

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BEECH GROVE WATER)
SYSTEM FOR A RATE ADJUSTMENT PURSUANT) CASE NO.
TO THE ALTERNATIVE RATE FILING PROCEDURE) 97-021
FOR SMALL UTILITIES)

O R D E R

On April 7, 1997, Beech Grove Water System ("Beech Grove") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Beech Grove'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.

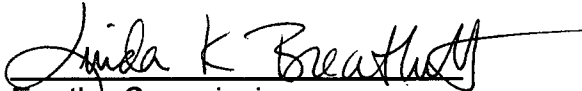
IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order, or 90 days after the date the application was filed, whichever is later, to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 20th day of May, 1997.

ATTEST:

PUBLIC SERVICE COMMISSION


Executive Director


For the Commission

COMMONWEALTH OF KENTUCKY
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In the Matter of:

THE APPLICATION OF BEECH GROVE WATER)
SYSTEM FOR A RATE ADJUSTMENT PURSUANT)
TO THE ALTERNATIVE RATE FILING PROCEDURE) CASE NO. 97-021
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STAFF REPORT

Prepared By: Carl Salyer Combs
Public Utility Financial
Analyst, Senior
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

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Communications, Water and
Sewer Rate Design Branch
Rates and Research Division

STAFF REPORT

ON

CASE NO. 97-021

A. Preface

On April 7, 1997, Beech Grove Water System ("Beech Grove") filed an application with the Commission seeking to increase its water rates pursuant to the Alternative Rate Filing Procedure for Small Utilities. The proposed rates would generate approximately \$34,668 annually in additional revenues, an increase of 36.1 percent over normalized test-year revenues of \$96,148.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Beech Grove's operations for the test period, calendar year 1995. Since Beech Grove requested and received Staff assistance in preparing this application, the field review was done prior to the filing of the application. Carl Salyer Combs conducted the review on September 25, 1996, at Beech Grove's office in Beech Grove, Kentucky. Mr. Combs is responsible for this Staff Report except for the sections on operating revenues and rate design which were prepared by Carryn Lee of the Commission's Division of Rates and Research.

During the course of the review, Beech Grove was informed that all proposed adjustments to test-year expenses must be supported by some form of documentation, such as an invoice, or that all such adjustments must be known and measurable. Based

upon the findings of this report, Staff recommends that Beech Grove be authorized to increase its annual operating revenues by \$34,668.

Scope

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

B. Analysis of Operating Revenues and Expenses

Operating Revenues

Beech Grove reported test year operating revenue from water sales in the amount of \$88,109. Staff prepared a billing analysis based on 1995 customer usage which showed test year revenue from water sales of \$90,561. Beech Grove reported other revenues in the amount of \$8,587, however, \$3,000 of this amount was for tap fees (\$2,500) and deposits (\$500) and should not be included in this revenue category. The tap fees of \$2,500 should be shown on Beech Grove's balance sheet in Account Number 271, while the \$500 should be shown in Account Number 235 -- Customer Deposits. This report is based on operating revenue from water sales of \$90,561 and other operating revenue in the amount of \$5,587 for a total test year revenue of \$96,148.

Operating Expenses

Beech Grove incurred, and the Staff-assisted application included, test-period operating expenses of \$95,515. Beech Grove proposed to increase that amount by \$29,496. Beech Grove's proposed adjustments and Staff's recommendations are

discussed in the following sections:

Salaries and Wages, Employees

Beech Grove proposed to increase reported test-year salaries and wages for employees of \$9,075 by \$4,937 to reflect the fact that its maintenance employee's status has changed from part-time to full-time. According to Beech Grove, Dirk Eastwood works a minimum of 40 hours per week and is on call at other times in case of water-line breaks, etc. Mr. Eastwood's duties include: installing new meters, reading all meters, repairing all leaks, cleaning around fire hydrants, mowing around the two storage tanks, and checking master meters and pumps. Staff is of the opinion that the proposed adjustment is reasonable and recommends inclusion of annual salaries and wages for employees of \$14,012 for rate-making purposes.

Pensions/Benefits Expense

Beech Grove reported no test-period pensions/benefits expense, but proposed an annual expense of \$1,780 (\$148.35 per month) to reflect provision of an individual health insurance policy for its full-time maintenance employee, Mr. Eastwood. This benefit was not provided for the previous, part-time maintenance employee. Staff is of the opinion that this proposed adjustment is reasonable. Therefore, annual pensions/benefits expense of \$1,780 has been included for rate-making purposes.

Purchased Water Expense

Beech Grove proposed to increase reported test-period purchased water expense of \$55,273 to reflect purchases from a second supplier, the City of Henderson ("Henderson"), which began in August, 1996. The additional purchases became necessary

due to having several chicken houses come on-line as new customers. Beech Grove reported annual water loss of 8.84 percent for the test period (1995) and 11.96 percent for 1996.

A review of test-period invoices from Beech Grove's long-standing water supplier, West Daviess County Water District ("West Daviess"), revealed total purchases of \$60,138, an increase of \$4,865 over the reported test-year amount.

