

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DOE VALLEY)
UTILITIES, INC. FOR AN ADJUSTMENT OF)
RATES PURSUANT TO THE ALTERNATIVE) CASE NO. 96-497
RATE FILING PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

On November 20, 1996, Doe Valley Utilities, Inc. ("Doe Valley") applied to the Commission for approval of proposed water and sewer rates. Commission Staff, having performed a limited financial review of Doe Valley'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 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 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 21st day of May, 1997.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DOE VALLEY UTILITIES,)
INC. FOR AN ADJUSTMENT OF RATES) CASE NO.
PURSUANT TO THE ALTERNATIVE RATE) 96-497
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: Carryn Lee
Rates and Tariffs Manager
Communications, Water and
Sewer Rate Design Branch
Rates and Research Division

STAFF REPORT

ON

DOE VALLEY UTILITIES, INC

CASE NO. 96-497

On October 18, 1996, Doe Valley Utilities, Inc. ("Doe Valley") submitted separate applications on behalf of its Water and Sewer Divisions seeking to increase rates for both services pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The Commission combined both rate applications and a separate request to increase a non-recurring charge into this current proceeding. However, due to filing deficiencies, Doe Valley's applications were not considered filed until November 20, 1996.

Because Doe Valley requested and received Commission Staff ("Staff") assistance in preparing the ARF application for the Water Division, Staff performed a limited financial review of that division's test-period operations for the 1995 calendar year prior to the filing of the application. Staff performed a separate limited financial review of the Sewer Division's test-period operations for the 1995 calendar year on January 17, 1997.

The scope of the reviews was limited to obtaining information to determine whether the 1995 operating revenues and expenses for the Water and Sewer Divisions 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 reviews and is responsible for the preparation of this Staff Report except for the determination of Operating Revenues; Attachment C, Calculation of Water Rates; and

Attachment F, Calculation of Sewer Rates, which were prepared by Carryn Lee of the Commission's Division of Rates and Research.

Comparisons of the Water and Sewer Divisions' actual and pro forma operations are shown as Attachments A and D, respectively. Based upon Staff's recommended adjustments, the Water and Sewer Divisions' pro forma operations would appear as set forth in Attachments B and E, respectively.

As shown in Attachment C, the Water Division determined that its pro forma operations support a revenue requirement of \$108,274, an increase in its revenue from rates of \$22,808. However, as shown in that same attachment, based on its recommended pro forma operations and the 88 percent operating ratio normally allowed by this Commission, Staff believes the Water Division could justify additional revenues of \$23,418. Attachment C reflects that Doe Valley's proposed rates for its Water Division will produce a positive cash flow of \$43,084, and therefore Staff recommends the Commission approve the rates proposed for water service.

Doe Valley may wish to amend its application to reflect the additional revenues that could be justified. Such an amendment should be filed with any comments on the Staff Report. Should Doe Valley amend its application, Staff recommends that Doe Valley be required to notify its customers of the amended rate proposal. Attachment C contains both the rates that will achieve the Water Division's requested revenue increase of \$22,810 and also a revenue increase of \$23,418.

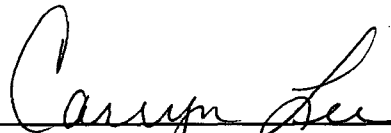
As shown in Attachment F, Doe Valley's Sewer Division determined that its pro forma operations support a total revenue requirement of \$55,064, an increase in revenue from rates of \$25,150. However, as shown in that same attachment, Staff's recommended operations result in a total revenue requirement from rates of \$37,603, an increase of \$4,807. The rates contained in Attachment F will achieve Staff's recommended increase in the Sewer Division's rates of \$4,807.

Doe Valley included in its application cost justification to support a 5/8 inch connection fee of \$395. After reviewing the cost justification, Staff recommends that the fee of \$395 be approved.

