

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE) CASE NO.
SOUTH SHORE WATER WORKS COMPANY) 97-321

O R D E R

On August 12, 1997, South Shore Water Works Company ("South Shore") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of South Shore'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 15 days from the date of this Order.

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 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 27th day of October, 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
SOUTH SHORE WATER WORKS CO.

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CASE NO.
97-321

STAFF REPORT

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STAFF REPORT

ON

SOUTH SHORE WATER WORKS COMPANY

CASE NO. 97-321

A. Preface

On August 12, 1997, South Shore Water Works Company ("South Shore") filed an application with the Commission seeking to increase its rates pursuant to 807 KAR 5:001, Section 10. The proposed rates would generate approximately \$81,253.98 annually in additional revenues, an increase of 19.58 percent over normalized test year revenues from water sales as calculated by South Shore of \$414,901.32.

In order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of South Shore's test period operations, the twelve month period ending May 31, 1997. The field review was performed on August 26, 1997, at the offices of South Shore by Scott Lawless. Mr Lawless is responsible for this Staff Report except for the sections relating to operating revenues which were prepared by Brent Kirtley.

During the course of the review, South Shore 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 South Shore be authorized an increase of \$42,345.44 or 10.16 percent in normalized operating revenues from water sales of \$416,661.17.

Scope

The scope of the review was limited to obtaining information as to whether the 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

Staff conducted a billing analysis using South Shore's billing register for the twelve-month period June 1996 through May 1997. The analysis resulted in water sales of \$408,817.25 for the test period. A normalization adjustment of \$7843.92 was made to account for an additional 49 customers using an average 4,000 gallons per month. Other revenue consisted of \$7,083.34 in late penalties, and \$4,978.80 in non-recurring charges. Therefore, for the purpose of this report, total normalized operating revenue shall be \$428,723.14.

Operating Expenses

South Shore reported test year operating expenses before income taxes of \$418,025.08 which it proposed to increase by \$22,526.26. Staff has reviewed and accepts the following adjustments to test year operations as proposed by South Shore:

Salaries and Wages-Employees	\$2,331.63
Materials and Supplies	(2,535.33)
Equipment Rental	(959.37)
Insurance-Plant	300.90
Amortization-Accounting Fees	200.00
Jobbing Income	174.37

South Shore's other proposed adjustments and Staff's recommendations are discussed in the following sections:

Salaries and Wages-Officers

Mr. Hannah, president and majority stockholder of South Shore, received compensation during the test year for duties performed by him in the amount of \$49,386.50. In reviewing the appropriateness of Mr. Hannah's test year level of compensation, Staff referred to the settlement agreement reached between Staff and South Shore in case number 94-188 which is the most recent rate case of South Shore. In that agreement, Mr. Hannah's compensation was set at \$38,703.00 for the calendar year 1994. That amount was determined by increasing Mr. Hannah's 1988 annual compensation or "base wage" by the same annual percentages that other South Shore employees had received over the same period of time. The annual increases from 1988 through 1994 were generally cost of living raises of 3 percent. After discussion with Mr. Hannah, Staff determined that his duties as president have not substantially changed since 1994. Therefore, it is Staff's opinion that Mr. Hannah's pro forma salary should be based on the "base wage" of 1988. To determine his pro forma salary, Staff applied 3 percent annual cost of living increases to his 1994 annual salary which resulted in an annual salary of \$42,291.81 to be paid during 1997. Therefore, Staff has decreased test year Salaries and Wages-Officers by \$7,094.69 which was calculated as follows:

1994 Wage included in settlement agreement	\$38,703.00
Times: 1.03 (Wage for 1995)	39,864.09
1.03 (Wage for 1996)	41,060.01
1.03 Pro forma (Wage for 1997)	42,291.81
Less: Test year	<u>(49,386.50)</u>
Adjustment - Decrease	<u>\$(7,094.69)</u>

Employee Pensions and Benefits

Staff adjusted test year operating expenses to reflect the most current employee health insurance premiums paid by South Shore and to include pension contributions made by South Shore on behalf of its employees. Staff's total adjustment is \$5,689.29 while South Shore's proposed adjustment was \$5,796.23. The adjustments differ as a result of Staff's adjustment to decrease test year Salaries and Wages-Officers of \$7,094.69, as pension contributions are calculated based on employee wages.

