

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CLEARWATER)
DISPOSAL, INC. FOR A RATE ADJUSTMENT) CASE NO.
PURSUANT TO THE ALTERNATIVE RATE) 2001-011
FILING PROCEDURE FOR SMALL UTILITIES)

ORDER

On January 17, 2001, Clearwater Disposal, Inc. ("Clearwater") filed its application for Commission approval of the proposed sewer rates. Commission Staff ("Staff"), having performed a limited financial review of Clearwater's 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 written comments, if any, regarding the attached Staff Report or request for 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 12th day of March, 2001.

By the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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DISPOSAL, INC. FOR A RATE ADJUSTMENT)	CASE NO.
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STAFF REPORT

Prepared by: Mark C. Frost
Public Utilities Financial Analyst
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis

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

STAFF REPORT
ON
CLEARWATER DISPOSAL, INC.
CASE NO. 2001-011

On January 17, 2001, Clearwater Disposal, Inc. ("Clearwater") filed its application seeking to increase its sewer rates pursuant to 807 KAR 5:076. Since, Clearwater requested and received Commission Staff ("Staff") assistance in preparing its rate application, Mark Frost of the Commission's Division of Financial Analysis performed the limited financial review of Clearwater's test-period operations for the 1999 calendar year, prior to the filing of the application.

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. Mr. Frost is responsible for the preparation of this Staff Report except for the determination of normalized operating revenue, and Attachment D which were prepared by Renee Curry.

Clearwater accepted the findings and recommendations of Staff's limited financial review and included those as its pro forma operating statement in its application. Based upon Staff's recommendations, Clearwater's operating statement would appear as set forth in Attachment A and Attachment B is Staff's discussions on its proposed pro forma adjustments.

Staff's recommended pro forma operations and an 88 percent operating ratio, results in a revenue requirement of \$34,716, an increase of \$10,836 over Staff's

normalized test period operating revenues of \$23,880, as calculated in Attachment C. Staff's recommended revenue requirement will allow Clearwater to meet its adjusted test-period operating expenses including depreciation expense and the debt service requirements of its outstanding debt instruments.

Staff recommends the Commission accept Clearwater's proposed rates, which will produce the revenue requirement of \$34,716 and are contained in Attachment D. Clearwater also requested Commission approval of a reconnection charge of \$200. Upon review of the cost justification provided in the application, Staff believes the proposed reconnection charge, as shown in Attachment D, is reasonable and recommends it be accepted.

Signatures

Prepared by: Mark C. Frost
Public Utilities Financial Analyst
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis

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

ATTACHMENT B
STAFF REPORT CASE NO. 2000-299
STAFF'S
PRO FORMA OPERATIONS

	Test Period Actual	Pro Forma Adjustments	Ref.	Pro Forma Operations
Operating Revenues:				
Residential	\$ 24,018	\$ (138)	a	\$ 23,880
Operating Expenses:				
Operation & Maint. Exp:				
Owner/Manager Fee	\$ -	\$ 3,600	b	\$ 3,600
Sludge Hauling	2,860	0		2,860
Utility Service - Water	0	3,895	c	3,895
Fuel & Power	8,999	(3,555)	d	5,444
Bank Charges/Liens	102	0		102
Testing	539	25	e	564
Chemicals	895	(301)	f	594
Routine Maint. Fee	3,710	(110)	g	3,600
Maint. of Structure & Imp.	764	0		764
Office Supplies	32	0		32
Outside Services	844	0		844
Misc. Exp.	15	0		15
Total Operation & Maint. Exp.	\$ 18,760	\$ 3,554		\$ 22,314
Depreciation	7,987	(2,241)	h	5,746
Property Taxes	261	0		261
PSC Assessment	50	0		50
Income Taxes	0	0		0
Total Operating Expenses	\$ 27,058	\$ 1,313		\$ 28,371
Net Operating Income	\$ (3,040)	\$ (1,451)		\$ (4,491)
Other Deductions:				
Interest Exp.	1,604	0		1,604
Net Income	\$ (4,644)	\$ (1,451)		\$ (6,095)

ATTACHMENT B
STAFF REPORT CASE NO. 2001-011
STAFF'S DISCUSSIONS OF
PRO FORMA OPERATIONS

(a) Operating Revenues - Residential. In its 1999 Annual Report, Clearwater reports annual operating revenue from residential flat rates of \$24,018. Using the end-of-period customer level of 155 and Clearwater's current tariffed rate of \$12.84 per month, the normalized test period operating revenues from residential flat rates is \$23,880. Accordingly, operating revenues have been decreased by \$138 to reflect the normalized level.

