

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF OVERLAND)
DEVELOPMENT, INC. FOR AN)
ADJUSTMENT OF RATES PURSUANT) CASE NO. 97-170
TO THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On May 9, 1997, Overland Development, Inc. ("Overland") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Overland'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 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.

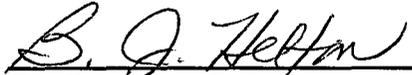
Done at Frankfort, Kentucky, this 31st day of October, 1997.

ATTEST:

PUBLIC SERVICE COMMISSION



Executive Director



For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF OVERLAND)
DEVELOPMENT INC. FOR AN)
ADJUSTMENT OF RATES PURSUANT) CASE NO. 97-170
TO THE ALTERNATIVE 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: Renee Curry
Public Utility Rate Analyst
Communications, Water and
Sewer Rate Design Branch
Financial Analysis Division

STAFF REPORT
ON
OVERLAND DEVELOPMENT, INC
CASE NO. 97-170

On March 3, 1997, Overland Development, Inc. ("Overland") submitted its application seeking to increase rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). However, due to filing deficiencies, Overland's application was not considered filed until May 9, 1997. In order to evaluate Overland's requested increase, Staff performed a limited financial review of Overland's test-period operations for the 1996 calendar year.

The scope of the review was limited to obtaining information to determine whether the 1996 operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Mark Frost and Sam Reid of the Commission's Division of Financial Analysis performed the limited review on June 18, 1997. Mr. Frost is responsible for the preparation of this Staff Report, except for Exhibit B, Operating Revenue Normalization; and Exhibit D, Rate Determination and Comparison, which were prepared by Renee Curry of the Commission's Division of Financial Analysis.

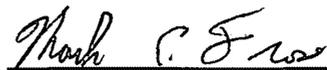
Comparisons of the Overland's actual and pro forma operations are shown as Exhibit A. Based upon Staff's recommended adjustments, Overland's pro forma operations would appear as set forth in Exhibit B.

in its application, Overland requested an increase in its revenue from rates of \$3,607. However when Overland's requested rates are combined with Staff's billing

analysis they produce a revenue requirement of \$37,441, an increase in revenue from rates of \$3,572. However, as shown in Exhibit C, based on its recommended pro forma operations and the 88 percent operating ratio normally allowed by this Commission, Staff believes Overland could justify additional revenues of \$6,453. As shown in that same Exhibit, Overland's requested revenue increase will produce a positive cash flow of \$3,764, and therefore Staff recommends the Commission approve Overland's proposed rates.

Overland 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 Overland amend its application, Staff recommends that Overland be required to notify its customers of the amended rate proposal. Exhibit D contains both Overland's proposed rates that will achieve a revenue increase of \$3,572, and the rates that will produce the revenue increase of \$6,453.

Signatures



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

Staff Report
PSC Case No. 97-170
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Renee Curry by. CC

Prepared by: Renee Curry
Public Utility Rate Analyst
Communications, Water and
Sewer Rate Design Branch
Financial Analysis Division

OVERLAND
DEVELOPMENT, INC.

EXHIBIT
A

OVERLAND'S
PRO FORMA
OPERATIONS

| | Actual Operations | Requested Increase | Requested Operations |
|---|----------------------|-----------------------|-------------------------|
| Operating Revenue: | | | |
| Metered Water Sales - Residential | \$33,869 | \$3,572 | \$37,441 |
| Other Water Revenue - Tap Fee | 350 | 0 | 350 |
| Total Operating Revenues | \$34,219 | \$3,572 | \$37,791 |
| Operating Expenses: | | | |
| Operation and Maintenance Exp: | | | |
| Salaries & Wages - Emp. (Contract Labor) | \$480 | \$0 | \$480 |
| Salaries & Wages - Officers | 17,680 | 0 | 17,680 |
| Purchased Water | 10,967 | 0 | 10,967 |
| Materials & Supplies | 850 | 0 | 850 |
| Insurance | 242 | 0 | 242 |
| Bad Debt Expense | 40 | 0 | 40 |
| Miscellaneous General Exp. | 6,322 | 0 | 6,322 |
| Total Operation and Maintenance Exp: | \$36,581 | \$0 | \$36,581 |
| Depreciation | 1,451 | 0 | 1,451 |
| Amortization | 0 | 0 | 0 |
| Taxes Other Than Income Taxes | 453 | 0 | 453 |
| Total Operating Expenses | \$38,485 | \$0 | \$38,485 |
| Net Operating Income | (\$4,266) | \$3,572 | (\$694) |

OVERLAND
DEVELOPMENT, INC.

