

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LAKE)	
COLUMBIA UTILITIES, INC. FOR A)	
RATE ADJUSTMENT PURSUANT TO)	CASE NO. 2000-458
THE ALTERNATIVE RATE FILING)	
PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On October 27, 2000, Lake Columbia Utilities, Inc. ("Lake Columbia") filed its application for Commission approval of proposed sewer rates. On June 18, 2001, Lake Columbia requested an informal conference with Commission Staff. At the informal conference held on July 10, 2001, with Commission Staff, Attorney General and intervenors present, Lake Columbia agreed to provide certain additional information. Based upon that response, a determination was to be made concerning a formal hearing and Staff was to file a supplemental Staff Report in regard to that information. On July 19, 2001, the Attorney General withdrew his request for a formal hearing. Commission Staff, having performed a limited financial review of Lake Columbia's operation, has prepared the attached Amended Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments within 7 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. No formal hearing shall be held in this case.

2. All parties shall have 7 days from the date of this Order to provide written comments regarding the attached Amended Staff Report at which time this case will stand submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 14th day of August, 2001.

By the Commission

ATTEST:

Deputy W^m H. Fowler
Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LAKE COLUMBIA)
UTILITIES, INC. FOR A RATE ADJUSTMENT) CASE NO. 2000-458
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

AMENDED STAFF REPORT

Prepared by: Scott Lawless
Public Utility Financial Analyst
Water & Sewer Revenue
Requirements Branch
Division of Financial Analysis

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

AMENDED STAFF REPORT
ON
LAKE COLUMBIA UTILITIES, INC.
CASE NO. 2000-458

On October 27, 2000, Lake Columbia Utilities, Inc, ("Lake Columbia") filed its application seeking to increase its rates pursuant to 807 KAR 5:076. Lake Columbia's current rate is a flat monthly fee of \$15. Lake Columbia proposes to increase its current rate by 560.67 percent to \$99.10. In order to evaluate the requested increase, Commission Staff ("Staff") performed a limited review of Lake Columbia's test period operations, the year ending December 31, 1999. Based on its review Staff issued a report on June 8, 2001 wherein a monthly flat rate of \$51.40 was recommended. Lake Columbia requested an informal conference to discuss the report.

A conference was held on July 10, 2001. At the conference it was agreed that Lake Columbia would file additional information. The additional information was received on July 27, 2001. Pursuant to discussions at the conference and information filed subsequent thereto, Staff is amending its original report and now recommends that the flat monthly rate be set at \$50.32 per customer. This represents a 235.47 percent increase over the current rate.

Staff's adjustments to the pro forma operating statement as determined in Staff's original report are shown in Attachment A. Staff's revenue requirement calculation and calculation of the recommended rate is shown in Attachment B.

Signatures

Prepared by: Jack Scott Lawless, CPA
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Water & Sewer Revenue
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Prepared by: Brent Kirtley
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ATTACHMENT A
 AMENDED STAFF REPORT CASE NO. 2000-458
 LAKE COLUMBIA'S REQUESTED OPERATIONS

	Pro forma Staff Report of June 8, 2001	Adjustments	Ref.	Pro forma Amended
Operating Revenues				
Flat Rate Revenue	\$ 5,400	\$ 360	A	\$ 5,760
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Total Operating Revenue	5,400	360		5,760
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Operating Expenses				
Management Fee	3,600			3,600
Sludge Hauling	1,285			1,285
Other Labor (Testing)	2,160			2,160
Fuel and Power	1,321			1,321
Chemicals	178			178
Routine Maintenance Fee	2,400		B	2,400
Maint. of Treatment Plant	1,092			1,092
Agency Collection Fee	222			222
Outside Services Employed	1,200		C	1,200
Insurance Expense	1,200			1,200
Transportation Expense				
Miscellaneous Expense	63		D	63
Rent Expense	600	600	E	1,200
Depreciation Expense	349	(349)	F	
Amortization Expense		449	C	449
Taxes Other Than Income Tax	161			161
Income Taxes				
Interest Expense			F	
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Total Operating Expenses	15,831	700		16,531
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Utility Operating Income/(Loss)	\$ (10,431)	\$ (340)		\$ (10,771)
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ATTACHMENT A
AMENDED STAFF REPORT CASE NO. 2000-458
LAKE COLUMBIA'S REQUESTED OPERATIONS

A) Operating Revenue. Information provided by the utility subsequent to the informal conference states that the utility currently has 31 paying customers and 1 non-paying customer. Based on this information, Staff adjusts pro forma operating revenue at present rates to \$5,760 (32 customers x \$15 per month x 12 months).

