

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BIG BEAR WASTEWATER,)
INC. FOR A RATE ADJUSTMENT PURSUANT TO) CASE NO.
THE ALTERNATIVE RATE FILING PROCEDURE) 99-114
FOR SMALL UTILITIES)

ORDER

On April 19, 1999, Big Bear Wastewater, Inc. ("Big Bear") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Big Bear's operations, prepared a Staff Report that was issued by Commission Order dated June 3, 1999. An informal conference was held on August 30, 1999, to discuss the application and the Staff Report. During the conference matters arose that had not been previously brought to Staff's attention. As a result of the conference and after review of the information filed subsequent thereto, Staff has prepared the attached Amended Staff Report. 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 to provide written comments regarding the attached Staff Report or requests for 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 13th day of January, 2000.

By the Commission

ATTEST:

Executive Director

AMENDED STAFF REPORT
ON
BIG BEAR WASTEWATER, INC.
CASE NO. 99-114

On April 19, 1999, Big Bear Wastewater, Inc. ("Big Bear") filed its application seeking to increase its sewer rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities. Staff expressed its recommendations with regard to Big Bear's application in a Staff Report issued on June 3, 1999. To discuss the application and the Staff Report an informal conference was held on August 10, 1999. In attendance at the conference were John David Myles and John Stratman, representing The Dens Condominium Association ("The Dens"); Penny Warren, representing Big Bear; and Renee Curry, Anita Mitchell, and Scott Lawless of Commission Staff. During the conference Mr. Myles presented arguments against various aspects of the Staff Report. It was agreed that Big Bear and The Dens would submit additional information pursuant to the conference.

After considering the arguments made at the conference and the information filed subsequent thereto, Staff hereby amends its original report and recommends that the rate approved in this case be a monthly flat rate of \$30.37 per customer. Attachment A of this report details the additional adjustments to Staff's recommended pro forma operating income statement. Attachment B details the calculation of Staff's amended revenue requirement and recommended rate.

Signatures

Prepared by: Jack Scott Lawless, CPA
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

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

ATTACHMENT A
 AMENDED STAFF REPORT CASE NO. 99-114
 STAFF'S RECOMMENDED OPERATIONS

	Pro forma Present Rate Operations per Staff Report of June 3, 1999	Adjustments	Ref.	Pro forma Present Rate Operations Amended Staff Report
Sewer Service Revenues	24,308		A	24,308
Operating Expenses				
Operation and Maintenance				
Salaries and Wages	9,576		B	9,576
Sludge Hauling	840			840
Chemicals	318			318
Materials and Supplies	750			750
Contractual Services	2,413			2,413
Purchased Power	3,592			3,592
Insurance	1,689			1,689
Miscellaneous	943			943
Total Operation and Maintenance	20,121	-		20,121
Depreciation	3,965	(3,965)	C	-
Taxes Other Than Income	1,286			1,286
Total Operating Expenses	25,372	(3,965)		21,407
Net Operating Income	(1,064)	3,965		2,901

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STAFF'S RECOMMENDED OPERATIONS

A) Sewer Service Revenues. During the informal conference, The Dens stated that the local marina operates the only boat sewage pump-out station in the area but is charged as a residential customer by Big Bear. The Dens felt that an adjustment to test year revenues was warranted if the marina is accepting high levels of wastewater to be treated by Big Bear's plant. Subsequent to the conference Big Bear reviewed the records of the marina and found that 2 boats had used the pump-out from January 1, 1999, to August 12, 1999. Staff agrees that a residential equivalency factor should be established for any customer discharging more than 12,000 gallons of wastewater per month into a wastewater treatment facility. However, there has been no evidence presented in this case to indicate that the marina is discharging high volumes of wastewater into Big Bear's plant. Therefore, Staff has not made additional adjustments to operating revenues.

B) Salaries and Wages. During the test year Big Bear paid its employees monthly salaries. The Commission had approved the majority of the salary amounts in Case No. 97-245, Big Bear's previous rate case. To calculate pro forma salaries in this case Staff annualized the test year monthly salaries of all employees at the end of the test year.

In this case The Dens has argued that Staff's calculation in Case No. 97-245 artificially inflated salaries because the months used in the calculation were the busiest months of the year for Big Bear. Therefore, when approving rates in this case the Commission should reduce salary and wage expenses. Staff is of the opinion that an additional adjustment to pro forma salaries and wages is not warranted. Even though Big Bear is operating a seasonal resort community, the treatment plant is in operation

ATTACHMENT A
 AMENDED STAFF REPORT CASE NO. 99-114
 STAFF'S RECOMMENDED OPERATIONS

365 days per year and must be serviced routinely. The salary levels recommended by Staff in its original report fall well within the reasonableness range when compared to other similarly situated sewer treatment plant operations.

The Dens further argued that test year salaries and wages were overstated as evidenced by a payroll detail report that was submitted to the Commission by Big Bear on August 9, 1999. Staff concedes that the payroll report does reflect an over payment equal to one months salary for each employee; however, no adjustment is warranted as the overpayment is not reflected in test year or pro forma salaries and wages as shown in the original Staff Report. The amount included as test year salaries and wages in the original Staff Report and the amount reported in the payroll detail report were reconciled as follows:

Payroll Detail Report Total Gross Salary	\$9,927.67
Less: One Month of Pro Forma Gross Salary	<u>(798.00)</u>
Test Year Gross Salary in Staff Report	<u>\$9,129.67</u>

C) In the original Staff Report depreciation expense was included as a revenue requirement but only to the extent of the plant capacity reserved for existing customers. Upon reviewing Attachment A of Big Bear's filing of November 16, 1999, Staff has determined that the cost of the plant was or should have been recovered by Big Bear Resort's developer, Bear Development, Inc., through the sale of condominiums and special assessments. Therefore, Staff has eliminated depreciation expense included in the June 3, 1999, Staff Report. Bear Development's cost recovery is considered a contribution in aid of construction and should be recorded on the books of the entity currently operating the plant in account 271 – contributions in aid of construction.

ATTACHMENT B
 AMENDED STAFF REPORT CASE NO. 99-114
 CALCULATION OF REVENUE REQUIREMENT AND RECOMMENDED RATE

CALCULATION OF ANNUAL REVENUE REQUIREMENT

Pro Forma Operating Expenses Before Taxes	21,407
Divide by: Operating Ratio	<u>88%</u>
Total Revenue Required Before Taxes	24,326
Less: Pro Forma Operating Expenses Before Taxes	<u>(21,407)</u>
Net Income Allowed After Taxes	2,919
Times: Tax Gross Up Factor, See Original Staff Report For Calculation (actual factor 123.839%)	<u>123%</u>
Net Operating Income Before Taxes	3,615
Plus: Operating Expenses Before Taxes	<u>21,407</u>
Revenue Requirement	<u><u>\$25,022</u></u>

CALCULATION OF RECOMMENDED RATE

Revenue Requirement Divided by Residential Equivalent	\$25,022.00
Divide by: Pro Forma Number of Bills	<u>824.00</u>
Recommended Monthly Rate	<u><u>\$30.37</u></u>