Signatures



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



Prepared by: Carryn Lee
Rates and Tariffs Manager
Communications, Water and
Sewer Rate Design Branch
Rates and Research Division

DOE VALLEY UTILITIES, INC

CASE NO. 96-497

WATER DIVISION

PROPOSED
PRO FORMA OPERATIONS

ATTACHMENT

A

	Actual Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Revenue from Water Sales:			
Metered Water Sales	\$85,420	\$46	\$85,466
Operating Expenses:			
Operation & Maintenance Expenses:			
Salaries & Wages - Employees	\$57,950	\$1,349	\$59,299
Employee Pensions & Benefits	4,359	2,714	7,073
Purchased Water	7,503	0	7,503
Purchased Power	8,006	383	8,389
Chemicals	7,823	0	7,823
Materials & Supplies	22,298	(9,800)	12,498
Contractual Services	4,845	0	4,845
Transportation Expense	1,221	0	1,221
Insurance	6,221	73	6,294
Miscellaneous	3,554	(447)	3,107
Total Operation & Maintenance Exp.	\$123,780	(\$5,728)	\$118,052
Depreciation	21,509	0	21,509
Amortization	0	1,960	1,960
Taxes Other Than Income Taxes	6,140	121	6,261
Total Operating Expenses	\$151,429	(\$3,647)	\$147,782
Net Operating Income	(\$66,009)	\$3,693	(\$62,316)
Other Income & Deductions:			
Availability Charges *	59,660	0	59,660
Net Income Available for Operations	(\$6,349)	\$3,693	(\$2,656)

* These charges are collected from lot owners that are not current utility customers. In the past the Commission has reduced the revenue requirement for the Water and Sewer Divisions by these fees. In this current proceeding Doe Valley and Staff have followed this past precedent in calculating the revenue requirement for both divisions.

DOE VALLEY UTILITIES, INC

CASE NO. 96-497

WATER DIVISION

STAFF'S
RECOMMENDED
PRO FORMA OPERATIONS

ATTACHMENT

B

	Actual Operations	Pro Forma Adjustments	Ref	Pro Forma Operations
Operating Revenues:				
Revenue from Water Sales:				
Metered Water Sales	\$85,420	\$46	A	\$85,466
Operating Expenses:				
Operation & Maintenance Expenses:				
Salaries & Wages - Employees	\$57,950	\$1,349	B	\$59,299
Employee Pensions & Benefits	4,359	2,714	C	7,073
Purchased Water	7,503	0		7,503
Purchased Power	8,006	202	D	8,208
Chemicals	7,823	0		7,823
Materials & Supplies	22,298	(9,800)	E	12,498
Contractual Services	4,845	0		4,845
Transportation Expense	1,221	0		1,221
Insurance	6,221	73	F	6,294
Miscellaneous	3,554	271	G	3,825
Total Operation & Maintenance Exp.	\$123,780	(\$5,191)		\$118,589
Depreciation	21,509	0		21,509
Amortization	0	1,960	H	1,960
Taxes Other Than Income Taxes	6,140	121	I	6,261
Total Operating Expenses	\$151,429	(\$3,110)		\$148,319
Net Operating Income	(\$66,009)	\$3,156		(\$62,853)
Other Income & Deductions:				
Availability Charges	59,660	0		59,660
Net Income Available for Operations	(\$6,349)	\$3,156		(\$3,193)

A. Operating Revenue:

Staff prepared a billing analysis using the Water Division's test-period water sales. This adjustment reflects the results of Staff's billing analysis and the Water Division's current tariffed water rates on file with the Commission.

	Number of Bills	Total Gallons	First 3,000 Gallons	Next 4,000 Gallons	Over 7,000 Gallons
First 3,000 Gal.	1,486	1,922,832	1,922,832		
Next 4,000 Gal.	2,024	10,029,180	6,072,000	3,957,180	
Over 7,000 Gal.	1,229	14,439,763	3,687,000	4,916,000	5,836,763
	4,739	26,391,775	11,681,832	8,873,180	5,836,763
			Number of Bills	Total Gallons	Normalized Revenue
First 3,000 Gal.	\$9.90 Min. Bill		4,739	11,681,832	\$46,916
Next 4,000 Gal.	\$2.70 per 1,000 Gal.			8,873,180	23,958
Over 7,000 Gal.	\$2.50 per 1,000 Gal.			5,836,763	14,592
Normalized Revenues from Rates					\$85,466
Less: Reported Revenues from Rates					85,420
Requested Adjustment					\$46

B. Salaries & Wages - Employees:

Doe Valley's payroll is allocated to the utility and then allocated between the Sewer and Water Divisions. To check the validity of its allocation factors, Doe Valley has performed several time studies. This adjustment reflects allocating 70 percent of the total salary expense, including the 4 percent pay raise, to the Water Division.