B) Routine Maintenance Fee. At the conference Lake Columbia stated that inspections were required by the certified operator once each weekday and that \$6,000 per year was a reasonable amount for such services. It stated that the operator was currently making one visit per weekday as evidenced by the plant's daily log sheets and that it would supply copies of the daily log to the Commission.

To support the reasonableness of the proposed operator fee Lake Columbia obtained and submitted two bids from certified operators. Both bids were based on one visit per weekday. Each bid was higher than the fee proposed by Lake Columbia. Lake Columbia did not submit the plant's log sheets.

Lake Columbia's KPDES permit requires that plant flow be measured 5 times per week and that certain lab samples be taken monthly. It does not require an inspection by a certified operator each weekday. Staff does feel it is good operating practice to have someone visit the plant each day so that operating malfunctions are discovered in a timely fashion.

In its original report Staff recommended that Lake Columbia be granted an owner/manager fee in this case of \$3,600. For this fee the owner should assume a certain amount of responsibility in operating the system. Staff is of the opinion that the owner manager fee combined with the test year routine maintenance fee of \$2,400 is adequate to cover the cost of services performed by the owner/manager and certified

ATTACHMENT A
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LAKE COLUMBIA'S REQUESTED OPERATIONS

operator given the relative small size of Lake Columbia's operation. If the Commission were to allow the proposed routine maintenance fee, the owner/manager fee should be reduced accordingly. Otherwise, Staff recommends that the owner/manager fee and test year routine maintenance fee be approved in this case as state in the original report.

C) Outside Services Employed and Amortization Expense. In its original application Lake Columbia included normal recurring legal fees in pro forma operations of \$600. Staff eliminated them as no basis was provided.

Included in the information filed by Lake Columbia subsequent to the informal conference were legal invoices totaling \$2,243. This amount has been billed for legal services rendered in this case. Lake Columbia now requests that this amount be considered when determining rates.

Legal counsel must represent Lake Columbia when appearing before this Commission. The expenses incurred as a result may be recovered through rates to the extent that the Commission deems them reasonable. Legal fees have been incurred in this case due to the complexity of the issues involved. Staff recommends that the legal fees incurred to date in this case be allowed and amortized over five years. Appropriately, amortization expense has been increased by \$449 ($\$2,243 / 5$ years).

In its original application Lake Columbia included \$300 for the 5 year amortization of \$1,500 in accounting fees from Logsdon and Co. These fees were incurred for the preparation of the alternative rate filing form submitted in this case. Staff recommended that this fee be disallowed as the amount appeared to be

ATTACHMENT A
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LAKE COLUMBIA'S REQUESTED OPERATIONS

unreasonable given the fact that Logsdon charged less for the preparation of Lake Columbia's 1999 annual report and tax returns upon which the application was based.

To substantiate the amount charged by Logsdon, Lake Columbia filed a bid from Charles T. Mitchell Company of \$2,060 for the preparation of a small utility rate adjustment application.

It is Staff's position that the amount charged by Logsdon and the bid by Mitchell are not comparable. Mitchell's bid undoubtedly includes time spent familiarizing itself with Lake Columbia's test year operations. In fact, that should be where the majority of the time would be spent. Logsdon, through the preparation of the annual report and tax returns, was already familiar with that information making its required time substantially less.

It is not required that a Certified Public Accountant prepare this application. Given the size of Lake Columbia, the owner/manager should prepare the application as a part of his responsibilities assumed for collecting the \$3,600 owner manager fee. At the conference the owner/manager stated reservations as to his ability in preparing such application. He should note that Commission assistance can be requested pursuant to KAR 5:076 Section 3. If the Commission were to allow the inclusion of the accounting fee amortization, Staff recommends that an appropriate adjustment be made to decrease the owner manager fee.

