

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE)
EAST CLARK COUNTY WATER DISTRICT) CASE NO. 98-101

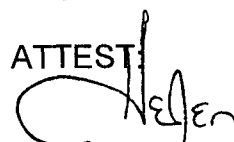
O R D E R

On February 20, 1998, East Clark County Water District ("East Clark") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of East Clark'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 11th day of May, 1998.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMISSION

In the matter of:

AN ADJUSTMENT OF RATES OF THE)
EAST CLARK COUNTY WATER DISTRICT) CASE NO. 98-101

STAFF REPORT

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

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

STAFF REPORT

ON

EAST CLARK COUNTY WATER DISTRICT

CASE NO. 98-101

On September 12, 1997, the Public Service Commission ("Commission") received a letter from East Clark County Water District ("East Clark") requesting Commission assistance with the preparation of a rate application. Commission Staff ("Staff") provided that assistance by performing a limited financial review of East Clark's test year operations, the calendar year ending December 31, 1996. The scope of Staff's 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.

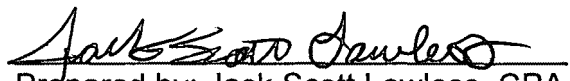
On February 20, 1998 East Clark filed its application seeking to increase its rates pursuant to 807 KAR 5:001, Section 10. The proposed rates will increase normalized test year operating revenues from rates by \$107,686.80 or 15 percent. East Clark proposed to revise its current rate design. The current rate design consists of a minimum bill, that includes 2,000 gallons usage, and additional per 1,000 gallon rates that decrease at set volumes of usage or rate blocks. In order to more fairly assign cost responsibility, it is reasonable to group customers that have similar water use characteristics. The proposed rate design groups customers by meter size and revises the rate blocks to more closely reflect customer usage patterns. The billing analysis and cost of service study filed in the application support the revision to East Clark's rate design.

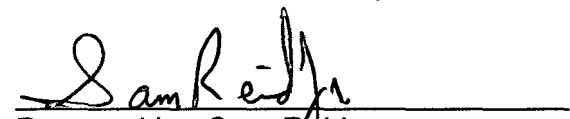
Scott Lawless of the Commission's Financial Audit Branch and Sam Reid of the Communication, Water and Sewer Rate Design Branch performed the review. Mr. Lawless is responsible for the preparation of this Staff Report except for the determination of normalized operating revenue, rate design, and Attachment C which were prepared or reviewed by Mr. Reid.

As shown in Attachment B, East Clark could justify an increase in normalized test year operating revenues of \$154,428.56 or 21.51 percent. However, Staff recommends that East Clark's requested increase of 15 percent be granted since it will produce revenues sufficient to pay all pro forma cash expenses as delineated in Attachment A. Attachment C contains rates that will produce the recommended operating revenue.

If East Clark chooses to amend its application to reflect rates that will generate the additional revenue of \$154,428.56 which Staff believes could be justified, it should do so when filing comments to the Staff Report. In the event that East Clark does request rates that differ from those previously noticed to its customers, it should be required to renote its customers of the new proposed rates.

Signatures


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


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

ATTACHMENT A
STAFF REPORT CASE NO. 98-101
EAST CLARK'S REQUESTED AND STAFF'S RECOMMENDED OPERATIONS

| | Test Year | Adjustments | Ref. | Pro forma Present Rates |
|---|----------------------|----------------------|------|-------------------------------|
| Operating Revenues | | | | |
| Sales of Water | \$ 690,018.00 | \$ 27,894.00 | (a) | \$ 717,912.00 |
| Other Operating Revenue | 29,029.00 | (26,400.00) | (b) | 2,629.00 |
| Total Operating Revenues | 719,047.00 | 1,494.00 | | 720,541.00 |
| Operating Expenses | | | | |
| Operation and Maintenance Expenses | | | | |
| Salaries and Wages-Employees | 105,618.00 | 5,705.23 | (c) | 111,323.23 |
| Salaries and Wages-Officers | 8,850.00 | | | 8,850.00 |
| Employee Pensions and Benefits | 38,408.00 | 741.68 | (d) | 39,149.68 |
| Purchased Water | 140,037.00 | 3,343.96 | (e) | 143,380.96 |
| Chemicals | 2,233.00 | | | 2,233.00 |
| Materials and Supplies | 37,971.00 | | | 37,971.00 |
| Contractual Services-Engineering | 5,124.00 | | | 5,124.00 |
| Contractual Services-Accounting | 6,350.00 | | | 6,350.00 |
| Contractual Services-Legal | 730.00 | | | 730.00 |
| Contractual Services-Man. Fees | 34,323.00 | | | 34,323.00 |
| Transportation Expenses | 13,287.00 | | | 13,287.00 |
| Insurance-Vehicle | 814.00 | | | 814.00 |
| Insurance-General Liability | 2,886.00 | | | 2,886.00 |
| Insurance-Worker's Compensation | 1,790.00 | | | 1,790.00 |
| Insurance-Other | 6,406.00 | | | 6,406.00 |
| Bad Debt Expense | 1,275.00 | | | 1,275.00 |
| Miscellaneous Expenses | 1,964.00 | | | 1,964.00 |
| Total Oper. and Maint. Expenses | 408,066.00 | 9,790.87 | | 417,856.87 |
| Depreciation Expense | 126,029.00 | 9,967.00 | (f) | 135,996.00 |
| Taxes Other Than Income | 8,618.00 | 436.45 | (g) | 9,054.45 |
| Total Operating Expenses | 542,713.00 | 20,194.32 | | 562,907.32 |
| Net Operating Income | 176,334.00 | (18,700.32) | | 157,633.68 |
| Plus: Interest and Dividend Income | 16,325.00 | | | 16,325.00 |
| Nonutility Income | 2,712.00 | | | 2,712.00 |
| Income Available to Service Debt | \$ 195,371.00 | \$(18,700.32) | | \$ 176,670.68 |

ATTACHMENT A
STAFF REPORT CASE NO. 98-101
EAST CLARK'S REQUESTED AND STAFF'S RECOMMENDED OPERATIONS

(a) Sales of Water. East Clark reported test year sales of water in the amount of \$690,018.00. To determine the reasonableness of the reported amount, Staff prepared a billing analysis using East Clark's test period customer billing records. Through this analysis, Staff calculated test year sales of water to be \$687,725.00 and has therefore decreased test year sales by \$2,293.00. Staff increased test year sales by \$30,187.00 to include 12 months of revenues from customers that had connected to the water system during the test year. The net increase to test year sales of water was \$27,894.00.