EXHIBIT
B

STAFF'S
PRO FORMA
OPERATIONS

| | Actual Operations | Pro Forma Adjustments | Foot- Note Ref | Pro Forma Operations |
|---|----------------------|--------------------------|----------------------|-------------------------|
| Operating Revenue: | | | | |
| Metered Water Sales - Residential | \$33,869 | (\$990) | A | \$32,879 |
| Other Water Revenue - Tap Fee | 350 | (350) | B | \$0 |
| Total Operating Revenues | \$34,219 | (\$1,340) | | \$32,879 |
| Operating Expenses: | | | | |
| Operation and Maintenance Exp: | | | | |
| Salaries & Wages - Emp. (Contract Labor) | \$480 | \$0 | | \$480 |
| Salaries & Wages - Officers | 17,680 | (1,913) | C | 15,767 |
| Purchased Water | 10,967 | 189 | D | 11,156 |
| Materials & Supplies | 850 | (71) | E | 779 |
| Insurance | 242 | 0 | | 242 |
| Bad Debt Expense | 40 | 0 | | 40 |
| Miscellaneous General Exp. | 6,322 | (4,270) | F | 2,052 |
| Total Operation and Maintenance Exp: | \$36,581 | (\$6,065) | | \$30,516 |
| Depreciation | 1,451 | (215) | G | 1,236 |
| Amortization | 0 | 689 | H | 689 |
| Taxes Other Than Income Taxes | 453 | 1,718 | I | 2,171 |
| Total Operating Expenses | \$38,485 | (\$3,873) | | \$34,612 |
| Net Operating Income | (\$4,266) | \$2,533 | | (\$1,733) |

A. Operating Revenue Normalization:

Staff prepared a billing analysis using the test-period customer usage information and Overland's current tariffed rates on file with the Commission. This recommended adjustment reflects the results of Staff's analysis.

| | |
|-----------------------------------|-------------|
| Normalized Revenue from Rates | \$32,879 |
| Less: Reported Revenue from Rates | 33,869 |
| | <hr/> |
| Staff's Recommended Adjustment | (\$990) |
| | <hr/> <hr/> |

B. Other Water Revenue - Tap Fee:

The receipt of a tap-on fee is a form of cost free capital that would be recorded as a Contribution In Aid of Construction rather than as revenue. Staff's recommended adjustment corrects Overland's misclassification of its tap-on fee by removing it from test-period operating revenues.

| | |
|---------|-------------|
| Tap-Fee | (\$350) |
| | <hr/> <hr/> |

C. Salaries & Wages - Officers:

Payroll taxes were misclassified as salaries & wages - officers expense and miscellaneous expense. Normally the misclassification of an expense would not impact the revenue requirement determination; however, in this instance if the taxes are not removed, Overland would receive a double recovery of its payroll taxes. Therefore, Staff has corrected Overland's classification error, and payroll taxes are included in Adjustment I.

| | |
|---|-------------|
| Test-Period Salaries Net of Payroll Taxes | \$15,767 |
| Less: Salaries & Wages - Officers | 17,680 |
| | <hr/> |
| Staff's Recommended Adjustment | (\$1,913) |
| | <hr/> <hr/> |

D. Purchased Water:

Staff's recommended adjustment reflects test-period water purchased from the Big Sandy Water District at the rates currently being charged.

| | |
|---|-------------|
| Test-Period Gallons Purchased | 6,660,200 |
| Multiplied by: Big Sandy Water District Rate per Gal. | \$0.00072 |
| | <hr/> |
| Subtotal | \$4,795 |
| Add: Annual Base Rate | 6,361 |
| | <hr/> |
| Pro Forma Purchased Water Expense | \$11,156 |
| Less: Reported Purchased Water Expense | 10,967 |
| | <hr/> |
| Staff's Recommended Adjustment | \$189 |
| | <hr/> <hr/> |