Since Staff did not have at its disposal a full-year's record of purchases from Henderson, Beech Grove provided the amount of purchases for the four-month period of August through November of 1996. That total (\$5,195.75), multiplied by three yields an annual, extrapolated total of \$15,587. That amount, added to the aforementioned total of \$60,138 purchased from West Daviess, yields a grand total of \$75,725. Therefore, Staff recommends inclusion of annual purchased water expense of \$75,725 for rate-making purposes.

Transportation Expense

Beech Grove proposed to increase reported test-year transportation expense of \$451 by \$1,735 based upon amounts reimbursed to Mr. Eastwood. According to Beech Grove, the large increase is due to the fact that the previous, part-time maintenance employee was not reimbursed in a reasonable manner due to lack of funds. For two months in the latter half of 1996, Mr. Eastwood was reimbursed a total of \$364.25 which amounts to 1,457 miles at \$.25 per mile. Since only two months of data was available for analysis, Staff is of the opinion that annualization of the two-month total is reasonable. Therefore, Staff recommends that annual transportation expense of \$2,186 ($\364.25×6)

be included for rate-making purposes.

Depreciation Expense

Beech Grove proposed to increase reported test-year depreciation expense of \$5,656 by \$214 to reflect several items that Beech Grove stated that it needs to purchase. Beech Grove's proposed purchases consist of a small pump (\$160/10 years), 16 tools (\$869/15 years), 2 meters and fittings (\$800/10 years), and a fence (\$1,190/20 years). Staff's Engineering Division is of the opinion that the items are needed and that the estimated lives of the items are reasonable. Therefore, Staff recommends that the proposed adjustment be accepted and that annual depreciation expense of \$5,870 be included for rate-making purposes.

Taxes Other Than Income Taxes

Beech Grove proposed to increase reported test-year taxes other than income taxes expense of \$2,212 by \$378¹ to reflect additional taxes associated with additional annual wages for Mr. Eastwood. The test-year amount of \$2,212 was composed of payroll taxes of \$1,456, other taxes and licenses expense of \$633, and a Public Service Commission assessment of \$123. Staff is of the opinion that the proposed adjustment is reasonable and has included annual taxes other than income taxes expense of \$2,590 for rate-making purposes.

1	Additional Wages	\$4,937
	FICA Rate - 7.65 Percent	<u>X .0765</u>
	Additional Expense	\$ 378

Operations Summary

Based on the recommendations of Staff contained in this report, Beech Grove's operating statement would appear as shown in Attachment 1.

C. Revenue Requirements Determination

Beech Grove's annual debt service requirement, payable to General Electric Capital Corporation, is \$6,041. Beech Grove's adjusted operations reflect \$(27,419) in income available for debt service which results in a debt service coverage ("DSC") of (4.54X). Staff is of the opinion that Beech Grove's current rates are inadequate and will not cover payment of operating expenses and debt service requirements. In cases involving water utilities, the Commission's normal practice is to allow a 1.2 DSC which provides a 20 percent margin above annual principal and interest requirements. Therefore, Staff recommends an increase in annual revenues of \$34,668 calculated as follows:

1.2X DSC	\$ 7,249
Adjusted Operating Expense	<u>125,011</u>
Total Revenue Requirement	\$132,260
LESS:	
Adjusted Test-Year Revenues	96,148
Other Inc./Deductions	<u>1,444</u>
Increase Required	\$ <u>34,668</u>

D. Rate Design

Beech Grove proposed to increase its turn on charge from \$1 to \$25 and to increase its reconnection charge from \$10 to \$25. Beech Grove proposed to establish a charge of \$25 for termination or collection, meter resetting, and meter testing and a fee of \$35 for each returned check. A late payment penalty of 10 percent was also proposed. Beech Grove proposed to increase its connection fee for a 5/8 inch connection from \$200 to \$500

and to charge the actual cost of installation for all larger services.

Staff has reviewed the cost justification filed for these charges and recommends that they be approved with the exception of the returned check fee. Beech Grove filed cost justification to support a \$25 fee for all charges that require a field trip but did not file cost justification for the returned check fee. In its response to this Staff report, Beech Grove may file justification for a returned check fee if it so desires. The Staff recommended nonrecurring charges are set out in Appendix A.

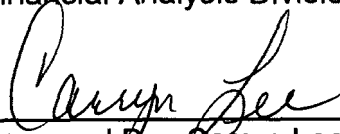
Beech Grove's current rates are based on a declining block rate design consisting of six steps with a 2,000 gallon minimum usage allowance. Beech Grove proposed to decrease the number of steps to three, consisting of a minimum allowance of 2,000 gallons, a next 98,000 gallon increment and an increment for all usage over 100,000 gallons.

Staff prepared a limited cost of service study based on the billing analysis and the recommended allowable expenses set out in this report. The cost of service study is contained in Attachment 2. Staff recommends that the rates produced by the study be accepted with minor adjustments. The rates contained in Appendix A will produce the revenue set out in this report and are the rates recommended by Staff.