Staff would further point out that to include these accounting fees would result in total rate case expense of \$3,743 (\$2,243 legal + \$1,500 accounting). That would be extremely high for a utility with 30 customers.

ATTACHMENT A
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LAKE COLUMBIA'S REQUESTED OPERATIONS

D) Miscellaneous Expense. In its original report Staff stated that it would not object to proper allocation of office telephone expense. At the conference Lake Columbia presented phone bills for Covered Bridge Utilities, Inc. and stated that this was the phone to be used by Lake Columbia. It stated that half should therefore be allocated to Lake Columbia.

Louisville Water Company provides billing services for Lake Columbia. At the conference it was established that there is a phone number present on the billing card where Lake Columbia may be contacted by its customers. The number listed on the billing card is not the number for Covered Bridge Utilities. Staff does not have any information regarding the number stated on the billing card. Staff believes that the number is located somewhere in the 136 St. Matthews Avenue building where Lake Columbia rents office space. Lake Columbia has requested rent expense in this case of \$1,200. Lake Columbia states that the rent fee includes utilities, furnishings, bathroom facilities, parking and office equipment. The phone service fees should therefore be included in rent expense.

E) Rent Expense. Staff had previously limited rent expense to \$600 as was done with affiliated companies in the past. Lake Columbia argued that the amount was unreasonable given the cost of rental space and the items used by Lake Columbia at the 136 St. Matthews Avenue building. Subsequent to the conference Lake Columbia filed floor plans of the building and information of its occupants.

Generally, in a case where the utility's operations are as small as Lake Columbia's, Staff would contend that rent is covered by the owner/manager fee as operations are usually headquartered at the owner/managers home. In this case

ATTACHMENT A
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LAKE COLUMBIA'S REQUESTED OPERATIONS

however, Staff recommends that the \$100 per month be allowed given all the services provided in return for rent.

F) Depreciation and Interest Expense. In its original report Staff included a provision for depreciation on a sludge holding tank that has not yet been installed. Included in the information filed subsequent to the conference were details regarding the financing of the tank. It appears from Attachment G that a five-year note will be executed.

Pursuant to KRS 278.300 the proposed financing requires the Commission's approval. There has not been an application filed with this Commission seeking such approval. Therefore, the proposed interest expense should not be allowed.

It is Staff's opinion that since a long-term debt agreement that requires the Commission's approval will be executed to finance the tank purchase, Lake Columbia's financial condition will be materially affected as described in KAR 5:001 Section 9. This in turn will require Lake Columbia to apply for a certificate of convenience and necessity as stated in KRS 278.020. Such application has not been filed with this Commission. Therefore, Staff recommends that the related depreciation be denied.

ATTACHMENT B
 AMENDED STAFF REPORT CASE NO. 2000-458
 STAFF'S RECOMMENDED REVENUE REQUIREMENT AND RATE

Revenue Requirement Calculation

Pro forma operating expenses before taxes	16,531
Divide by: 88 percent	<u>88%</u>
Revenue required before taxes	18,785
Less: Pro forma operating expenses before taxes	<u>(16,531)</u>
Net income allowed after taxes	2,254
Times: Tax gross-up factor	<u>123.83901%</u>
Net operating income before taxes	2,791.61
Add: Pro forma operating expenses before taxes	<u>16,531</u>
Revenue Requirement	<u><u>19,322.61</u></u>

Calculation of Tax Gross-Up Factor

Revenue	100.00%
Less: State tax	<u>-5.00%</u>
Sub-total	95.00%
Less: Federal Tax, 15% of sub-total	<u>-14.25%</u>
Percent Change in NOI	<u><u>80.75%</u></u>
Factor (Revenue of 1 divided by change in NOI)	<u><u>123.83901%</u></u>

Rate Calculation

Revenue Requirement	\$ 19,323
Divide by: 32 Customers	32
12 Months	<u>12</u>
Monthly Rate	<u><u>\$ 50.32</u></u>