLONS	4.66 per 1,000 gallons
NEXT 2,000 GALLONS	3.67 per 1,000 gallons
OVER 5,000 GALLONS	3.19 per 1,000 gallons

FIRST 1,000 GALLONS	\$10.70 minimum bill
NEXT 2,000 GALLONS	5.25 per 1,000 gallons
NEXT 2,000 GALLONS	4.14 per 1,000 gallons
OVER 5,000 GALLONS	3.60 per 1,000 gallons

1" METER

FIRST 5,000 GALLONS	\$26.15 minimum bill
OVER 5,000 GALLONS	3.19 per 1,000 gallons

FIRST 5,000 GALLONS	\$29.50 minimum bill
OVER 5,000 GALLONS	3.60 per 1,000 gallons

2" METER

FIRST 25,000 GALLONS	89.95 minimum bill
OVER 25,000 GALLONS	3.19 per 1,000 gallons

FIRST 25,000 GALLONS	\$101.46 minimum bill
OVER 25,000 GALLONS	3.60 per 1,000 gallons

BULK SALES

\$1.75 per 1,000 gallons

\$1.97 per 1,000 gallons