

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CENTER RIDGE WATER)
SYSTEM FOR AN ADJUSTMENT OF RATES) CASE NO.
PURSUANT TO THE ALTERNATIVE RATE FILING) 2000-557
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On December 28, 2000, Center Ridge Water System ("Center Ridge") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Center Ridge'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, no later than 10 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests 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 a decision.

Done at Frankfort, Kentucky, this 2nd day of February, 2001.

ATTEST:

By the Commission


Executive Director

COMMONWEALTH OF KENTUCKY
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STAFF REPORT

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

STAFF REPORT
ON
CENTER RIDGE WATER SYSTEM
CASE NO. 2000-557

On December 28, 2000, Center Ridge filed its application seeking to increase its rates pursuant to 807 KAR 5:076, the Alternative Rate Filing Procedure for Small Utilities. The proposed rates will increase normalized test year operating revenues from rates by \$5,042, or 35 percent. Center Ridge requested assistance from Commission Staff ("Staff") in the preparation of this rate application. Staff provided that assistance by performing a limited financial review of Center Ridge's test year operations, the calendar year ending December 31, 1999.

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 and Scott Lawless of the Commission's Water and Sewer Revenue Requirements Branch performed the limited review. Ms. Harrod is responsible for the preparation of this Staff Report. Based on Staff's recommendations, Center Ridge's operating statement would appear as set forth in Attachment A. Attachment B details Center Ridge's revenue requirement determination. Staff recommends that Center Ridge be allowed to increase its annual operating revenues by the requested amount of \$5,042. The rates contained in Attachment C will achieve Staff's recommended level of revenue.

Signature

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

ATTACHMENT A
STAFF REPORT CASE NO. 2000-557
STAFF'S RECOMMENDED OPERATIONS

	Per 1999 Annual Report	Proposed Inc/(Dec)	Ref.	Adjusted Test Year
Operating Revenues	11,016	3,366	(a)	14,382
Operating Expenses:				
Owner/Manager Fee	-	3,600	(b)	3,600
Purchased Power	1,145			1,145
Chemicals	71	123	(c)	194
Materials & Supplies	1,055			1,055
Contractual Services	4,318			4,318
Transportation Exp.	1,231	1,972	(e)	3,203
Insurance Expense	158	857	(f)	1,015
Miscellaneous Expense	1,056			1,056
Telephone	1,191	(519)	(g)	672
Depreciation Expense	105	(105)	(d)	-
Taxes Other than Income	360			360
	<hr/>			<hr/>
Total Operating Expenses	10,690	5,928		16,618
	<hr/>			<hr/>
Operating Income	326	(2,562)		(2,236)
	<hr/>			<hr/>

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(a) Operating Revenues.

To adjust test year revenues to normalized revenue level.

	Current Customer Level	Monthly Rate	Annual Revenue
Normalized Operating Revenue	94	\$12.75	\$ 14,382
Less: Test Year Revenue			11,016
Proposed Increase			\$ 3,366

(b) Owner/Manager Fee.

Center Ridge did not report an owner/manager fee in its test year operations. As owner and operator of the utility, Mr. Duncan is responsible for overseeing the management and daily operation of the plant and is entitled to such a fee. The Commission generally allows an owner/manager fee of \$3,600 for small utilities.

(c) Chemicals Expense.

Center Ridge incurred chemicals expenses of \$81 during the months of May – September of 2000. This adjustment is to annualize the expense based on the current level.

May - Sept. 2000	81	
	÷ 5	months
Average monthly chemicals expense	16.20	
	x 12	months
Annualized chemicals expense	194	
Less: Test Year Expense	71	
Proposed Increase	123	

ATTACHMENT A
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(d) Transportation Expense.

The plant operator is required to make daily trips to the plant to read the meter and check the chlorine level. Round trip mileage to the plant and back is 27 miles.

27 miles x 365 daily trips	9,855 miles
Current IRS reimbursement rate per mile	<u>x \$0.325</u>
Allowable expense	3,203
Less test year expense	<u>1,231</u>
Proposed Increase	<u><u>1,972</u></u>

(e) Insurance Expense.

To increase insurance expense to its current level based on quotes as of 10/23/00 from W. Ky. Insurance Agency.

	<u>Annual Premium</u>
Liability Insurance	609
Property Insurance	<u>406</u>
Proposed Expense	1,015
Less: Test Year Expense	<u>158</u>
Proposed Increase	<u><u>857</u></u>

(f) Telephone Expense.

To report telephone expense related to water operations only.

Monthly cost of cell phone	111
Portion allocated to Center Ridge	<u>0.5</u>
Allowable monthly telephone expense	56
	<u>x 12</u>
Allowable annual telephone expense	672
Less: Test year expense	<u>1,191</u>
Proposed Decrease	<u><u>(519)</u></u>

ATTACHMENT A
STAFF REPORT CASE NO. 2000-557
STAFF'S RECOMMENDED OPERATIONS

(g) Depreciation Expense.

To eliminate depreciation expense of \$105 reported in test year operations. This expense appears to be for the depreciation of a pump, however no records were available to verify that.

ATTACHMENT B
 STAFF REPORT CASE NO. 2000-557
 CALCULATION OF RECOMMENDED REVENUE REQUIREMENT
 AND RECOMMENDED INCREASE

Operating Expenses	16,618
.88 Operating Ratio	2,266
Income Tax Expense	<u>540</u>
 Total Revenue Requirement	 19,424
Less: Normalized Test Year Revenue from Rates	<u>14,382</u>
 Proposed Increase/(Decrease)	 <u><u>5,042</u></u>

Calculation of Projected Income Tax Expense:

Adjusted Operating Expenses	16,618
Divide by Operating Ratio	<u>0.88</u>
 Required Operating Revenue before Income Taxes	 18,884
Less: Adjusted Operating Expenses	<u>16,618</u>
 Operating Revenue subject to Income Taxes	 2,266
Gross-up factor for Income Taxes	<u>1.23839</u>
 Required Net Income before Taxes	 2,806
Less: Revenue Subject to Income Taxes	<u>2,266</u>
 Projected Income Tax Expense	 <u><u>540</u></u>

ATTACHMENT C
STAFF REPORT CASE NO. 2000-557
RECOMMENDED WATER RATES

Unmetered Residential Water Sales

\$17.25 per Month