

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE TRIMBLE)
COUNTY WATER DISTRICT NO. 1) CASE NO. 98-614

O R D E R

On November 23, 1998, Trimble County Water District No. 1 ("Trimble County") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Trimble County'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 28th day of January, 1999.

ATTEST:

By the Commission

Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE TRIMBLE)
COUNTY WATER DISTRICT NO. 1) Case No. 98-614

STAFF REPORT

Prepared by: Karen Harrod, CPA
Public Utility Financial Analyst
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis

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

STAFF REPORT
ON
TRIMBLE COUNTY WATER DISTRICT NO. 1
CASE NO. 98-614

On May 5, 1998, the Public Service Commission (Commission) received a request from Trimble County Water District No. 1 (Trimble County) for Commission assistance with the preparation of a rate application. Commission Staff (Staff) provided that assistance by performing a limited financial review of Trimble County s test year operations, the calendar year ending December 31, 1997. 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 November 23, 1998, Trimble County 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 \$185,777, or 60.09 percent.

Karen Harrod of the Commission s Water and Sewer Revenue Requirements Branch and Renee Curry of the Commission s Communications, Water, and Sewer Rate Design Branch performed the limited review. Ms. Harrod is responsible for the preparation of this Staff Report except for the determination of normalized operating revenue and Attachment D, which were prepared by Ms. Curry.

A comparison of Trimble County s actual and pro forma operations is shown in Attachment A. Based on Staff s recommendations, Trimble County s operating statement would appear as set forth in Attachment B.

Attachment C of this report reflects Staff's calculation of Trimble County's revenue requirement. As shown in Attachment C, Staff recommends that Trimble County be granted its proposed increase of \$185,777, which results in total revenue from rates of \$494,952.

Trimble County's current rate design consists of a 5-step declining block schedule, a bulk sales rate, and a wholesale rate. Trimble County included a cost of service study in its application. Based on this study, Trimble County did not propose to change its rate design, and Staff agrees.

Upon review of Trimble County's cost of service study, Staff determined that the 17 customers added in 1998 were not included in the calculation of the proposed water rates for the residential customers. Staff has made the necessary adjustments by including these customers in its calculation of Trimble County's recommended rates.

Staff's recommended rates in Attachment D will generate the required operating revenue from rates of \$494,952.

Staff anticipates that the rates recommended herein will generate, at a minimum, sufficient revenues to allow the utility to meet all its cash operating expenses and annual debt service requirements for a period of three years. Should the revenues generated by these rates become inadequate to meet these requirements at any time during the three-year period, the utility should take whatever steps are necessary to remedy the situation. At the end of the three-year period, staff will perform a limited review of the utility's operations to ensure that the rates remain adequate. As part of that review the utility may be required to file additional information.

Signatures

Prepared by: Karen Harrod, CPA
Public Utility Financial Analyst
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis

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

ATTACHMENT A
STAFF REPORT 98-614
TRIMBLE COUNTY S REQUESTED OPERATIONS

	Actual Test Year	Proposed Adjusts.	Ref.	Pro Forma Present Rates	Proposed Adjusts.	Ref.	Pro Forma Proposed Rates
INCOME							
Water Revenues	306,297	2,878	A	309,175	185,777	L	494,952
Other Operating Revenues	3,398	-		3,398			3,398
Total Income	309,695	2,878		312,573	185,777		498,350
EXPENSES							
Employee Wages	94,462	44,898	B	139,360			139,360
Commissioner Fees	9,000	-		9,000			9,000
Purchased Power	38,338	-		38,338			38,338
Chemicals	2,704	-		2,704			2,704
Materials & Supplies	59,396	9,400	C	68,796			68,796
Contract Services - Acct.	8,360	1,690	D	10,050			10,050
Contract Services - Other	392	-		392			392
Rental of Building	1,800	(1,800)	E	-			-
Rental of Equipment	116	-		116			116
Transportation Expense	4,862	-		4,862			4,862
Insurance	6,497	-		6,497			6,497
Advertising	611	(100)	F	511			511
PSC Expense	410	-		410			410
Bad Debt Expense	6,221	-		6,221			6,221
Miscellaneous Expense	669	-		669			669
Payroll Taxes	8,692	3,435	G	12,127			12,127
Depreciation	79,570	9,032	H	88,602			88,602
Total Operating Expenses	322,100	66,555		388,655	-		388,655
OPERATING INCOME	(12,405)	(63,677)		(76,082)	185,777		109,695
OTHER INCOME							
Interest Income	18,142	(11,220)	I	6,922	-		6,922
Other Income	300	900	J	1,200	-		1,200
Total Other Income	18,442	(10,320)		8,122	-		8,122
OTHER EXPENSES							
Service Charge - KIA Debt	-	534	K	534	-		534
NET INCOME AVAILABLE FOR DEBT SERVICE	6,037	(74,531)		(68,494)	185,777		117,283