Employee Position	Salaries Allocated to Utility			Allocation Factor	Pro Forma Salaries
	Salaries	4 % Increase	Increased		
General Mgr/Pres.	\$10,000	\$400	\$10,400	70%	\$7,280
Comptroller	\$8,400	\$336	\$8,736	70%	6,115
Sec/Payroll Clerk	\$4,575	\$183	\$4,758	70%	3,331
Accounting	\$4,660	\$186	\$4,846	70%	3,392
Billing/Accounting	\$4,000	\$160	\$4,160	70%	2,912
Manager	\$28,500	\$1,140	\$29,640	70%	20,748
Assistant Manager	\$21,320	\$853	\$22,173	70%	15,521
Pro Forma Water Salaries & Wages - Emp					\$59,299
Less: Water Salaries & Wages - Emp					57,950
Requested Adjustment					\$1,349

C. Employee Pensions & Benefits:

Doe Valley provides health insurance, life insurance, and dental insurance to its employees. On January 1, 1997, Doe Valley established an employee retirement plan. This adjustment reflects allocating 70 percent of the retirement plan cost and the 1996 employee health insurance premiums to the Water Division.

Employee Position	Emp. Ins. Premium	Salary Allocation	Allocated Premiums	Allocation Factor	Pro Forma Emp. Ins.
General Mgr/Pres.	\$2,037	100%	\$2,037	70%	\$1,426
Comptroller	\$2,437	16%	\$390	70%	273
Sec/Payroll Clerk	\$1,892	21%	\$397	70%	278
Accounting	\$1,928	21%	\$405	70%	284
Billing/Accounting	\$1,866	26%	\$485	70%	340
Manager	\$1,981	100%	\$1,981	70%	1,387
Assistant Manager	\$1,866	100%	\$1,866	70%	1,306
Retirement Fund	\$59,299 (Payroll)	x	3% (Rate) =		1,779
Pro Forma Employee Pensions & Benefits					\$7,073
Less: Employee Pensions & Benefits					4,359
Requested Adjustment					\$2,714

D. Purchased Power:

This adjustment reflects the actual electric expense incurred during the test period.

Service Month	Allocation of Office Electric				Total Water Electric
	Total	Allocation Factor	Allocated Amount	Direct Electric Billed	
Jan-95	\$58	70%	\$41	\$598	\$639
Feb-95	44	70%	31	611	642
Mar-95	60	70%	42	565	607
Apr-95	20	70%	14	567	581
May-95	62	70%	43	559	602
Jun-95	56	70%	39	601	640
Jul-95	70	70%	49	625	674
Aug-95	18	70%	13	746	759
Sep-95	72	70%	50	846	896
Oct-95	32	70%	22	744	766
Nov-95	70	70%	49	623	672
Dec-95	39	70%	27	703	730
Totals			\$420	\$7,788	\$8,208
Less: Reported Purchased Power					8,006
Staff's Recommended Adjustment					\$202

E. Materials & Supplies:

During the test period, the Water Division's tank was sanded & painted. This is a non-recurring expenditure that should be amortized rather than expensed. This adjustment removes this cost from test period expenses and Adjustment H reflects the amortization.

<u>Vendor & Invoice #</u>	<u>Description</u>	<u>Amount</u>
Corydon Tank & Tower - Inv. No. 1009	Sand & Paint Water Tank	(\$1,200)
Corydon Tank & Tower - Inv. No. 1015	Sand & Paint Water Tank	(8,600)
Requested Adjustment		(\$9,800)

F. Insurance:

This adjustment reflects the 1995 workers' compensation rates and the pro forma payroll.