Purchased Power and Chemicals

South Shore increased test year Purchased Power for Pumping and Chemicals by \$601.98 and \$146.07, respectively, to reflect the anticipated increase in the number of customers expected from the proposed construction. South Shore calculated its adjustments by computing the average cost of purchased power and chemicals per average number of customers served during the test year and applying that amount to the number of new customers to be added to the system. Staff made a similar adjustment with the only difference being that Staff calculated the cost of purchased power and chemicals per gallons of water pumped and sold to end users. Staff then applied that cost per unit to the average number of gallons to be sold to each new customer. Staff's adjustments to Purchased Power for Pumping and Chemicals are

\$493.92 and \$117.74, respectively. The following details Staff's calculations:

	Power	Chemicals
Test year expense	\$26,867.04	\$6,519.16
Divide by: Gallons sold	<u>130,230,000.00</u>	<u>130,230,000.00</u>
Cost per 1,000 gallons sold	.21	.050059
Times: Average annual gallons sold to residential customers (in thousand gallons)	48	48
Times: New Customers	<u>49</u>	<u>49</u>
Adjustments	<u>\$493.92</u>	<u>\$117.74</u>

Contracted Services-Engineering

During the review, Staff noted \$1,720.76 paid to an engineering firm for the design of a water main improvement project located on Route 10 in Lewis County. It is Staff's opinion that this amount should be capitalized and depreciated. Therefore, test year Contracted Services-Engineering has been decreased by \$1,720.76 and utility plant in service to be depreciated has been increased by the same amount.

Contracted Services-Legal

During the test year, South Shore paid legal fees of \$549.00 for its unsuccessful defense, and ultimately paid a civil penalty, for violating various Kentucky Division of Water regulations. It is Staff's opinion that South Shore's customers should not bear the burden of legal fees incurred for the unsuccessful defense of litigation brought against the utility. Therefore, Staff has eliminated these legal fees from test year operations.

Directors Fees

South Shore has included \$2,400.00 in test year operating expenses for directors fees. This Commission generally allows small investor owned utilities to collect an

owner/manager fee which, in Staff's opinion, represents compensation to the owner of the utility who manages the utility's operations but does not receive a salary. South Shore is a utility which employs its owner as the manager and is large enough to pay a competitive salary for the duties he performs. Therefore, Staff has eliminated the directors fees from test year operations.

Transportation

South Shore reported test year transportation costs of \$5,564.35 which primarily included gas purchases for vehicles. South Shore proposed to increase this amount by \$124.67 to correspond with the addition of the 49 new customers as a result of the construction proposed in this case. South Shore based its adjustment on the average transportation costs per average number of customers served during the test year. Staff agrees that transportation costs will increase as a result of adding more customers, as this will increase miles driven by South Shore employees to perform services such as routine maintenance and meter reading. However, Staff calculated its pro forma adjustment by applying the feet of main necessary to provide service to the 49 new customers to the test year average transportation cost per foot of main in service during the test year. Staff's adjustment increases test year operations by \$381.14 and is calculated as follows:

Test year Transportation Expense	\$5,564.35
Divide by: Feet of main per 1996 Annual Report	<u>316,800.00</u>
Cost per foot	.0175642
Times: feet of main proposed in case 97-321	<u>21,700.00</u>
Adjustment	<u>\$381.14</u>

Insurance-Vehicle

South Shore proposed to decrease test year Insurance-Vehicle Expense by \$1,421.70 to reflect the most current premiums paid. Staff reviewed South Shore's vehicle insurance policies and found that those premiums actually totaled \$3,952.62 which is \$1,517.23 less than that which was reported in the test year. Therefore, Staff has decreased test year operations by that amount.

Insurance-General Liability

Staff noted that an additional liability insurance policy had been purchased since the end of the test year. Staff has increased test year operations by \$458.48 to include the amount paid for this insurance.