(b) Other Operating Revenue. East Clark reported test year other operating revenues of \$29,029.00 of which \$26,400.00 represented tap fee collections. Tap fees are contributions in aid of construction and should not be included in the determination of net income. Therefore, Staff has eliminated tap fees from test year other operating revenues.

(c) Salaries and Wages – Employees. Test year salaries and wages – employees were reported at \$105,618.00. By reviewing East Clark's payroll information, Staff determined that the pro forma salaries and wages expense should be \$111,323.23. Therefore, test year salaries and wages - employees was increased by \$5,705.23.

(d) Employee Pensions and Benefits. East Clark contributes 13 percent of all employee's annual payroll to an employee retirement fund. Test year employee pensions and benefits has been increased by \$741.68 to reflect the increase to test year salaries and wages – employees of \$5,705.23.

ATTACHMENT A
STAFF REPORT CASE NO. 98-101
EAST CLARK'S REQUESTED AND STAFF'S RECOMMENDED OPERATIONS

(e) Purchased Water. Test year purchased water was reported at \$140,037.00. Staff increased that amount by \$3,343.96 to reflect pro forma purchased water of \$143,380.96 which was calculated as follows:

| | |
|---|----------------------------|
| Normalized gallons of water to be sold | 94,160,300.00 |
| Divide by: 1 – test year unaccounted for water percentage (actual factor carried out 10 places) | <u>88.97%</u> |
| Total to be purchased in gallons | 105,836,046.00 |
| Divide by: Conversion factor (actual factor 7.481) | <u>7.48</u> |
| Total to be purchased in cubic feet | 14,147,313.00 |
| Divide by: 100 | <u>100.00</u> |
| Total to be purchased in 100 cubic feet | 141,473.13 |
| Times: Cost per 100 cubic feet | <u>\$1.01</u> |
| Total for purchased water for resale | 142,887.86 |
| Plus: Test year water purchased for office | <u>493.10</u> |
| Pro forma | <u><u>\$143,380.96</u></u> |

(f) Depreciation Expense. Staff increased test year depreciation expense by \$9,967.00 so that pro forma depreciation expense would include the annual accrual for all plant in service as of December 31, 1996. Staff's adjustment was calculated as follows:

| | |
|------------------------------------|--------------------------|
| Monthly accrual for December, 1996 | \$11,333.00 |
| Annualize | <u>12.00</u> |
| Annual expense | 135,996.00 |
| Less: Test year | <u>(126,029.00)</u> |
| Adjustment | <u><u>\$9,967.00</u></u> |

(g) Taxes Other Than Income Taxes. Staff increased test year taxes other than income taxes by \$436.45 to reflect the proposed increase in salaries and wages of \$5,705.23. This adjustment was calculated by applying the FICA tax rate of 7.65 percent to the increase in test year salaries and wages.

ATTACHMENT B
STAFF REPORT CASE NO. 98-101
CALCULATION OF REVENUE REQUIREMENTS

| | |
|---|----------------------------|
| Three Year Average Debt Service | \$ 275,916.03 |
| Plus: Debt Service Coverage of 20% | 55,183.21 |
| Operating Expenses | 562,907.32 |
| Less: Other Operating Income | (2,629.00) |
| Interest and Dividend Income | (16,325.00) |
| Nonutility Income | (2,712.00) |
| | <hr/> |
| Total Revenue Required from Rates | 872,340.56 |
| Less: Normalized Test Year Revenue from Rates | (717,912.00) |
| | <hr/> |
| Required Increase | 154,428.56 |
| Less: Requested Increase | (107,686.80) |
| | <hr/> |
| Revenue Deficiency | <u><u>\$ 46,741.76</u></u> |

ATTACHMENT C
STAFF REPORT 98-101
RECOMMENDED WATER RATES

RECOMMENDED RATES

5/8" x 3/4" Meter

First 2,000 gallons
Next 8,000 gallons
Next 40,000 gallons
Over 50,000 gallons

Monthly Rates

\$22.96 Minimum Bill
9.23 per 1,000 gallons
8.01 per 1,000 gallons
6.79 per 1,000 gallons

1" Meter

First 5,000 gallons
Next 5,000 gallons
Next 40,000 gallons
Over 50,000 gallons

\$50.65 Minimum Bill
9.23 per 1,000 gallons
8.01 per 1,000 gallons
6.79 per 1,000 gallons

1 1/2" Meter

First 10,000 gallons
Next 40,000 gallons
Over 50,000 gallons

\$96.80 Minimum Bill
8.01 per 1,000 gallons
6.79 per 1,000 gallons

2" Meter

First 20,000 gallons
Next 30,000 gallons
Over 50,000 gallons

\$176.90 Minimum Bill
8.01 per 1,000 gallons
6.79 per 1,000 gallons

3" Meter

First 30,000 gallons
Next 20,000 gallons
Over 50,000 gallons

\$257.00 Minimum Bill
8.01 per 1,000 gallons
6.79 per 1,000 gallons