	<u>Water Payroll</u>	<u>Manual Rate per \$100</u>	<u>Premium</u>
Operations Staff	\$36,269	\$5.10	\$1,850
Administrative Staff	\$23,030	\$0.39	90
Total Manual Premium			\$1,940
Multiplied by: Experience Modification Factor			84%
Standard Premium			\$1,630
Less: Prem. Disc. 13.29% (Discount Rate) x	\$1,630 (Std. Premium) =		217
AIK Disc. 10.00% (AIK Disc. Rate) x	\$1,413 (Sub-Total) =		141
Tax 9.70% (Tax Rate) x	\$1,272 (Taxable Prem) =		123
Pro Forma Workers Comp Premium			\$1,149
Less: Reported Workers Comp Premium			1,076
Requested Adjustment			\$73

G. Miscellaneous:

In the test period, numerous miscellaneous expenses were incorrectly allocated between the Water and Sewer Divisions. This adjustment corrects these allocation errors for the Water Division operations.

	<u>Total Amounts</u>	<u>Allocation Factor</u>	<u>Allocated Amounts</u>
Telephone - BellSouth	\$336	70%	\$235
Telephone - Administrative	\$453	70%	317
Telephone - Louisville Line	\$168	70%	118
Telephone - Water Plant	\$363	100%	363
Computer Service	\$698	70%	489
Dues & Subscriptions	\$430	70%	301
Gas Heat - Water Plant	\$1,271	100%	1,271
Mileage	\$19	70%	13
Automobile - Repair & Maintenance	\$527	70%	369
Printing - Utility Bills	\$499	70%	349
Corrected Miscellaneous Expense			\$3,825
Less: Reported Miscellaneous Exp.			3,554
Requested Adjustment			\$271

H. Amortization:

This adjustment amortizes the cost of tank painting & repair over the estimated useful life of the tank.

	Amount	Estimated Life (Years)	Amortization Expense
	-----	-----	-----
Tank Painting & Repair	\$9,800	5	\$1,960

I. Taxes Other Than Income Taxes:

This adjustment includes the change in FICA expense resulting from the pro forma payroll allocation.

Pro Forma Water Salaries & Wages - Emp	\$59,299
Multiplied by: Current FICA Rate	7.65%

Pro Forma FICA Expense	\$4,536
Less: Reported FICA Expense	4,415

Requested Adjustment	\$121

DOE VALLEY UTILITIES, INC

CASE NO. 96-497

WATER DIVISION

REVENUE REQUIREMENT
DETERMINATION; RATE
COMPARISON; & CASH
FLOW CALCULATION

ATTACHMENT

C

Water Division's Revenue Requirement

Pro Forma Operating Expenses	\$147,782
Divided by: Recommended Operating Ratio	88%
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Total Revenue Requirement	\$167,934
Less: Availability Charges	59,660
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Revenue Requirement from Water Sales	\$108,274
Less: Normalized Operating Revenues	85,466
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Revenue Increase	\$22,808
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Staff's Revenue Requirement

Pro Forma Operating Expenses	\$148,319
Divided by: Recommended Operating Ratio	88%
<hr/>	
Total Revenue Requirement	\$168,544
Less: Availability Charges	59,660
<hr/>	
Revenue Requirement from Water Sales	\$108,884
Less: Normalized Operating Revenues	85,466
<hr/>	
Revenue Increase Staff Believes the Water Division could Justify	\$23,418
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Water Division's Requested Rates

	Bills	Gallons(/1,000)	Rates	Revenue
	<hr/>	<hr/>	<hr/>	<hr/>
First 3,000 Gal.	4,739	11,681.832	\$12.54 Min. Bill	\$59,427
Next 4,000 Gal.		8,873.180	\$3.42 per 1,000 Gal.	30,346
Over 7,000 Gal.		5,836.763	\$3.17 per 1,000 Gal.	18,503
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Totals				\$108,276
<hr/>				<hr/>
5/8 Inch Connection Fee				\$395
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The Rates the Water Division Could Justify

	Bills	Gallons(/1,000)	Rates	Revenue
	<hr/>	<hr/>	<hr/>	<hr/>
First 3,000 Gal.	4,739	11,681.832	\$12.61 Min. Bill	\$59,759
Next 4,000 Gal.		8,873.180	\$3.44 per 1,000 Gal.	30,524
Over 7,000 Gal.		5,836.763	\$3.18 per 1,000 Gal.	18,561
<hr/>				<hr/>
Totals				\$108,844
<hr/>				<hr/>
5/8 Inch Connection Fee				\$395
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Cash Flow Calculation