Insurance-Other

South Shore reported test year Insurance-Other Expense in the amount of \$2,898.00 which represents premiums paid for a life insurance policy on Mr. Hannah. Mr. Hannah contends that this insurance is necessary so that, in the event of his death, the utility company will have cash available to purchase his stock in South Shore from his estate which will then be passed down to his children. After considering Mr. Hannah's explanation of the need for this insurance, it is Staff's opinion that it was purchased to fulfill a personal need of Mr. Hannah and is not a necessity of the utility and should therefore, not be included in revenue requirements. In addition, Staff noted that the primary beneficiary of the insurance policy was not South Shore, but instead, Mr. Hannah's wife. Accordingly, the insurance proceeds would be spent at her discretion

which may not necessarily coincide with Mr. Hannah's wishes. For these reasons Staff has eliminated the life insurance premium from test year operations.

PSC Assessment

Staff has adjusted South Shore's test year PSC Assessment at pro forma present rates and pro forma proposed rates to reflect the June 30, 1998 millage factor of .1472 percent. Staff calculated its adjustments as follows:

Pro forma present rate adjustment:	
Water Sales	\$416,661.00
Other Operating Revenues	<u>12,062.14</u>
Total Operating Revenues	428,723.14
Times: PSC Millage Factor	<u>.1472%</u>
PSC fee pro forma present rates	631.08
Less: Test year	<u>(579.76)</u>
Adjustment	<u>\$51.32</u>

Pro forma proposed rate adjustment:	
Revenue increase	\$42,345.61
Times: PSC Millage Factor	<u>.1472%</u>
Adjustment	<u>\$62.33</u>

Depreciation

South Shore calculated pro forma depreciation expense to be recovered through rates as follows:

Test year depreciation	\$31,626.20
Less: Amortization of CIAC	(1,113.75)
Plus: Depreciation on proposed plant	<u>5,073.30</u>
Depreciation to be recovered	<u>\$35,585.75</u>

The test year depreciation of \$31,626.20 is detailed on South Shore's plant schedule which is included in its original application as exhibit 9. The amortization of CIAC is also detailed on exhibit 9. It was calculated by amortizing, over 40 years,

contributions collected from January 1, 1994, through May 31, 1997, which totaled \$44,550.00 ($\$44,550.00/40=\$1,113.75$). Depreciation on the proposed plant represents depreciation taken on construction costs proposed in this case as calculated by South Shore.

To calculate the amount of depreciation expense to be included in South Shore's revenue requirements, Staff performed the following review procedures:

1. Reconcile exhibit 9 with the 1996 annual report.
2. Review exhibit 9 to determine if certain assets included thereon were still in service and if any assets had been fully depreciated.
3. Review test year expenses for items that should have been capitalized.
4. Review the proposed construction costs to confirm that proper accounting treatment had been afforded to all the costs associated with the project.
5. Determine the appropriate amount of amortization of CIAC to be used to offset depreciation.

Staff was unable to reconcile the plant schedule included as exhibit 9 with that of the 1996 annual report. Depreciable plant per exhibit 9 was stated at \$1,159,610.82 which included 1997 plant additions through May 31, in the amount of \$17,981.04. When those additions are added to depreciable plant of \$1,133,621.00 as stated in the 1996 annual report, the result is \$1,151,602.04 which is \$8,008.78 less than the amount reported in exhibit 9. Due to this discrepancy, Staff choose to disregard exhibit 9 in its calculation and instead focus on the amounts recorded in the 1996 annual report since that is the official record of South Shore.

To calculate pro forma depreciation, Staff calculated projected depreciation expense for the year ended December 31, 1997, as will be calculated on the utility plant in service listed in the 1996 annual report. Staff then subtracted depreciation taken on

a truck that was taken out of service and added depreciation taken on items capitalized during 1997 through May 31, as included in exhibit 9, and the engineering fees that were eliminated from test year operations as previously discussed. Staff then added what it determined to be depreciation on the total capitalized costs of the proposed construction project. Staff's calculation is summarized as follows:

	Reported Cost	Annual Depreciation
1997 Depreciation expense per 1996 plant schedule	\$1,133,620.26	\$29,869.57
Truck taken out of service	(3,500.00)	(500.00)
Engineering fees	1,720.26	43.01
1997 additions through May 31	17,981.04	1,362.58
Proposed construction	<u>290,462.00</u>	<u>7,261.55</u>
Pro forma amounts	<u>\$1,440,283.56</u>	<u>\$38,036.71</u>

The difference in the depreciation of the proposed construction as calculated by Staff and South Shore of \$7,261.55 and \$5,073.30, respectively, is primarily due to the differences in the amount of construction costs capitalized. South Shore proposed to capitalize and depreciate only the cost of purchasing and installing the mains and tanks, whereas Staff recommends that the entire amount expended to construct the proposed plant be capitalized and depreciated which would also include the cost of service taps, legal and engineering fees, and permits. The construction costs as calculated by Staff are detailed as follows:

Shore prepares its 1997 annual report, proper accounting for the amortization of CIAC should be utilized for the current period and all necessary adjustments to show the cumulative effect of prior year accounting errors should be made.

