

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOCKWOOD ESTATES )  
DEVELOPING CORPORATION FOR A RATE )  
ADJUSTMENT PURSUANT TO THE ALTERNATIVE ) CASE NO. 99-477  
RATE FILING PROCEDURE FOR SMALL UTILITIES )

O R D E R

On November 19, 1999, Lockwood Estates Developing Corporation ("Lockwood Estates") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Lockwood Estates' 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 23<sup>rd</sup> day of March, 2000.

ATTEST:

By the Commission

  
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Executive Director

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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  
LOCKWOOD ESTATES DEVELOPING CORPORATION  
CASE NO. 99-477

On November 19, 1999, Lockwood Estates Developing Corporation ("Lockwood Estates") filed its application for Commission approval of proposed sewer rates. In order to evaluate the requested increase, Commission Staff ("Staff") performed a limited financial review of Lockwood Estates' 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 January 10, 2000, and is responsible for the preparation of this Staff Report.

A schedule of Lockwood Estates' proposed pro-forma operations is shown in Attachment A. Based on Staff's recommendations Lockwood Estates' operating statement and revenue requirement would appear as set forth in Attachments B and C, respectively. It should be noted that no provision was made for income tax expense. This was due to the net operating loss carry-forward available to Lockwood Estates according to Statement 4 of its 1998 Form 1120.

Lockwood Estates proposed an increase of \$6,718, which reflects an increase over test year revenues of 34.5 percent. Staff's calculations resulted in a revenue increase of \$10,926, or 56.03 percent over test year revenues. Staff determined Lockwood Estates' revenue requirement based on an 88% operating ratio, the approach generally used by the Commission for small, privately owned utilities.

Attachment D contains an analysis of Lockwood Estates' cash flow based on Staff's recommended operations and the increase proposed by Lockwood Estates. Since the revenue increase proposed by Lockwood Estates will result in a positive cash flow of \$2,805, Staff recommends the proposed increase of \$6,718 be accepted. The rate contained in Attachment E will achieve Staff's recommended level of revenue based on Lockwood Estates' current customer level of 65.

If Lockwood Estates wishes to amend its application to request rates that will generate the higher revenue requirement of \$30,426, Staff recommends that such amendment be filed with any comments on the Staff Report. In the event that Lockwood Estates does amend its application, it should also re-notice its customers based on the amended rate proposal.

Signature

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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. 99-477  
 LOCKWOOD ESTATES DEVELOPING CORP. - REQUESTED OPERATIONS

	Test Year Per Application	Proposed Pro-forma Adjustments	Proposed Pro-forma Test Year
Operating Revenues	19,500	6,718	26,218
Operating Expenses			
Depreciation	3,362		3,362
Taxes	185		185
Repairs & Maintenance	1,479		1,479
Accounting & Professional Fees	800		800
Utilities	3,471		3,471
Testing & Assessments	12,286		12,286
Insurance	1,764		1,764
Collections Fees	1,560		1,560
Total Operating Expenses	24,907	-	24,907
Operating Income	(5,407)	6,718	1,311

ATTACHMENT B  
STAFF REPORT CASE NO. 99-477  
STAFF'S RECOMMENDED OPERATIONS

	Test Year per Application	Reallocation of Expenses	Test Year Restated	Staff Recommended Adjustments	Ref.	Staff Recommended Test Year
Operating Revenues	19,500		19,500	-		19,500
Operating Expenses:						
Depreciation	3,362		3,362	-		3,362
Taxes	185		185	-		185
Repairs & Maintenance	1,479	4,236	5,715	-		5,715
Accounting & Prof. Fees	800		800	-		800
Utilities	3,471		3,471	-		3,471
Testing & Assessments	12,286	(12,286)	-	-		-
Insurance	1,764		1,764	(882)	(A)	882
Collection Fees	1,560		1,560	-		1,560
Monthly Operator Fee	-	6,600	6,600	600	(B)	7,200
Owner/Manager Fee	-		-	3,600	(C)	3,600
Engineering Expense	-	1,450	1,450	(1,450)	(D)	-
Total Operating Expenses	24,907	-	24,907	1,868		26,775
Operating Income	(5,407)	-	(5,407)	(1,868)		(7,275)

ATTACHMENT B  
STAFF REPORT CASE NO. 99-477  
STAFF'S RECOMMENDED OPERATIONS

Reallocation of Expenses

The reallocation of expenses was included to more correctly state the types of expenses incurred by Lockwood Estates during the test year. These adjustments were based on information obtained during the field review as well as Lockwood Estates' February 22, 2000 response to the Attorney General's information request dated January 19, 2000.

(A) Insurance Expense

In its application Lockwood Estates reported test year insurance expense of \$1,764. However, based on Staff's review, the actual insurance expense for 1998 was \$882. Accordingly, test year expense has been decreased by \$882.

(B) Monthly Operator Fee

During the test year Lockwood Estates was charged \$550 per month for routine operator services being performed by Eubank, Hall & Associates. As of February 1999, that fee increased to \$600 per month. This adjustment normalizes test year expense based on the current monthly rate.

Current Monthly Operator Fee	\$ 600
	<u>12</u>
Annual Operator Fee	\$ 7,200
Less: Test Year Expense	<u>6,600</u>
Recommended Increase	<u>\$ 600</u>

(C) Owner/Manager Fee

Lockwood Estates did not report owner/manager fee expense for the test year. However, the Commission generally allows an owner/manager fee of \$3,600 for small, privately owned sewer utilities. Accordingly, Staff has included this expense in test year operations.

(D) Engineering Expense

In its test year operations Lockwood Estates included engineering expenses of \$1,450 for the plat on land sold during the test year. This expense is non-recurring and should not be included in the calculation of Lockwood Estates' revenue requirement.

ATTACHMENT C  
STAFF REPORT CASE NO. 99-477  
CALCULATION OF REVENUE REQUIREMENT

	<u>Recommended by Staff</u>
Adjusted Operating Expenses	26,775
Operating Ratio	<u>0.88</u>
Revenue Requirement	30,426
Less: Normalized Test-Year Revenue	<u>19,500</u>
Required Increase	<u><u>10,926</u></u>
Percentage Increase	<u><u>56.03%</u></u>

ATTACHMENT D  
STAFF REPORT CASE NO. 99-477  
ANALYSIS OF CASH FLOW

Test Year Operating Revenues	\$ 19,500
Add: Requested Revenue Increase	<u>6,718</u>
Recommended Total Operating Revenue	\$ 26,218
Less: Recommended Operating Expenses	<u>26,775</u>
Recommended Operating Income	\$ (557)
Add Back: Depreciation Expense	<u>3,362</u>
Cash Flow	<u><u>\$ 2,805</u></u>

ATTACHMENT E  
STAFF REPORT CASE NO. 99-477  
RECOMMENDED SEWER RATES

RECOMMENDED RATES

Single Family Residential

\$ 33.61 per Month