E. Signatures



Prepared By: Carl Salyer Combs
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Requirements Branch
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Prepared By: Carryn Lee, Manager
Communications, Water and
Sewer Rate Design Branch
Rates and Research Division

ATTACHMENT 1
TO STAFF REPORT IN CASE NO. 97-021

	<u>Test Period</u> <u>Application</u>	<u>Recommended</u> <u>Adjustments</u>	<u>Test Year</u> <u>Adjusted</u>
Revenues:			
Water Sales	\$88,109	\$ 2,452	\$ 90,561
Other Revs.	<u>8,587</u>	(3,000)	<u>5,587</u>
Total Rev.	\$96,696	\$(548)	\$ 96,148
Expenses:			
Salaries/Wages- Employees	\$ 9,075	\$ 4,937	\$ 14,012
Salaries/Wages- Officers	2,591	-0-	2,591
Pens./Benefits	-0-	1,780	1,780
Purchased Water	55,273	20,452	75,725
Electricity	553	-0-	553
Mat./ Supplies	14,279	-0-	14,279
Contract. Services	1,829	-0-	1,829
Transportation	451	1,735	2,186
Insurance	1,789	-0-	1,789
Reg. Comm. Exp.	122	-0-	122
Bad Debt	1,269	-0-	1,269
Miscellaneous	416	-0-	416
Depreciation	5,656	214	5,870
Taxes Other Than Income Taxes	<u>2,212</u>	<u>378</u>	<u>2,590</u>
Total Expense	\$ <u>95,515</u>	\$ <u>29,496</u>	\$ <u>125,011</u>
Net Operating Income	\$ 1,181	\$(30,044)	\$(28,863)
Other Inc./Ded.:			
Interest/Div.	\$ 1,444	\$ -0-	\$ 1,444
Income Available for Debt Service	\$ <u>2,625</u>	\$ <u>(30,044)</u>	\$ <u>(27,419)</u>

ALLOCATION OF OPERATION AND MAINTENANCE				
	TOTAL	COMMODITY	DEMAND	CUSTOMER
SALARIES	\$14,012			\$14,012
PEN. BENEFITS	1,780			1,780
PURCHASED WATER	75,725	75,725		
SALARIES OFFICERS	2,591		1,296	1,296
ELECTRICITY	553		553	
TRANSPORTATION	2,186		1,093	1,093
BAD DEBT	1,269			1,269
MATERIALS/SUPPLIES	14,279		7,140	7,140
CONTRACT SER	1,829		1,829	
INSURANCE	1,789		895	895
REGULATORY	122		61	61
MISC.	416		208	208
SUB TOTAL	116,551	75,725	13,074	27,753
LESS COMMODITY	75,725			
TOTAL	40,826		13,073	27,752
PERCENTAGE			32.02%	67.98%
DEPRECIATION	5,870		1,880	3,990
TAXES	2,590		829	1,761
TOTAL	\$125,011	\$75,725	\$15,782	\$33,503

BEECH GROVE WATER SYSTEM

ALLOCATION OF COST TO RATE STEPS				
		FIRST	NEXT	OVER
	TOTAL	2,000	98,000	100,000
ACTUAL SALES				
GALLONS	25,320,223	8,109,234	15,683,249	1,527,740
PERCENT	100.00%	32.03%	61.94%	6.03%
WEIGHTED SALES				
GALLONS	41,271,082	16,218,468	23,524,874	1,527,740
PERCENT	100.00%	39.30%	57.00%	3.70%
COMMODITY	75,725	24,252	46,904	4,569
DEMAND	15,782	6,202	8,996	584
CUSTOMER	33,503	33,502		
TOTAL	\$125,010	\$63,956	\$55,900	\$5,153
Less Bulk				\$931
TOTAL	\$125,010	\$63,956	\$55,900	\$4,222
WATER RATE (1)		\$13.47	\$3.56	\$2.76
(1) MINIMUM BILL DETERMINED BY DIVIDING COST BY NUMBER OF BILLS.				

VERIFICATION OF REVENUE				
	Bills	Gallons	Rate	Revenue
First 2,000 gallons	4,749	8,109,234	\$13.50	\$64,112
Next 98,000 gallons		15,683,249	3.56	55,832
Over 100,000 gallons		1,527,740	2.87	4,385
Bulk Sales		338,400	2.75	931
Annual Revenue				\$125,259

APPENDIX A

APPENDIX TO THE STAFF REPORT IN CASE NO. 97-021

The following are the rates recommended by Commission Staff for the customers of the Beech Grove Water System.

Monthly Rates:

First	2,000 Gallons	\$13.50	Minimum Bill
Next	98,000 Gallons	3.56	per 1,000 gallons
Over	100,000 Gallons	2.87	per 1,000 gallons

Bulk Loading Stations	2.75	per 1,000 gallons
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Nonrecurring Charges:

Turn-On Charge	\$25
Reconnection Charge	25
Termination or Collection Charge	25
Meter Resetting Charge	25
Meter Test Charge	25
Late Payment Penalty	10 percent

Meter Connection Fees:

5/8 Inch Connection	\$500
Larger than 5/8 Inch	Actual Cost of Installation