Unrecaptured Depreciation and Amortization

South Shore reported, in test year operating expense, Unrecaptured Depreciation and Amortization Expenses in the amounts of \$599.00 and \$5,164.00, respectively. South Shore explained that these amounts represent the annual depreciation and amortization of items that were depreciated or amortized by Staff in South Shore's last rate case, case number 94-188, which have not yet been fully recovered. During review of case 97-321, Staff analyzed the Staff Report and Settlement Agreement of record in case 94-188 and found the appropriate level of pro forma "Unrecaptured Depreciation and Amortization" expense to be included in this case to be \$376.00 and \$3,255.80, respectively.

Amortization of Engineering, Accounting, Legal, and Division of Water Cost

South Shore proposed to amortize, over a three year period, engineering, accounting, legal, and Division of Water fees of \$22,430, \$600, \$6,500, and \$850, respectively. Per South Shore's original application for financing, the entire amount of the engineering and Division of Water fees and \$3,000 of the legal fees were or will be incurred as a result of the proposed construction. All of the accounting fees and \$3,500 of the legal fees were incurred for the preparation and processing of the rate application. It is Staff's opinion that the fees incurred as a result of the performance of the rate study

Cost of extensions	\$104,474.00
Tanks	140,108.00
Service taps	19,600.00
Engineering	22,430.00
Legal	3,000.00
DOW	<u>850.00</u>
Depreciable Construction Costs	<u>\$290,462.00</u>

To determine the appropriate amount of CIAC amortization to be used to offset pro forma depreciation, Staff amortized pro forma CIAC of \$385,088.00¹ at the pro forma depreciation composite rate of 2.6 percent (depreciation, 38,036.71/plant, 1,440,283.56=2.6%). This results in pro forma amortization of \$10,012.29 (\$385,088.00 x .026).

The resulting adjustment to test year depreciation expense is as follows:

Pro forma depreciation	\$38,036.71
Less: Pro forma amortization	<u>(10,012.29)</u>
Pro forma depreciation allowed in rates	28,024.42
Less: Test year depreciation expense	<u>(30,512.45)</u>
Adjustment	<u>\$(2,488.03)</u>

During the review, Staff noted that South Shore did report amortization of CIAC in the amount of \$6,818.00 in its 1996 annual report by properly debiting account 272, accumulated amortization of contributions in aid of construction. However, the corresponding credit entry was erroneously made to account 108, accumulated depreciation, instead of the correct account 403, depreciation expense. When South

¹

CIAC 1996 Annual Report	\$	317,338.00
1997 CIAC collected through May 31,		6,500.00
CIAC to be collected from new customers (49x\$1,250.00)		<u>61,250.00</u>
Pro forma CIAC	\$	<u>385,088.00</u>

were appropriately amortized over a three year period. However, the costs incurred as a result of the proposed construction should be capitalized and depreciated along with the actual construction costs. Staff has included those items in its calculation of pro forma depreciation expense and has increased test year operating expenses by \$1,366.67 to reflect the amortization of the aforementioned accounting and legal fees of \$600 and \$3,500, respectively. The adjustment is calculated as follows:

Rate Case Expense:	
Legal	\$3,500.00
Accounting	<u>600.00</u>
Total	4,100.00
Divide by: 3 years	<u>3.00</u>
Total Amortization	1,366.67
Less: Accounting fees amortized	<u>(200.00)</u>
Net Adjustment	<u>\$1,166.67</u>

Property Taxes

South Shore proposed to increase test year Property Taxes by \$2,733.29 as a result of the construction proposed in this case. Staff calculated an increase of \$3,574.77. The difference between South Shore's and Staff's adjustments is due to the additional construction costs that were capitalized by Staff which include test year capitalized expenditures and items capitalized by Staff that were amortized by South Shore.