ATTACHMENT B
STAFF REPORT 98-614
STAFF S RECOMMENDED OPERATIONS

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ATTACHMENT B
STAFF REPORT 98-614
STAFF S RECOMMENDED OPERATIONS

(A) Water Revenues. In its application, Trimble County's billing analysis indicated test year revenue from rates was \$304,890. Staff increased this amount by \$4,284 for 17 customers that were added in 1998 (17 customers @ 5,000 gallons each x 12 months = \$4,284). Therefore, for the purpose of this report, Staff has determined Trimble County's normalized operating revenue from rates is \$309,175.

(B) Employee Wages. Trimble County incurred employee wages expense of \$94,462 for the test year. An adjustment was proposed by Trimble County and recommended by Staff to adjust salaries to the current level of \$139,360. Accordingly, an adjustment has been included to increase test year employee wages expense by \$44,898.

(C) Materials & Supplies. For the test year, Trimble County incurred materials & supplies expense of \$59,396. In the application an adjustment was proposed to increase this amount by \$9,400 to include the on-going expense for additional required testing that was not reflected in test year expenditures. Staff concurs with this adjustment and has included it for ratemaking purposes.

(D) Contract Services Accounting & Legal. Trimble County reported contract services- accounting & legal expenses of \$8,360 for the test period. An adjustment was proposed to increase test year expense by \$1,690 to the current level of \$10,050. Staff is of the opinion that this adjustment meets the ratemaking criteria of being known and measurable and therefore, has included the increase in the calculation of Trimble County's revenue requirement.

ATTACHMENT B
STAFF REPORT 98-614
STAFF S RECOMMENDED OPERATIONS

(E) Rental of Building. For the test year Trimble County incurred expenses of \$1,800 for rental of office expense. An adjustment was proposed to eliminate this expense because Trimble now owns its office building. Staff concurs with this adjustment.

(F) Advertising Expense. Trimble County reported advertising expense of \$611 for the test year. An adjustment was proposed to decrease that amount by \$100 to eliminate advertising expense that would not be allowed for rate-making purposes. Staff has included that adjustment for rate-making purposes.

(G) Payroll Taxes. An adjustment was proposed in Trimble County's application to adjust payroll tax expense to include additional FICA based on the proposed increase to test year salary expense. Staff concurs with this adjustment and has included an increase of \$3,435 to payroll tax expense reported in test year operations.

(H) Depreciation. Trimble County reported test year depreciation expense of \$79,570. In its application Trimble County proposed to increase that amount by \$9,032 to include a full year's depreciation on items capitalized during the test year. Staff agrees with this calculation and has included it for ratemaking purposes.

(I) Interest Income. Trimble County included interest income of \$18,142 in its test period operations. An adjustment was proposed by Trimble County and recommended by Staff to decrease interest income by \$11,220, to eliminate income from reserve accounts that cannot be used for operation and maintenance of the water district.

(J) Other Income. In its application Trimble County proposed an increase to other income of \$300 to a pro forma level of \$1,200. This adjustment was proposed to include additional monies to be received from the City of Bedford for collection of sewer

ATTACHMENT B
STAFF REPORT 98-614
STAFF S RECOMMENDED OPERATIONS

data based on a revised contract effective August 1998. Staff agrees with this adjustment and has included the increase for ratemaking purposes.

(K) Service Charge KIA Debt. Trimble County proposed an adjustment to include its service charge payable to KIA as a component of KIA debt service. Based on the 5 year average service charge for 1999 - 2003, the proposed annual service charge is \$534. Staff concurs with the inclusion of this expense in the calculation of Trimble County's Revenue Requirement.

ATTACHMENT C
STAFF REPORT 98-614
CALCULATION OF REVENUE REQUIREMENT

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ATTACHMENT D
STAFF REPORT 98-614
RECOMMENDED WATER RATES

Monthly Water Rates

First	1,000	gallons	\$13.97	Minimum bill
Next	2,000	gallons	4.69	per 1,000 gallons
Next	3,000	gallons	4.08	per 1,000 gallons
Next	6,000	gallons	3.47	per 1,000 gallons
Over	12,000	gallons	2.86	per 1,000 gallons
Bulk Sales			\$5.00	per 1,000 gallons
West Carroll Wholesale Rate			\$1.74	per 1,000 gallons