	Staff's Pro Forma Operations	Requested Increase	Staff's Operations with the Requested Increase
Operating Revenues	\$85,466	\$22,808	\$108,274
Less: Operating Expenses	148,319	0	148,319
Net Operating Income	(\$62,853)	\$22,808	(\$40,045)
Add: Depreciation & Amortization	23,469	0	23,469
Availability Fees	59,660	0	59,660
Net Cash Flow	\$20,276	\$22,808	\$43,084

DOE VALLEY UTILITIES, INC

CASE NO. 96-497

SEWER DIVISION

PROPOSED
PRO FORMA OPERATIONS

ATTACHMENT

D

	Actual Operations	Pro Forma Adjustments	Pro Forma Operations
	-----	-----	-----
Revenue:			
Metered Sales	\$29,914	\$0	\$29,914
Availability Charges	46,408	0	46,408
	-----	-----	-----
Total Revenue	\$76,322	\$0	\$76,322
	-----	-----	-----
Expenses:			
Operating	\$22,893	\$598	\$23,491
Maintenance	6,875	0	6,875
Customer Accounts	2,200	0	2,200
Administrative & General	26,724	380	27,104
Depreciation	26,395	0	26,395
Taxes	3,155	75	3,230
	-----	-----	-----
Total Expenses	\$88,242	\$1,053	\$89,295
	-----	-----	-----
Net Available for Operations	(\$11,920)	(\$1,053)	(\$12,973)
	-----	-----	-----

DOE VALLEY UTILITIES, INC

CASE NO..96-497

SEWER DIVISION

STAFF'S
RECOMMENDED
PRO FORMA OPERATIONS

ATTACHMENT
E

	Actual Operations	Pro Forma Adjustments	Ref	Pro Forma Operations
Operating Revenues:				
Sewer Revenues - Flat Rates	\$29,914	\$2,882	A	\$32,796
Operating Expenses:				
Operation & Maintenance Expenses:				
Salaries & Wages - Employees	\$24,320	\$1,094	B	\$25,414
Employee Pensions & Benefits	3,538	(507)	C	3,031
Sludge Hauling	342	0		342
Other - Labor, Materials, & Expense	200	0		200
Purchased Power	7,434	528	D	7,962
Collection System Supplies	2,143	0		2,143
Maintenance - Structures & Improvements	1,233	(705)	E	528
Maintenance - Pumping System	3,784	(3,014)	F	770
Maintenance - Treatment & Disposal	1,374	0		1,374
Maintenance - Other	484	0		484
Office Supplies & Other Expenses	1,025	0		1,025
Outside Services Employed	2,507	0		2,507
Insurance	6,224	(265)	G	5,959
Transportation	898	0		898
Miscellaneous	1,385	(446)		939
Maintenance - General Plant	1,801	0	H	1,801
Total Operation & Maintenance Exp.	\$58,692	(\$3,315)		\$55,377
Depreciation	26,395	(11,088)	I	15,307
Amortization	0	0		0
Taxes Other Than Income Taxes	3,155	91	J	3,246
Total Operating Expenses	\$88,242	(\$14,312)		\$73,930
Net Operating Income	(\$58,328)	\$17,194		(\$41,134)
Other Income & Deductions:				
Availability Charges	46,408	0		46,408
Net Income Available for Operations	(\$11,920)	\$17,194		\$5,274

A. Operating Revenue:

This adjustment reflects the sewer division's current customer level and the current tariffed rate on file with the Commission.

\$6.65	(Present Monthly Rate) x	411 (Customers) =	\$2,733
Multiplied by: 12 Months			12

Pro Forma Revenue from Rates			\$32,796
Less: Reported Revenue from Rates			29,914

Staff's Recommended Adjustment			\$2,882
			=====

B. Salaries & Wages - Employees:

Doe Valley's payroll is allocated to the utility and then allocated between the Sewer and Water Divisions. To check the validity of its allocation factors, Doe Valley has performed several time studies. This adjustment reflects allocating 30 percent of the total salary expense, including the 4 percent pay raise, to the Sewer Division.