FICA

Staff decreased test year FICA taxes by \$364.37 to correspond with Staff's pro forma payroll adjustments. The adjustment is detailed as follows:

Adjustment: Wages-Employees	\$2,331.63
Salaries-Officers	<u>(7,094.69)</u>
Net Adjustment	(4,763.06)
Times: FICA Rate	7.65%
FICA Adjustment	<u>\$(364.37)</u>

Interest Expense

South Shore increased test year Interest Expense by \$14,725.00 as a result of the \$190,000.00 loan which will be assumed to finance a portion of the proposed construction costs. The interest was calculated at a rate of 7.75 percent. Staff's interest adjustment is based the average interest payments for the first three years of the loan. Staff calculated the annual interest payments using equal monthly mortgage payments of \$1,559.80 which were based on a 7.75 percent rate of interest amortized over 20 years. Staff's adjustment was calculated as follows:

Year	Annual Interest
1	\$14,580.08
2	14,247.78
3	<u>13,888.80</u>
Total	42,716.66
Divide by 3	3.00
Average	<u>\$14,238.89</u>

Operations Summary

Based on the Staff's recommendations as contained in this report, South Shore's pro forma operating statement would appear as presented in Appendix A.

C. Revenue Requirements Determination

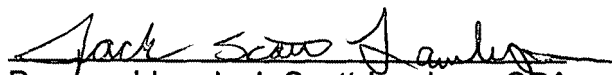
South Shore requested that its revenue requirements be determined by using an 88% operating ratio. This approach is frequently used by the Commission to determine

revenue requirements for small, privately-owned utilities and was used by this Commission in South Shore's last rate case. Therefore, Staff recommends that it be used for the determination of South Shore's revenue requirement in this case. By applying this approach, Staff determined South Shore's revenue requirements to be \$491,606.39, and the required increase to be \$42,345.44. A detailed comparison of South Shore's and Staff's calculation of revenue requirements is shown in Appendix B.

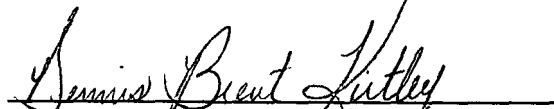
D. Rate Design

South Shore's present rate structure consists of a declining block schedule that includes four rate increments. South Shore did not propose to make any changes to its rate structure, and Staff agrees that an alteration is unnecessary at this time. The rates in Appendix C will generate the required operating revenue from rates of \$459,006.61.

Signatures



Prepared by: Jack Scott Lawless, CPA
Auditor, Financial Audits Branch
Division of Financial Analysis



Prepared by: Brent Kirtley
Public Utility Rate Analyst
Communications, Water and Sewer
Rate Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 97-321
PRO FORMA OPERATING STATEMENT

