

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)	
WHOLESALE WATER SERVICE RATES OF)	CASE NO. 98-497
THE CITY OF AUGUSTA, KENTUCKY)	

O R D E R

Commission Staff having prepared a report on the proposed rate adjustment of the City of Augusta, Kentucky (Augusta) and the Commission finding that a procedural schedule should be established to permit comment and objections to the Commission Staff s findings and recommendations, IT IS HEREBY ORDERED that:

1. All parties shall have 10 days from the date of this Order to review and comment upon the Commission Staff Report appended hereto.

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. An informal conference in this matter shall be held on May 19, 1999 at 10:00 a.m., Eastern Daylight Time, in Conference Room 1 of the Commission s offices at 730 Schenkel Lane, Frankfort, Kentucky for the purpose of discussing objections to the findings and recommendations contained in the Commission Staff Report and

considering the possibility of settlement, the simplification of issues, the contents of the record and any other matters which may aid in the disposition of this proceeding.

5. 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 May 27, 1999, at 9:00 a.m., Eastern Daylight Time.

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 informal conference and 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 7th day of May, 1999.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
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STAFF REPORT

Prepared by: Karen S. Harrod, CPA
Public Utility Financial Analyst
Water and Sewer Revenue
Requirements 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
CITY OF AUGUSTA
CASE NO. 98-497

On September 14, 1998, the City of Augusta (Augusta) proposed to increase its wholesale water rate to Bracken County Water District (Bracken County) from \$.65 to \$1.09 per thousand gallons, effective October 18, 1998. By Order of September 30, 1998, the Commission suspended the proposed rates for a period of five months and ordered Augusta to file the information required by 807 KAR 5:001, Section 10, to support the proposed adjustment in its wholesale water service.

By Order dated October 28, 1998, the Commission granted Augusta s request to place the proposed rate increase in effect subject to refund. By Order of December 30, 1998, the Commission directed Commission Staff (Staff) to perform a limited financial review of Augusta s test period operations, the fiscal year ending June 30, 1998.

The scope of Staff s review is limited to operations related to Augusta s water treatment plant. Other costs incurred by Augusta s Water Fund are related to water distribution within Augusta and should not be recovered through wholesale rates charged to Bracken County. The purpose of the review is to determine whether the test period operations are representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Karen Harrod of the Commission s Water and Sewer Revenue Requirements Branch began the limited review on January 26, 1999. Ms. Harrod is responsible for the preparation of this Staff Report except for the section titled Rate Design and Attachment

B, which was prepared by Sam Reid of the Commission's Communications, Water and Sewer Rate Design Branch.

Based on Staff's recommendations, Augusta's operating expenses and revenue requirement to be recovered from water sales would appear as set forth in Attachment A. Staff recommends a revenue requirement of \$264,446. The rate contained in Attachment B are Staff's recommended rate for Bracken County. This rate may not achieve the recommended revenue requirement from water sales.

Capital Costs. Based on the April 26, 1995 supplemental addendum to the 1993 Water Purchase Contract between Augusta and Bracken County, Bracken County must pay \$4,407.38 monthly to Augusta for capital costs. These payments are applied toward the annual principal and interest payments and related debt service for the water treatment plant, and are in addition to the wholesale water rate.

Rate Design. Augusta proposed no revision to the rate design for its wholesale rate to Bracken County. Staff agrees with Augusta's method of a per 1,000 gallon rate design to recover revenue from Bracken County. Augusta's records establish total treated gallons produced for the test period to be 219,366,100 gallons. Bracken County and Augusta do not have any jointly shared lines. Commission Staff, therefore, determined the rate by dividing the recommended revenue requirement by the total treated gallons produced. Based upon the calculations shown in Attachment B, Staff recommends that the wholesale rate to Bracken County be \$1.21 per 1,000 gallons. This rate represents an 86 percent increase over the previous wholesale rate. As a point of comparison, Augusta's proposed wholesale rate represents an increase of 68 percent over the previous wholesale rate.

Signatures

Prepared by: Karen S. Harrod, CPA
Public Utility Financial Analyst
Water and Sewer Revenue
Requirements 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. 98-497
 CITY OF AUGUSTA WATER TREATMENT PLANT TEST YEAR EXPENDITURES
 CALCULATION OF REVENUE REQUIREMENT FROM WATER SALES

	Detailed WTP Expenditures	Recommended Adjustments	Ref.	Recommended WTP Expenditures
Salaries & Wages				
Salaries - Plant	82,448	3,664	(a)	86,112
Utilities & Telephone				
Electric	40,953			40,953
Phones	2,262			2,262
Insurance	7,624			7,624
Repairs & Supplies				
Repairs	150,253	(33,296)	(b)	116,957
Chemicals	4,621			4,621
Office Supplies	637			637
Miscellaneous				
Travel & Training	1,100			1,100
Testing	3,852			3,852
Other Expense				
Miscellaneous - WTP	328			328
Depreciation Expense	75,861			75,861
Total Operating Expenses	<u>369,939</u>	<u>(29,632)</u>		<u>340,307</u>

Adjusted Operating Expenses - WTP	340,307	
Less: Depreciation Expense	<u>75,861</u>	(c)
Total Revenue Requirement from Water Sales	<u>264,446</u>	

ATTACHMENT A
STAFF REPORT CASE NO. 98-497
CITY OF AUGUSTA WATER TREATMENT PLANT TEST YEAR EXPENDITURES
CALCULATION OF REVENUE REQUIREMENT FROM WATER SALES

- (a) Salaries Plant. Augusta reported test year salary expense for the water treatment plant of \$82,448. Based on the current salary levels of the current employees, staff has calculated salary expense to be \$86,112. As a result, an adjustment has been included to increase test year expense by \$3,664.
- (b) Repairs. For the test year Augusta reported \$150,253 in repairs expense. Included in this account were payments to Control Technologies in the amount of \$33,296 for flood repair expenditures that were reimbursed by insurance. Since these costs will not be recovered through rates, Staff has included an adjustment to decrease test year expense by that amount to a level of \$116,957.
- (c) Depreciation Expense. Augusta reported depreciation expense of \$75,861 for the water treatment plant for the test year. Based on the Water Purchase Contract dated March 4, 1993, between the City of Augusta and Bracken County Water District, the operation and maintenance expense on which wholesale rates are to be determined should exclude depreciation expense. Therefore, an adjustment has been made to eliminate depreciation expense from the calculation of Augusta's wholesale revenue requirement.

ATTACHMENT B
STAFF REPORT CASE NO. 98-497
CALCULATION OF WHOLESALE WATER RATE

Calculation of Total Treated Gallons:

1997	July	19,165,200
	August	19,189,400
	September	17,099,700
	October	17,315,400
	November	15,161,700
	December	17,609,300
1998	January	17,767,900
	February	19,199,500
	March	19,698,000
	April	17,367,000
	May	20,225,000
	June	<u>19,568,000</u>
Total Treated Gallons		<u>219,366,100</u>

Revenue Requirement from Water Sales	\$ 264,446
Divide by Total Treated Gallons	<u>219,366,100</u>
Wholesale Rate per 1,000 Gallons	<u>\$ 1.21</u>