E. Materials & Supplies

The installation of a meter is a capital expenditure that should be depreciated rather than expensed. This recommended adjustment removes the meter installation cost from test-period expenses and Adjustment G reflects the depreciation.

| | |
|---|-------------|
| Capital Expenditure - Cannonsburg (Meter Setters) | (\$71) |
| | <hr/> <hr/> |

F. Miscellaneous General Exp:

This proposed adjustment reflects: (1) the current monthly business telephone line cost ; (2) removing the late payment payroll tax penalties that should be the responsibility of Overland's owner; (3) eliminating payroll taxes that are included in adjustment I; and (4) removing cost to repair Overland's vehicle, which is a non-recurring expenditure.

| | |
|---|-------------|
| (1) Monthly Telephone Bill | \$60.42 |
| Multiplied by: 12 Months | 12 |
| | <hr/> |
| Pro Forma Telephone Expense | \$725 |
| Less: Reported Telephone Exp. | 595 |
| | <hr/> |
| Telephone Expense Adjustment | \$130 |
| (2) Payroll Tax Penalties | (357) |
| (3) Misclassified Payroll Taxes | (1,975) |
| (4) Non-recurring - Equipment (Clutch & Rebuilt Transmission) | (2,068) |
| | <hr/> |
| Staff's Recommended Adjustment | (\$4,270) |
| | <hr/> <hr/> |

G. Depreciation:

This adjustment reflects: (1) removing the depreciation expense associated with Overland's utility plant that has been fully recovered; and depreciating the cost to install the meter over 3 years.

| | In Service Date | Amount | Estimated Useful Lives | Depreciation Expense |
|--|--------------------|---------|---------------------------|-------------------------|
| <hr/> | | | | |
| (1) Utility Plant Fully Depreciated in 1996: | | | | |
| Additions | 31-Dec-77 | \$4,500 | 20 | (\$131) |
| Improvements | 31-Dec-78 | \$1,600 | 20 | (68) |
| Improvements | 31-Dec-80 | \$2,167 | 20 | (26) |
| (2) Depreciation Schedule Corrections: | | | | |
| Meter Setter | | \$71 | 7 | 10 |
| | | | | <hr/> |
| Staff's Recommended Adjustment | | | | (\$215) |
| | | | | <hr/> <hr/> |

H. Amortization:

This adjustment reflects amortizing the vehicle repairs over 7 years.

| | Amount | Estimated Useful Lives | Amortization Expense |
|-------------------------------|---------|---------------------------|-------------------------|
| <hr/> | | | |
| Clutch & Rebuilt Transmission | \$2,068 | 3 | \$689 |
| | | | <hr/> <hr/> |

I. Taxes Other Than Income Taxes:

This adjustment reflects Overland's test-period payroll tax expense that was misclassified.

| | |
|--|-------------|
| Pro Forma Salaries & Wages - Officers | \$15,767 |
| Multiplied by: FICA Rate | 7.65% |
| | <hr/> |
| Pro Forma FICA Taxes | \$1,206 |
| Add: Reported State Unemployment Taxes | 512 |
| | <hr/> |
| Pro Forma Payroll Taxes | \$1,718 |
| | <hr/> <hr/> |

OVERLAND
DEVELOPMENT, INC.

EXHIBIT
C

REVENUE REQUIREMENT
DETERMINATION; &
CASH FLOW CALCULATION

Staff's Revenue Requirement

| | |
|--|----------|
| Adjusted Operating Expenses | \$34,612 |
| Divided by: Recommended Operating Ratio | 88% |
| | ----- |
| Recommended Revenue Requirement | \$39,332 |
| Less: Normalized Operating Revenue | 32,879 |
| | ----- |
| Revenue Increase Staff Believes Overland could Justify | \$6,453 |
| | ===== |

Net Cash Flow

| | |
|--|----------|
| Normalized Operating Revenue | \$32,879 |
| Add: Overland's Requested Increase | 3,572 |
| | ----- |
| Overland's Requested Revenue from Rates | \$36,451 |
| Less: Staff's Pro Forma Operating Expenses | 34,612 |
| | ----- |
| Net Operating Income | \$1,839 |
| Add: Depreciation Expense | 1,236 |
| Amortization Expense | 689 |
| | ----- |
| Net Cash Flow | \$3,764 |
| | ===== |

OVERLAND
DEVELOPMENT, INC.

