

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION FOR RATE ADJUSTMENT)
OF PURCHASE PUBLIC SERVICE CORPORATION)
D/B/A GREAT OAKS SUBDIVISION) CASE NO. 98-151

O R D E R

On March 31, 1998, Purchase Public Service Corporation d/b/a Great Oaks Subdivision (Great Oaks) applied for an adjustment of its rates for sewage treatment service. Commission Staff, having performed a limited financial review of Great Oaks operations, has submitted to the Commission a report of its findings and recommendations regarding the proposed rate adjustment. A copy of this report is attached hereto.

IT IS THEREFORE ORDERED that:

1. All parties shall have 10 days from the date of this Order to review the Commission Staff Report and comment upon it.
2. Any party objecting to any finding or recommendation contained in the Commission Staff Report shall submit such objections in writing within 10 days of the date of this Order. Parties submitting written objections shall identify each finding and recommendation to which they object and the basis for their objection.

3. If a party does not submit any objections to the Commission Staff Report within 10 days of the date of the Order, it shall be considered as accepting the Commission Staff's findings and recommendations.

4. A public hearing on the proposed rate adjustment shall be held in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky on January 25, 1999, at 1:00 p.m., Eastern Standard Time.

5. Great Oaks shall cause to be published in a newspaper of general circulation in the area affected by its proposed rate adjustment, no later than January 18, 1999, notice of the purpose, time, place and date of hearing.

6. If no objections to the findings and recommendations of the Commission Staff Report are received within 10 days of the date of this Order, the scheduled hearing in this matter shall be canceled and this matter shall stand submitted to the Commission for decision based upon the existing record.

Done at Frankfort, Kentucky, this 8th day of January, 1999.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION FOR RATE ADJUSTMENT)
OF PURCHASE PUBLIC SERVICE CORPORATION)
D/B/A GREAT OAKS SUBDIVISION) CASE NO. 98-151

STAFF REPORT

Prepared by:

John D. Williams
Public Utility Financial Analyst, Senior
Water and Sewer Revenue Requirements
Branch
Division of Financial Analysis

Carryn Lee
Manager
Communications, Water and Sewer
Rate Design Branch
Division of Financial Analysis

STAFF REPORT
ON
PURCHASE PUBLIC SERVICE CORPORATION D/B/A
GREAT OAKS SUBDIVISION
CASE NO. 98-151

On March 31, 1998, Purchase Public Service Corporation d/b/a Great Oaks Subdivision (Great Oaks) filed an application seeking to increase its rates pursuant to 807 KAR 5:076. The application requested approval to increase tariffed sewer rates by 42% percent, an increase in annual revenue of \$11,721. Great Oaks requested assistance from Commission Staff (Staff) in the preparation of its Alternative Rate Filing Application as allowed pursuant to 807 KAR 5:076, Section 2. To assist in the preparation of this application, Staff performed a limited financial review of Great Oaks test year operations; the calendar year ended December 31, 1996.

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.

Mark Frost, of the Commission's Water and Sewer Revenue Requirements Branch, performed the limited review on April 3, 1997. Since Mr. Frost was no longer an employee of the Commission when the application was filed, John Williams of the Commission's Water and Sewer Revenue Requirements Branch was assigned the case. Part of Mr. Williams' analytical work in this case was to compare the 1997 annual report to the Commission to the adjusted operations for 1996. As a result of this

analytical review, Mr. Williams performed a limited review for the year 1997 on September 23, 1998. Mr. Williams is responsible for the preparation of this Staff Report except for the determination of normalized operating revenue and Attachment D, which were prepared by Carryn Lee of the Commission's Communications, Water and Sewer Branch.

A comparison of Great Oaks actual and pro forma operations is shown in Attachment A. Based on Staff's recommendations, Great Oaks operating statement would appear as set forth in Attachment B. Attachment C details the revenue requirement determination. Staff recommends a revenue requirement of \$35,998 or a \$8,074 increase. The rates contained in Attachment D will achieve the Staff's recommended level of revenue.