	Test Year	Adjustments	Pro forma Operations
Operating Revenue			
Water Sales	407,057.40	7,843.92	
		1,759.85	416,661.17
Late Penalty	7,083.34	0.00	7,083.34
Non-recurring Charges	4,978.80	0.00	4,978.80
Total Operating Revenue	419,119.54	9,603.77	428,723.31
Operating Expenses			
Operation and Maintenance			
Employee Wages	145,501.91	2,331.63	147,833.54
Officers Salaries	49,386.50	(7,094.69)	42,291.81
Employee Benefits and Pensions	17,690.23	5,689.29	23,379.52
Office Electric	1,211.32	0.00	1,211.32
Plant Electric	26,867.04	493.92	27,360.96
Chemicals	6,519.16	117.74	6,636.90
Materials & Supplies	51,263.16	(2,535.33)	48,727.83
Contracted Services: Engineering	1,720.76	(1,720.76)	0.00
Accounting	2,400.00	0.00	2,400.00
Legal	547.99	(547.99)	0.00
Directors Fees	2,400.00	(2,400.00)	0.00
Rental Property	9,000.00	0.00	9,000.00
Equipment Rental	15,008.85	(959.37)	14,049.48
Transportation	5,564.35	381.14	5,945.49
Insurance: Vehicle	5,469.85	(1,517.23)	3,952.62
Plant	654.00	300.90	954.90
Liability	6,062.04	458.48	6,520.52
Other	2,898.00	(2,898.00)	0.00
Bad Debts Expense	1,902.30	0.00	1,902.30
Workers Comp.	6,151.84	0.00	6,151.84
PSC Assessment	579.76	51.32	631.08
Total Operation and Maintenance Expenses	358,799.06	(9,848.95)	348,950.11
Depreciation	30,512.45	(2,488.03)	28,024.42
Unrecaptured Depreciation	599.00	(223.00)	376.00
Amortization: Engineering	0.00	0.00	0.00
Accounting	0.00	200.00	200.00
Legal	0.00	1,166.67	1,166.67
D.O.W.	0.00	0.00	0.00
Unrecaptured Amortization	5,164.00	(1,908.20)	3,255.80
Taxes Other Than Income Taxes			
Property Taxes	6,992.49	3,574.77	10,567.26
FICA	14,908.96	(364.37)	14,544.59
Unemployment Taxes	1,049.12	0.00	1,049.12
Operating Expenses Net of Income Taxes	418,025.08	(9,891.11)	408,133.97
Net Operating Income Before Income Taxes	1,094.46	19,494.88	20,589.34
Income Taxes			
Federal	3,027.87	773.83	3,801.70
State	1,062.41	271.52	1,333.93
Net Operating Income	(2,995.82)	18,449.53	15,453.71
Other Income and (Deductions)			
Jobbing	18,136.67	174.37	18,311.04
Other Income	662.31	0.00	662.31
Interest Income	1,564.29	0.00	1,564.29
Interest Expense	(209.54)	(14,238.89)	(14,448.43)
Net Income / (Loss)	17,157.91	4,385.01	21,542.92

APPENDIX B
STAFF REPORT CASE NO. 97-321
COMPARISON OF REQUESTED AND RECOMMENDED
REVENUE REQUIREMENTS

	Requested by South Shore	Proposed by Staff
Operating Expenses Net of Income Tax	440,551.34	408,133.97
Less: Uncollectibles (Bad Debts)	(1,902.30)	
Unreconciled Difference	(29.51)	
Adjusted Operating Expense	<u>438,619.53</u>	<u>408,133.97</u>
Divided by: Operating Ratio	88%	88%
Revenue before Income Tax	<u>498,431.28</u>	<u>463,788.60</u>
Less: Operating Exp. Net of Income Tax	(438,619.53)	(408,133.97)
Net Income	59,811.75	55,654.63
* Income Tax Gross-Up Factor	<u>1.225490</u>	<u>1.240220</u>
Net Income Before Tax	73,298.71	69,023.99
Add: Operating Expense Net of Income Tax	438,619.53	408,133.97
Uncollectibles (Bad Debts)	1,902.30	
Interest Expense	14,934.54	14,448.43
Required Revenue	<u>528,755.08</u>	<u>491,606.39</u>
Less: Normalized Revenues Applied to Required Revenue	<u>(447,501.10)</u>	<u>(449,260.95)</u>
Required Increase	<u><u>81,253.98</u></u>	<u><u>42,345.44</u></u>

* Calculation of Revenue Conversion Factor per Staff

Revenues	100.00000%
Less: PSC Fee for FYE 6/30/98 .1472%	<u>-0.14720%</u>
Sub-total, 1	99.85280%
Less: State tax at 5% of Sub-total, 1	<u>-4.99264%</u>
Sub-total, 2	94.86016%
Less: Federal tax at 15% of Sub-total, 2	<u>-14.22902%</u>
Percent change in NOI	<u>80.63114%</u>
Revenue conversion factor (Revenue of 1 divided by percent change in NOI)	<u><u>124.02200%</u></u>

APPENDIX C
STAFF REPORT CASE NO. 97-321
STAFF'S RECOMMENDED RATE SCHEDULE

Staff recommends the following rates be prescribed for customers of South Shore Water Works Company.

Schedule of Rates

First 1,000 Gallons	\$5.90 Minimum Bill
Next 9,000 Gallons	2.93 Per 1,000 Gallons
Next 20,000 Gallons	2.45 Per 1,000 Gallons
Over 30,000 Gallons	2.34 Per 1,000 Gallons
Hydrant Charge	\$10.45 Per Month