(b) Owner/Manager Fee. Clearwater did not report or pay an owner/manager fee in the test period. As the owner and operator, Robert Vaughn is responsible for overseeing the management of Clearwater and to insure that the treatment plant operates and conforms to the appropriate regulatory guidelines. For this responsibility Mr. Vaughn is entitled to receive a reasonable level of compensation.

In the past, owner/managers of utilities of similar size as Clearwater and that have comparable responsibilities have been allowed to recover for rate-making purposes owner/manager fees of \$3,600. Staff believes that an owner/manager fee of \$3,600 is warranted in this instance and therefore, has increased the test period operating expenses by that amount.

(c) Utility Service - Water. In its 1999 Annual Report, Clearwater incorrectly included the cost of water in the fuel and power expense account. An analysis of the invoices shows that the test period water expense is \$3,895. Accordingly, operating expenses has been increased by \$3,895 to include the appropriate level of water expense.

ATTACHMENT B
STAFF REPORT CASE NO. 2001-011
STAFF'S DISCUSSIONS OF
PRO FORMA OPERATIONS

(d) Fuel & Power. As discussed in the utility service – water section, Clearwater's test period fuel & power expense of \$8,999 includes the cost of water. Upon reviewing the electricity invoices, Staff determined that the actual test period fuel & power expense is \$5,444, which is \$3,555 below the reported level. To eliminate the misclassified cost of water, fuel & power expense has been decreased by \$3,555.

(e) Testing. Clearwater reports a test period level of testing expense of \$539. Its KPDES permit requires Clearwater to test the treatment plant effluent on a monthly basis. Combining the KPDES testing requirement with the McCoy & McCoy current fee of \$47 per test results in a pro forma level of testing expense of \$564. Accordingly, testing expense has been increased by \$25.

(f) Chemicals. Clearwater's test period chemical expense is \$895. Upon reviewing the chemical invoices, Staff determined that the actual test period chemical expense is \$594, which is \$301 below Clearwater's reported level. Therefore, test period chemical expense has been reduced by that amount.

(g) Routine Maintenance. Clearwater reports a test period level of routine maintenance expense of \$3,710. Arville Anderson provides the routine maintenance services for a fee of \$300 per month. Multiplying Mr. Anderson's monthly fee of \$300 by 12-months results in an annual routine maintenance expense of \$3,600. Accordingly, routine maintenance expense has been decreased by \$110.

ATTACHMENT B
STAFF REPORT CASE NO. 2001-011
STAFF'S DISCUSSIONS OF
PRO FORMA OPERATIONS

(h) Depreciation. Clearwater reports a test period level of depreciation expense of \$7,987. Approximately 28¹ percent of Clearwater's Utility Plant In Service ("UPIS") is funded by Contributions In Aid of Construction ("CIAC"). Since CIAC is a source of cost free capital to the utility, allowing the inclusion of the depreciation expense on the UPIS funded by CIAC for rate-making purposes would result in a double recovery of the plant investment from the contributors, Clearwater's ratepayers. To eliminate the double recovery of the plant investment, depreciation expense has been decreased by 28 percent or \$2,241.

¹ \$34,289 (CIAC) ÷ \$122,222 (UPIS) = 28.055%.

ATTACHMENT C
STAFF REPORT CASE NO. 2001-011
DETERMINATION OF
REVENUE REQUIREMENT
AND INCREASE

Revenue Requirement

Operating Expenses	\$ 28,371
Divided by: Operating Ratio	÷ 88%
Subtotal	<u>\$ 32,240</u>
Less: Operating Expenses	- 28,371
Net Operating Income After Income Taxes	\$ 3,869
Multiplied by: Gross-Up Factor	x 1.2254902
Net Operating Income Before Income Taxes	\$ 4,741
Add: Operating Expenses	28,371
Interest Expense	+ 1,604
Revenue Requirement	<u><u>\$ 34,716</u></u>

Operating Revenue Increase

Revenue Requirement	\$ 34,716
Less: Normalized Operating Revenue	- 23,880
Recommended Increase	<u><u>\$ 10,836</u></u>

ATTACHMENT D
STAFF REPORT CASE NO. 2001-011
RECOMMENDED RATE

MONTHLY RATE

Residential Flat Rate	\$ 18.66
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NONRECURRING CHARGES

Reconnection Charge	\$ 200.00
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