John D. Williams
Public Utility Financial
Analyst, Senior
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis

Carryn Lee
Manager
Communications, Water and
Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
 STAFF REPORT CASE NO. 98-151
 GREAT OAK'S REQUESTED OPERATIONS

	<u>Test Year</u> <u>Operations</u>	<u>Adjs.</u>	<u>Ref.</u>	<u>Requested</u> <u>Operations</u>
Operating Revenues:				
Flat Rate:				
Residential	\$26,620	\$1,304	A	\$27,924
Other Operating Revenues:				
Forfeited Discounts	951	0		951
Miscellaneous	<u>250</u>	<u>0</u>		<u>250</u>
Total Oper. Revenues	<u>\$27,821</u>	<u>\$1,304</u>		<u>\$29,125</u>
Operating Expenses:				
Sludge Hauling	\$1,400	\$0		\$1,400
Purchased Water	428	0		428
KPDES Discharge Analysis	2,550	570	B	3,120
Purchased Power	4,325	(175)	C	4,150
Misc. Supplies & Exp.	3,592	(442)	D	3,150
Supervision & Engineering	20,760	575	E	21,335
Travel	0	0		0
Outside Services	624	0		624
Insurance	568	72	F	640
Depreciation	509	296	G	805
Taxes Other Than Inc. Tax	<u>50</u>	<u>0</u>		<u>50</u>
Total Operating Expenses	<u>\$34,806</u>	<u>\$896</u>		<u>\$35,702</u>
Net Operating Income	(\$6,985)	\$408		(\$6,577)
Other Deductions:				
Interest Expense	<u>276</u>	<u>0</u>		<u>276</u>
Net Operating Income	<u>(\$7,261)</u>	<u>\$408</u>		<u>(\$6,853)</u>

ATTACHMENT B
STAFF REPORT CASE NO. 98-151
STAFF RECOMMENDED OPERATIONS

	<u>Test Period</u> <u>Operations</u>	<u>Pro Forma</u> <u>Adjs.</u>	<u>Ref.</u>	<u>Recommended</u> <u>Operations</u>
Operating Revenues:				
Flat Rate:				
Residential	\$26,620	\$1,304	A	\$27,924
Other Operating Revenues:				
Late Pymt. & Returned Ck. Fees	951	(67)	B	884
Miscellaneous	250	(250)	C	0
Total Operating Revenues	<u>\$27,821</u>	<u>\$987</u>		<u>\$28,808</u>
Operating Expenses:				
Sludge Hauling	\$1,400	\$0		\$1,400
Purchased Water	428	(176)	D	252
KPDES Discharge Analysis	2,550	310	E	2,860
Purchased Power	4,325	(939)	F	3,386
Misc. Supplies & Expenses	3,592	(628)	G	2,964
Supervision & Engineering	20,760	(6,098)	H	14,662
Travel	0	1,702	H	1,702
Outside Services	624	(385)	I	239
Insurance	568	68	J	636
Depreciation	509	3,553	K	4,062
Taxes Other Than Inc. Tax	50	0		50
Total Operating Expenses	<u>\$34,806</u>	<u>(\$2,593)</u>		<u>\$32,213</u>
Net Operating Income	(\$6,985)	\$3,580		(\$3,405)
Other Deductions:				
Interest Expense	276	0		276
Net Operating Income	<u>(\$7,261)</u>	<u>\$3,580</u>		<u>(\$3,681)</u>

