

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CEDAR HILLS)
SANITATION DISPOSAL CORPORATION)
FOR A RATE ADJUSTMENT PURSUANT TO) CASE NO. 99-458
THE ALTERNATIVE RATE FILING PROCEDURE)
FOR SMALL UTILITIES)

O R D E R

On November 12, 1999, Cedar Hills Sanitation Disposal Corporation ("Cedar Hills") filed its application for Commission approval of proposed sewer rates. The application was considered filed on January 31, 2000, when all deficiencies were cured. Commission Staff, having performed a limited financial review of Cedar Hills' test period operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations 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, no later than 10 days from the date of this Order, submit their written comments on the attached Staff Report or request for a hearing or informal conference. If no request for a hearing or informal conference is received by this date, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 20th day of March, 2000.

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

STAFF REPORT
ON
CEDAR HILLS SANITATION DISPOSAL CORPORATION
CASE NO. 99-458

On November 12, 1999, Cedar Hills Sanitation Disposal Corporation ("Cedar hills") filed its application for Commission approval of proposed sewer rates. The application was considered filed on January 31, 2000, when all deficiencies were cured. In order to evaluate the requested increase, Commission Staff ("Staff") performed a limited financial review of Cedar Hill's test period operations, the year ending December 31, 1998.

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.

Karen Harrod of the Commission's Water and Sewer Revenue Requirements Branch began the limited review on December 16, 1999, and is responsible for the preparation of this Staff Report.

A schedule of Cedar Hills' proposed pro-forma operations is shown in Attachment A. Based on Staff's recommendations Cedar Hills' operating statement and revenue requirement would appear as set forth in Attachments B and C, respectively.

Cedar Hills proposed an increase of \$5,808, which reflects an increase over normalized test year revenues of 32.5 percent. Staff recommends a revenue increase of \$4,269, or 23.9 percent over normalized test year revenues, based on an 88%

operating ratio. This approach is generally used by the Commission to determine revenue requirements for small, privately-owned utilities. The rate contained in Attachment D will achieve Staff's recommended level of revenue based on Cedar Hill's current customer level of 121.

Signature

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

ATTACHMENT A
 STAFF REPORT CASE NO. 99-458
 CEDAR HILLS SANITATION DISPOSAL CORP. - REQUESTED OPERATIONS

	Test Year Per Annual Report	Proposed Adjustments	Proposed Test Year
Operating Revenues	17,914	5,808	23,722
Operating Expenses			
Owner/Manager Fee	1,261		1,261
Treatment – Labor & Materials	5,331		5,331
Purchased Power	4,257		4,257
Chemicals	332		332
Office Supplies & Exp.	50		50
Outside Services	250		250
Transportation Exp.	3,560		3,560
Miscellaneous Exp.	144		144
Depreciation Exp.	2,305		2,305
Taxes other than Income Tax	197		197
Total Operating Expenses	17,687	-	17,687
Operating Income	227	5,808	6,035
Interest Income	18	-	18
Interest Expense	1,842	-	1,842
Net Income	(1,597)	5,808	4,211

ATTACHMENT B
STAFF REPORT CASE NO. 99-458
STAFF'S RECOMMENDED OPERATIONS

	Test Year per Annual Report	Staff Recommended Adjustments	Ref.	Staff Recommended Test Year
Operating Revenues	17,914	(54)	(A)	17,860
Operating Expenses				
Owner/Manager Fee	1,261	2,339	(B)	3,600
Treatment - Labor & Materials	5,331	201	(C)	5,532
Purchased Power	4,257	-		4,257
Chemicals	332	-		332
Office Supplies & Exp.	50	-		50
Outside Services	250	-		250
Transportation Exp.	3,560	(2,546)	(D)	1,014
Miscellaneous Exp.	144	-		144
Depreciation Exp.	2,305	-		2,305
Taxes other than Income Tax	197	-		197
Rate Case Expense	-	187	(E)	187
Total Operating Expenses	17,687	181		17,868
Operating Income	227	(235)		(8)
Interest Income	18	-		18
Interest Expense	1,842	-		1,842
Net Income	(1,597)	(235)		(1,832)

ATTACHMENT B
STAFF REPORT CASE NO. 99-458
STAFF'S RECOMMENDED OPERATIONS

(A) Operating Revenues.

To normalize test year revenues based on the current monthly rate of \$12.30 and the current number of customers of 121.

Test Year Revenue	\$17,914
Normalized Test Year Revenue	<u>17,860</u>
Recommended Decrease	<u>\$ (54)</u>

(B) Owner/Manager Fee.

To adjust test year expense to \$3,600, the level normally allowed for owner/manager fees.

Allowable Owner/Manager Fee	\$ 3,600
Test Year Expense	<u>1,261</u>
Recommended Increase	<u>\$ 2,339</u>

(C) Treatment – Labor, Materials & Expense.

To adjust test year expense to annualize quarterly flow reports expense and sample analysis expense. Test year expenses included payments for three quarterly flow reports at \$50 each and monthly analysis for 10 months at \$75.85 per month.

Test Year Expense	\$ 5,331
Add: Quarterly Flow Report	50
Analysis – 2 months	<u>151</u>
Adjusted Expense	\$ 5,532
Less: Test Year Expense	<u>5,331</u>
Recommended Increase	<u>\$ 201</u>

ATTACHMENT B
STAFF REPORT CASE NO. 99-458
STAFF'S RECOMMENDED OPERATIONS

(D) Transportation Expense.

Cedar Hills reported test year transportation expense of \$3,560. This expense included monthly lease payments and repair expenses for a truck not owned or used solely for the purposes of the utility. Staff has disallowed these expenses and included mileage reimbursement for travel to and from the plant by the plant owner.

60 miles round trip to plant	60
1 trip per week	<u>52</u>
Total Mileage Allowed	3,120
Current IRS Reimbursement Rate	<u>\$.325</u>
Allowable Transportation Expense	\$ 1,014
Less: Test Year Expense	<u>3,560</u>
Recommended Decrease	<u><u>\$ 2,546</u></u>

(E) Rate Case Expense

Cedar Hills incurred rate case expense of \$560 for accounting fees related to the filing of its application. The Commission generally amortizes rate case expenses over a period of three years with the expectation that a utility will ideally file a rate case every three years. This adjustment has been recommended to allow the amortization of rate case expenses incurred in the filing of this proceeding.

Total Rate Case Expense	\$ 560
Amortized over 3 years	<u>÷ 3</u>
Test Year Rate Case Expense	<u><u>\$ 187</u></u>

ATTACHMENT C
STAFF REPORT CASE NO. 99-458
CALCULATION OF REQUESTED AND RECOMMENDED
REVENUE REQUIREMENTS

	<u>Recommended by Staff</u>
Adjusted Operating Expenses	17,868
Operating Ratio	<u>0.88</u>
	20,305
Add: Interest Expense	<u>1,842</u>
Revenue Requirement	22,147
Less: Normalized Test-Year Revenue	17,860
Interest Income	<u>18</u>
Required Increase	<u><u>4,269</u></u>
Percentage Increase	<u><u>23.9%</u></u>

ATTACHMENT D
STAFF REPORT CASE NO. 99-458
RECOMMENDED SEWER RATES

RECOMMENDED RATES

Single Family Residential

\$15.25 per Month