Employee Position	Salaries Allocated to Utility			Allocation Factor	Pro Forma Salaries
	Salaries	4 % Increase	Increased		
General Mgr/Pres.	\$10,000	\$400	\$10,400	30%	\$3,120
Comptroller	\$8,400	\$336	\$8,736	30%	2,621
Sec/Payroll Clerk	\$4,575	\$183	\$4,758	30%	1,427
Accounting	\$4,660	\$186	\$4,846	30%	1,454
Billing/Accounting	\$4,000	\$160	\$4,160	30%	1,248
Manager	\$28,500	\$1,140	\$29,640	30%	8,892
Assistant Manager	\$21,320	\$853	\$22,173	30%	6,652

Pro Forma Sewer Salaries & Wages - Emp					\$25,414
Less: Sewer Salaries & Wages - Emp					24,320

Staff's Recommended Adjustment					\$1,094
					=====

C. Employee Pensions & Benefits:

Doe Valley provides health insurance, life insurance, and dental insurance to its employees. On January 1, 1997, Doe Valley established an employee retirement plan. This adjustment reflects allocating 30 percent of the retirement plan cost and the 1996 employee health insurance premiums to the sewer division.

Employee Position	Emp. Ins. Premium	Salary Allocation	Allocated Premiums	Allocation Factor	Pro Forma Emp. Ins.
General Mgr/Pres.	\$2,037	100%	\$2,037	30%	\$611
Comptroller	\$2,437	16%	\$390	30%	117
Sec/Payroll Clerk	\$1,892	21%	\$397	30%	119
Accounting	\$1,928	21%	\$405	30%	122
Billing/Accounting	\$1,866	26%	\$485	30%	146
Manager	\$1,981	100%	\$1,981	30%	594
Assistant Manager	\$1,866	100%	\$1,866	30%	560
Retirement Fund					-----
	\$25,414 (Pro Forma Sal.) x		3% (Rate) =		762
Pro Forma Employee Pensions & Benefits					\$3,031
Less: Employee Pensions & Benefits					3,538

Staff's Recommended Adjustment					(\$507)
					=====

D. Purchased Power:

This adjustment reflects the actual electric expense incurred during the test period.

Service Month	Allocation of Office Electric			Direct Electric Billed	Total Sewer Electric
	Total	Allocation Factor	Allocated Amount		
Jan-95	\$58	30%	\$17	\$986	\$1,003
Feb-95	44	30%	13	893	906
Mar-95	60	30%	18	831	849
Apr-95	20	30%	6	546	552
May-95	62	30%	19	446	465
Jun-95	56	30%	17	556	573
Jul-95	70	30%	21	462	483
Aug-95	18	30%	5	521	526
Sep-95	72	30%	22	567	589
Oct-95	32	30%	10	586	596
Nov-95	70	30%	21	631	652
Dec-95	39	30%	12	756	768
Totals			\$181	\$7,781	\$7,962
Less: Reported Purchased Power					7,434
Requested Adjustment					\$528

E. Maintenance - Structures & Improvements:

During the test period, the backhoe engine was replaced. This is a capital expenditure that should be depreciated rather than expensed. This adjustment removes this cost from test period expenses and Adjustment I reflects the depreciation.

Vendor & Invoice #	Description	Amount
Hunt Tractor - Invoice No. IV202253	Engine Kit for Backhoe	(\$705)

F. Maintenance - Pumping System:

During the test period, two grinder pumps were installed. These are capital expenditures that should be depreciated rather than expensed. This adjustment removes the cost of the pumps from test period expenses and Adjustment I reflects the depreciation.

Vendor & Invoice #	Description	Amount
Eubank Hall - Invoice No. 26773	Barnes 2Hp Grinder Pump	(\$1,205)
Eubank Hall - Invoice No. 26678	Guide Rails & Barnes Pump	(1,809)
Requested Adjustment		(\$3,014)

G. Insurance:

This adjustment reflects the 1995 workers' compensation rates and the pro forma payroll.