ATTACHMENT B
STAFF REPORT, CASE NO. 98-151
STAFF RECOMMENDED OPERATIONS

- A. Great Oaks had 1996 test period, flat rate, and residential revenue of \$26,620 from 114 customers. The customers served did not change from 1996 to 1997. For the purposes of this report, the normalized, flat rate residential revenue will be \$27,924 (114 X \$20.41 X 12). Staff recommended an adjustment increasing residential revenue by \$1,304.
- B. Great Oaks included other operating revenue, titled forfeited discounts, of \$951 in its 1996 annual report to the Commission and its application. From a review of the utility's filed tariff, as well as, discussions with management, this revenue is from late payment and returned check fees. Based on 1997 and years prior to 1996, Staff is decreasing these by (\$67) to \$884, which is a total more consistent with historical operations.
- C. Great Oaks included other operating revenue titled miscellaneous, of \$250 in its 1996 annual report to the Commission and its application. This represents a reconnection fee for one customer charged consistent with the utility's filed tariff. Since there is no miscellaneous revenue from reconnection fees in 1997 or in the five years previous to the 1996 test period, Staff has eliminated the \$250 from miscellaneous revenue as an isolated occurrence not normal to utility operations.
- D. Based on Staff's review of 1997 purchased water totaling \$252, the 1996 test year amount of \$428 is being adjusted to the 1997 balance. This results in a (\$176) pro forma adjustment.

- E. The KPDES permit requires that the effluent at the treatment plant be tested weekly. The Staff adjustment increasing KPDES discharge analysis by \$310 from \$2,550 to \$2,860 reflects the weekly testing requirement and the current fee of \$55 per week.
- F. Great Oaks purchased power invoices for usage from January 1, 1997 through December 31, 1997 total \$3,386 compared to \$4,325 for the 1996 test period. Accordingly, Staff decreased purchased power expense by the difference of (\$939).
- G. Miscellaneous supplies 1997 activity totals \$3,538 on the annual report to the Commission. However, two items were misclassified to miscellaneous supplies. First, outside services for accounting fees of \$239 were included. Next, a power bill for \$335, reflected in Pro Forma Adjustment F must be reclassified from the 1997 reported expense. Thus, Staff removed a total of (\$574) from the 1997 miscellaneous supplies account balance, resulting in allowable expenditures from 1997 activity of \$2,964.

Adjusted miscellaneous supplies, 1997	\$ 2,964
Less: Reported miscellaneous supplies, 1996	<u>\$ (3,592)</u>
Recommended pro forma adjustment	\$ (628)

- H. This Staff adjustment normalizes for Great Oaks the Purchase Area Development District (PADD) employees pay rates in 1998 applied to the hours worked in 1997. Fringe benefits on the salary normalization adjustment are estimated at 20 percent and indirect costs of PADD are estimated at 32 percent of the salary normalization adjustment combined with fringe benefits. Sick pay, vacation pay, other and travel expenses are recommended at the amounts reported for 1997. Travel costs were

included in this classification and Staff reclassified the 1997 amount of \$1,702 to a separate classification on the statement of operations.

	1997 Hours <u>Worked</u>	1998 Hourly Rate <u>(1950 hrs./ yr.)</u>	Normalized <u>Salaries</u>
Field technician	272.75	\$ 8.99	\$2,452
Certified operator	412.50	\$11.27	\$4,649
Environ./Safety manager	44.00	\$16.13	\$ 710
Part-time laborer	104.00	\$ 7.50	<u>\$ 780</u>
Normalized salaries			\$8,591

	Reported <u>1997</u>	Normalization <u>Adjustment</u>	Reclassify <u>Travel</u>	Adjusted <u>1997</u>
Salaries	\$ 8,388	\$ 203		\$ 8,591
Empl. Benefits	\$ 1,757	\$ 41		\$ 1,798
Sick pay	\$ 317			\$ 317
Vacation pay	\$ 359			\$ 359
Other	\$ 279			\$ 279
Indirect costs	\$ 3,240	<u>\$ 78</u>		\$ 3,318
Travel	<u>\$ 1,702</u>		<u>(\$1,702)</u>	<u>\$ 0</u>
TOTALS	\$16,042	\$322	<u>(\$1,702)</u>	\$14,662

Supervision & Engineering reported, 1996 \$20,760

Normalized total per Staff \$14,662

Pro forma adjustment recommended (\$6,098)