EXHIBIT
D

RATE DETERMINATION &
COMPARISON

BILLING ANALYSIS FOR: OVERLAND DEVELOPMENT INC
 TEST PERIOD FROM JAN 1996 THROUGH DEC. 1996
 USAGE TABLE
 (OMIT 000'S)

| CLASS: USAGE | BILLS | GALLONS | 2 | 8 | 20 | 20 | 50 | TOTAL |
|-----------------|-------|---------|-------|-------|-----|----|----|-------|
| FIRST 2,000 | 132 | 214 | 214 | | | | | 214 |
| NEXT 8,000 | 886 | 4,635 | 1,772 | 2,863 | | | | 4,635 |
| NEXT 20,000 | 49 | 651 | 98 | 392 | 161 | | | 651 |
| NEXT 20,000 | 1 | 31 | 2 | 8 | 20 | 1 | | 31 |
| OVER 50,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | | | |
|-------|-------|-------|-------|-------|-----|---|---|-------|
| TOTAL | 1,068 | 5,531 | 2,086 | 3,263 | 181 | 1 | 0 | 5,531 |
|-------|-------|-------|-------|-------|-----|---|---|-------|

REVENUE TABLE
 CURRENT RATES
 REVENUE BY RATE INCREMENT

| | BILLS | GALLONS | RATE | REVENUE |
|-------------|-------|-----------|---------|-------------|
| FIRST 2,000 | 1,068 | 2,086,000 | \$14.20 | \$15,165.60 |
| NEXT 8,000 | | 3,263,000 | 5.20 | 16,967.60 |
| NEXT 20,000 | | 181,000 | 4.10 | 742.10 |
| NEXT 20,000 | | 1,000 | 3.41 | 3.41 |
| OVER 50,000 | | 0 | 2.65 | 0.00 |

| | | | | |
|-------|-------|-----------|--|-------------|
| TOTAL | 1,068 | 5,531,000 | | \$32,878.71 |
|-------|-------|-----------|--|-------------|

REVENUE TABLE
 PROPOSED RATES
 REVENUE BY RATE INCREMENT

| | BILLS | GALLONS | RATE | REVENUE |
|-------|--------|-----------------|---------|-------------|
| FIRST | 2,000 | 1,068 2,086,000 | \$16.00 | \$17,088.00 |
| NEXT | 8,000 | 3,263,000 | 5.70 | 18,599.10 |
| NEXT | 20,000 | 181,000 | 4.20 | 760.20 |
| NEXT | 20,000 | 1,000 | 3.41 | 3.41 |
| OVER | 50,000 | 0 | 2.65 | 0.00 |

| | | | | |
|-------|-------|-----------|--|-------------|
| TOTAL | 1,068 | 5,531,000 | | \$36,450.71 |
|-------|-------|-----------|--|-------------|

REVENUE TABLE
STAFF RECOMMENDED RATES
REVENUE BY RATE INCREMENT

| | BILLS | GALLONS | RATE | REVENUE |
|-------|--------|-----------------|---------|-------------|
| FIRST | 2,000 | 1,068 2,086,000 | \$17.00 | \$18,156.00 |
| NEXT | 8,000 | 3,263,000 | 6.22 | 20,295.86 |
| NEXT | 20,000 | 181,000 | 4.90 | 886.90 |
| NEXT | 20,000 | 1,000 | 4.09 | 4.09 |
| OVER | 50,000 | 0 | 3.18 | 0.00 |

| | | | | |
|-------|-------|-----------|--|-------------|
| TOTAL | 1,068 | 5,531,000 | | \$39,342.85 |
|-------|-------|-----------|--|-------------|