

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WEST CARROLL)
WATER DISTRICT FOR A RATE ADJUSTMENT)
PURSUANT TO THE ALTERNATIVE RATE) CASE NO. 97-225
FILING PROCEDURE FOR SMALL UTILITIES)


O R D E R

On May 15, 1997, West Carroll Water District ("West Carroll") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of West Carroll'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 August, 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 WEST CARROLL)	
WATER DISTRICT FOR A RATE ADJUSTMENT)	CASE NO.
PURSUANT TO THE ALTERNATIVE RATE FILING)	97-225
PROCEDURE FOR SMALL UTILITIES)	

STAFF REPORT

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

Prepared By: Sam Reid, Jr.
Public Utility Rate Analyst, Principal
Communications, Water and
Sewer Rate Design Branch
Rates and Research Division

STAFF REPORT

ON

CASE NO. 97-225

A. Preface

On May 15, 1997, West Carroll Water District ("West Carroll") 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 \$74,124 annually in additional revenues, an increase of 30.74 percent over normalized test-year revenues from water sales of \$241,113.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of West Carroll's operations for the test period, calendar year 1995. Since West Carroll 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 October 25, 1996, at West Carroll's office in Carrollton, Kentucky. Mr. Combs is responsible for this Staff Report except for the sections on operating revenues and rate design which were prepared by Sam Reid, Jr. of the Commission's Division of Rates and Research.

During the course of the review, West Carroll 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 West Carroll be authorized to increase its annual operating revenues by \$74,124.

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

West Carroll's 1995 annual report income statement filed with the Commission showed test-year revenues from water sales in the amount of \$226,132. West Carroll's billing analysis, which Staff prepared using test year actual rates, produced revenues from water sales in the amount of \$224,359. On September 12, 1996, West Carroll received an increase from one of its wholesale water suppliers, Henry County Water District No. 2. West Carroll, in turn, increased its rates to its customers by means of a Purchased Water Adjustment. Based on the rates from the Purchased Water Adjustment in September, West Carroll's test year normalized revenue from water sales is \$241,113. Other revenues of \$7,520 were reported by West Carroll which included connection fees, a past due payment from one of its customers, trenching fees, and penalties.

Operating Expenses

West Carroll incurred, and the Staff-assisted application included, test-year operating expenses of \$235,243 which it proposed to increase by \$33,533. Staff's review of West Carroll's expenses included examining supporting documents such as invoices.

Staff found West Carroll's reported expenses to be reasonable. West Carroll's proposed adjustments and Staff's recommendations are discussed in the following sections:

Purchased Water Expense

West Carroll reported test-period purchased water expense of \$91,783 and related water loss of 15 percent. West Carroll proposed to increase the reported purchased water expense by \$16,733 based upon an increase from one of its water suppliers, Henry County Water District No. 2 ("Henry County"). Since the increase from Henry County (from \$1.10 to \$2.20 per 1,000 gallons) represents a doubling of the rate, the resulting increase in annual purchased water expense amounts to \$16,733. Thus, Staff has included annual purchased water expense of \$108,516¹ for rate-making purposes.

Contractual Services Expense

West Carroll reported test-year contractual services expense of \$33,767. In addition to payments to Carroll County Water District #1 ("Carroll County") for providing maintenance services, the test-year total included expenditures for casual labor, legal and accounting services, and water samples. Carroll County operates the water system for West Carroll which has no employees of its own. West Carroll proposed to increase test-year maintenance expense by \$16,800 based upon an increase from Carroll County in its monthly contract fee from \$1,300 to \$2,700 which became effective May 1, 1996. The \$1,300 fee had been in effect since May, 1991. Subsequent to receipt of the notice of the increase from Carroll County, West Carroll advertised for two weeks in the county-wide

¹ Test-year purchased water expense	\$ 91,783
Add: Water purchases from Henry County	<u>16,733</u>
Total adjusted annual purchased water expense	<u>\$108,516</u>

newspaper, the *News Democrat*, for another entity to provide maintenance services, but received no response. Based upon the foregoing discussion, Staff recommends that annual contractual services expense of \$50,567² be included for rate-making purposes.