- I. This Staff adjustment reduces outside services by (\$385), from the \$624 amount reported for the 1996 test period to the actual outside services for 1997 of \$239 (see Adjustment G).
- J. This Staff adjustment increases the 1996 test year insurance expense balance from \$568 to the actual amount reported for 1997 of \$636. Thus, the pro forma adjustment is \$68.
- K. Staff has provided for depreciation based on the expense reported for 1997 of \$7,380, the depreciation estimated on capital expenditures planned in the near

future of \$272, and by computing the amortization of plant acquisition adjustment as directed by the Commission¹. Upon the transfer of the plant to Purchase Public Service Corporation the Commission directed Great Oaks to amortize any plant acquisition adjustment over the remaining useful life of the plant acquired. This results in an annual offset to depreciation expense of (\$3,590). The net effect of these adjustments is a pro forma depreciation expense of \$3,553, calculated as follows:

<u>Planned future capital expenditures</u>	<u>Est. Cost</u>	<u>Useful Life</u>	<u>Depreciation</u>
Chart recorder	\$1,216	10 years	\$ 122
Driveway	\$1,500	10 years	<u>\$ 150</u>
Subtotal			\$ 272
Plant depreciation reported, 1997			\$7,380
Less: Amortization of plant acquisition adjustment			<u>(\$3,590)</u>
Staff recommended depreciation, net			\$4,062
Less: Reported 1996 depreciation, net of amortization			<u>(\$ 509)</u>
Staff recommended pro forma adjustment			\$3,553

¹ Case No. 93-205, The Joint Application of Great Oaks Sanitation, Inc. and Purchase Public Service Corporation, a Kentucky Corporation, for Approval of a Real Estate Purchase Agreement Providing for the Transfer by Great Oaks Sanitation, Inc. of a Wastewater Treatment Plant Servicing the Great Oaks Subdivision in McCracken County, Kentucky to Purchase Public Service Corporation.

ATTACHMENT C
 STAFF REPORT, CASE NO. 98-151
 COMPARISON OF REQUESTED AND RECOMMENDED
 REVENUE REQUIREMENTS

	Great Oaks Requested	Staff Recommended
Operating Expenses	\$35,702	\$32,213
Divided by: Requested Operating Ratio	88%	88%
Subtotal	<u>\$40,570</u>	<u>\$36,606</u>
Add: Interest Expense	276	276
Total Revenue Requirement	<u>40,846</u>	<u>36,882</u>
Less: Other Operating Revenues	<u>1,201</u>	<u>884</u>
Revenue Requirement from Sewer Rates	\$39,645	\$35,998
Less: Pro Forma Revenue from Sewer Rates	<u>27,924</u>	<u>27,924</u>
Revenue Increase	<u><u>\$11,721</u></u>	<u><u>\$8,074</u></u>
Revenue Requirement from Sewer Rates	\$39,645	\$35,998
Divided by: 12-Months	<u>12</u>	<u>12</u>
Monthly Sewer Collections	\$3,303.75	\$2,999.83
Divided by: Number of Customers	<u>114</u>	<u>114</u>
Requested Monthly Flat Residential Rate	<u><u>\$28.98</u></u>	<u><u>\$26.31</u></u>
Requested Monthly Flat Residential Rate	\$28.98	\$26.31
Less: Current Tariffed Rate	<u>20.41</u>	<u>20.41</u>
Dollar Affect on Average Customers Bill	<u><u>\$8.57</u></u>	<u><u>\$5.90</u></u>
Percentage Affect on Average Customers Bill	<u><u>42%</u></u>	<u><u>29%</u></u>

ATTACHMENT D
STAFF REPORT CASE NO. 98-151
PURCHASE PUBLIC SERVICE CORPORATION D/B/A
GREAT OAKS SUBDIVISION
RECOMMENDED RATES

Monthly Rate

Flat Rate Residential Service

\$26.31