	Water Payroll	Manual Rate per \$100	Premium
Operations Staff	\$15,544	\$5.10	\$793
Administrative Staff	\$9,870	\$0.39	38
Total Manual Premium			\$831
Multiplied by: Experience Modification Factor			84%
Standard Premium			\$698
Less: Prem. Disc.	13.29% (Discount Rate) x	\$698 (Std. Premium) =	93
AIK Disc.	10.00% (AIK Disc. Rate) x	\$605 (Sub-Total) =	61
Tax	9.70% (Tax Rate) x	\$544 (Taxable Prem) =	53
Pro Forma Workers Comp Premium			\$491
Less: Reported Workers Comp Premium			756
Requested Adjustment			(\$265)

H. Miscellaneous:

In the test period, numerous miscellaneous expenses were incorrectly allocated between the Water and Sewer Divisions. This adjustment corrects these allocation errors for the Sewer Division operations.

	Total Amounts	Allocation Factor	Allocated Amounts
Telephone - BellSouth	\$336	30%	\$101
Telephone - Administrative	\$453	30%	136
Telephone - Louisville Line	\$168	30%	50
Telephone - Water Plant	\$363	0%	0
Computer Service	\$698	30%	209
Dues & Subscriptions	\$430	30%	129
Gas Heat - Water Plant	\$1,271	0%	0
Mileage	\$19	30%	6
Automobile - Repair & Maintenance	\$527	30%	158
Printing - Utility Bills	\$499	30%	150
Miscellaneous Expense			\$939
Less: Reported Miscellaneous Exp.			1,385
Requested Adjustment			(\$446)

I. Depreciation:

Depreciation Expense for the Sewer Division's pre-1989 Utility Plant in Service was calculated using a 20 depreciable life. In Case No. 92-263, the Commission determined that a 40 year depreciable life was more appropriate, and therefore reduced the Sewer Division's depreciation expense by \$11,531 to reflect a 40 year depreciable life. This adjustment reflects the adjustment from that prior case and depreciating the cost of the capital expenditures over their estimated useful lives.

	Amount	Estimated Lives(Years)	Depreciation Expense
40-Year Depreciation Life Adjustment			(\$11,531)
Engine Kit for Backhoe	705	5	141
Barnes 2Hp Grinder Pump	1,205	10	121
Guide Rails & Barnes Pump	1,809	10	181
Staff's Recommended Adjustment			(\$11,088)

J. Taxes Other Than Income Taxes:

This adjustment reflects the change in FICA expense resulting from Staff's pro forma payroll allocation.

Pro Forma Water Salaries & Wages - Emp	\$25,414
Multiplied by: Current FICA Rate	7.65%

Pro Forma FICA Expense	\$1,944
Less: Reported FICA Expense	1,853

Requested Adjustment	\$91

DOE VALLEY UTILITIES, INC

CASE NO. 96-497

SEWER DIVISION

REVENUE REQUIREMENT
DETERMINATION &
RATE COMPARISION

ATTACHMENT

F

Sewer Division's Revenue Requirement

Pro Forma Operating Expenses	\$89,295
Divided by: Requested Operating Ratio	88%

Total Revenue Requirement	\$101,472
Less: Availability Charges	46,408

Revenue Requirement from Sewer Service	\$55,064
Less: Normalized Operating Revenues	29,914

Doe Valley's Requested Revenue Increase	\$25,150
	=====

Staff's Revenue Requirement

Pro Forma Operating Expenses	\$73,930
Divided by: Recommended Operating Ratio	88%

Total Revenue Requirement	\$84,011
Less: Availability Charges	46,408

Revenue Requirement from Sewer Service	\$37,603
Less: Normalized Operating Revenues	32,796

Staff's Recommended Revenue Increase	\$4,807
	=====

Sewer Division's Requested Rate

Monthly Flat Residential Rate	\$11.16
	=====

Staff's Recommended Rate

Revenue Requirement from Sewer Service	\$37,603
Divided by: 12-Months	12

Required Monthly Collections	\$3,133.58
Divided by: Test-Period Customer Level	411

Monthly Flat Residential Rate	\$7.62
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