Operations Summary

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

C. Revenue Requirements Determination

Staff has calculated West Carroll's average annual debt service to be \$47,322.³ West Carroll's adjusted operations reflect \$(17,338) in income available for debt service which results in a debt service coverage ("DSC") of (.37X). Staff is of the opinion that West Carroll's current rates are inadequate and will not cover payment of operating expenses and debt service requirements. In cases involving water districts, 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 \$74,124 calculated as follows:

1.2X DSC	\$ 56,786
Adjusted Operating Expense	<u>268,776</u>
Total Revenue Requirement	\$325,562
LESS:	
Adjusted Test-Year Revenues	248,633

2	Test-year contractual services expense	\$ 33,767
	Add: Proposed increase (\$1,400 per month X 12)	<u>16,800</u>
	Total pro forma annual expense	<u>\$ 50,567</u>

3	3-year average of principal payments due	\$ 14,167
	3-year average of interest payments due	<u>33,155</u>
	Total of 3-year avg. of P&I payments due	<u>\$ 47,322</u>

Other Inc./Deductions	<u>2,805</u>
Increase Required	<u>\$ 74,124</u>

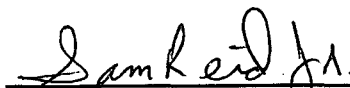
D. Rate Design

In its application, West Carroll filed a schedule of present and proposed rates. West Carroll's current rate design consists of a six-step declining-block rate. West Carroll did not propose any changes in its rate design but allocated a percentage increase for each rate increment. Staff agrees that this method of increasing rates will fairly allocate the required increases to all of West Carroll's customers. The rates recommended by Staff in Attachment 2 will generate annual water sales revenues of \$315,237.

E. Signatures



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



Prepared By: Sam Reid, Jr.
Public Utility Rate Analyst, Principal
Communications, Water and
Sewer Rate Design Branch
Rates and Research Division

ATTACHMENT 1
TO STAFF REPORT IN CASE NO. 97-225

<u>Item Per</u> <u>Annual Report</u>	<u>Amount Per</u> <u>Annual Report</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Test Year</u> <u>Adjusted</u>
<u>Operating Revenue:</u>			
Water Sales	\$ 226,132	\$ 14,981	\$241,113
Other Water Rev.	<u>7,520</u>	<u>-0-</u>	<u>7,520</u>
Total Oper. Revenue	\$ 233,652	\$ 14,981	\$248,633
<u>Operating Expense:</u>			
<u>Salaries & Wages -</u>			
Officers	\$ 7,375	\$ -0-	\$ 7,375
Purchased Water	91,783	16,733	108,516
Purchased Power	4,555	-0-	4,555
Materials & Supplies	18,322	-0-	18,322
Contractual Services	33,767	16,800	50,567
Transportation	3,587	-0-	3,587
Insurance	3,596	-0-	3,596
Bad Debts	1,790	-0-	1,790
Miscellaneous	1,383	-0-	1,383
Depreciation	67,624	-0-	67,624
Amortization	428	-0-	428
Taxes Other Than Income Taxes	<u>1,033</u>	<u>-0-</u>	<u>1,033</u>
Total Oper. Expense	\$ <u>235,243</u>	\$ <u>33,533</u>	\$ <u>268,776</u>
Operating Income	\$(1,591)	\$(18,552)	\$(20,143)
<u>Other Income:</u>			
Interest/Dividend	\$ 2,805	\$ -0-	\$ 2,805
Income Available for Debt Service	\$ <u>1,214</u>	\$ <u>(18,552)</u>	\$ <u>(17,338)</u>

ATTACHMENT 2

The following rates and charges are recommended for the customers in the area served by West Carroll Water District.

Monthly Rates

First	2,000 gallons	\$17.00 (minimum bill)
Next	3,000 gallons	6.50 per 1,000 gallons
Next	5,000 gallons	5.70 per 1,000 gallons
Next	10,000 gallons	4.80 per 1,000 gallons
Next	20,000 gallons	4.00 per 1,000 gallons
Over	40,000 gallons	3.60 per 1,000 gallons