

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF RIVER BLUFFS, INC.)	
FOR A RATE ADJUSTMENT PURSUANT TO)	CASE NO.
THE ALTERNATIVE RATE FILING)	2001-00252
PROCEDURE FOR SMALL UTILITIES)	

ORDER

On August 13, 2001, River Bluffs, Inc. (River Bluffs) submitted its application seeking to increase its rates pursuant to 807 KAR 5:076. However, it was not considered filed until September 17, 2001, the date the deficiencies in the application were cured.

Commission Staff (Staff), having performed a limited financial review of River Bluffs 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 April, 2002.

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 RIVER BLUFFS)	
DISPOSAL, INC. FOR A RATE ADJUSTMENT)	CASE NO.
PURSUANT TO THE ALTERNATIVE RATE)	2001-00252
FILING PROCEDURE FOR SMALL UTILITIES)	

STAFF REPORT

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

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

STAFF REPORT
ON
RIVER BLUFFS DISPOSAL, INC.
CASE NO. 2001-00252

On August 13, 2001, River Bluffs, Inc. (River Bluffs) submitted its application seeking to increase its rates pursuant to 807 KAR 5:076. However, it was not considered filed until September 17, 2001, the date the deficiencies in the application were cured.

In order to evaluate the requested increase Commission Staff (Staff) performed a limited financial review of River Bluffs test period operations for the 2000 calendar year. By letter dated November 7, 2001, David E. Spenard of the Office of the Attorney General requested Commission permission to attend Staff s limited financial review. Given that there were no objections filed, the Commission granted Mr. Spenard s request. Mark C. Frost of the Commission s Division of Financial Analysis performed the limited review on December 27, 2001, and January 11, 2002.

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 E which were prepared by Eddie Beavers.

Attachment A is the comparison of River Bluffs actual and pro forma operations and Attachment B is Staff s discussions on River Bluffs proposed pro forma

adjustments. Based upon Staff's recommendations, River Bluffs' operating statement would appear as set forth in Attachment C and Attachment D is Staff's discussions on its proposed pro forma adjustments.

River Bluffs requests a revenue requirement from rates of \$106,050, an increase of \$28,422 above Staff's normalized revenue from rates of \$77,628. As shown in Attachment D, Staff's recommended pro forma operations, an allowance for income taxes, and a 88 percent operating ratio, results in a revenue requirement from rates of \$81,272, an increase of \$3,586 above the normalized level.

Staff's recommended revenue requirement from rates will allow River Bluffs to meet its pro forma test-period operating expenses including depreciation expense and provide for adequate equity growth. The rates contained in Attachment E will produce the revenue requirement determined reasonable herein of \$79,521, and therefore, Staff recommends that the Commission accept those rates.

Signatures

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

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

ATTACHMENT A
STAFF REPORT CASE NO. 2001-00252
RIVER BLUFFS PRO FORMA OPERATIONS

Account Titles	Test-Period Operations	Pro Forma Adjustments	Adj Ref	Pro Forma Operations
Operating Revenues:				
Residential Flat Rate	\$ 74,651	\$ 31,399	(a)	\$ 106,050
Interest	59	(59)	(b)	0
Surcharge Fees	12,637	(12,637)	(c)	0
Total Operating Revenues	<u>\$ 87,347</u>	<u>\$ 18,703</u>		<u>\$ 106,050</u>
Operating Expenses:				
Amortization Tax Only	\$ 50	\$ (50)	(b)	\$ 0
Payroll Expense	0	1,194	(b)	1,194
Collection Fee Louisville Water	1,810	190	(c)	2,000
Amortization Expense	100	0		100
Miscellaneous	0	2,000	(b)	2,000
Salary	5,850	550	(c)	6,400
Rent	4,800	1,200	(b)	6,000
Office Supplies	282	218	(b)	500
Office Equipment Rent	0	250	(b)	250
Office Equipment Purchase	0	500	(d)	500
Gas, Oil, & Misc. Equip Repairs	192	168	(b)	360
Electricity Expense	4,927	4,132	(b)	9,059
Water	81	94	(b)	175
Operations	7,440	2,160	(c)	9,600
Repairs Pump	2,748	(248)	(b)	2,500
Repairs Collection System	3,445	(1,445)	(b)	2,000
Telephone	1,487	507	(c)	1,994
Testing	9,040	960	(b)	10,000
Chemicals	835	465	(b)	1,300
Supplies	196	4	(b)	200
Repairs Lift Station & Tanks	520	1,980	(b)	2,500
Repairs Electrical Controls	1,019	1,481	(b)	2,500
Sludge Hauling	10,878	4,422	(c)	15,300
Postage	165	35	(b)	200
Seminars & Meetings	306	54	(c)	360
Misc. Labor	87	413	(b)	500
Memberships	0	200	(b)	200
Bank Service Charges	95	25	(b)	120
Taxes	1,719	1,235	(c)	2,954
Casualty Insurance	587	113	(b)	700
Legal	3,010	(10)	(c)	3,000
Accounting	1,275	1,225	(c)	2,500
Subscriptions	975	111	(c)	1,086
Insurance	8,930	670	(c)	9,600
Charitable Contributions	500	0		500
Interest	1,319	(1,319)	(c)	0
New Plant & Equipment	0	2,500	(e)	2,500
Permits	1,020	(20)	(c)	1,000
Automobile Expense	407	(157)	(b)	250
Depreciation Expense	2,413	(413)	(c)	2,000
Total Operating Expense	<u>\$ 78,508</u>	<u>\$ 25,394</u>		<u>\$ 103,902</u>
Net Income	<u>\$ 8,839</u>	<u>\$ (6,691)</u>		<u>\$ 2,148</u>

ATTACHMENT B
STAFF REPORT CASE NO. 2001-00252
STAFF DISCUSSIONS OF
RIVER BLUFFS PRO FORMA ADJUSTMENTS

- (a) River Bluffs proposes to increase test-period operating revenues from residential flat rates of \$74,651 by \$31,399 for a pro forma level of \$106,050. This adjustment reflects a customer level of 175 and River Bluffs proposed rate of \$50.50 per month.
- (b) These pro forma adjustments are discussed in Attachment D, Staff Discussions of its Pro Forma Adjustments.
- (c) River Bluffs provided no workpapers or calculations to support these proposed pro forma adjustments. In a recent decision regarding a historical test-period with known and measurable adjustments, the Commission found that:

Where an applicant bases its application upon a historical test-period, it must provide a complete description and quantified explanation for all proposed adjustments with proper support for any proposed changes in price or activity levels, and any other factors which may affect the adjustment. That support should, at a minimum, include some documentary evidence to demonstrate the certainty of some expected change of event.¹

Since an application filed pursuant to 807 KAR 5:076, Alternative Rate Filing, relies upon a historical test-period, all proposed pro forma adjustments must meet the same rate-making criteria of being both known and measurable. Accordingly, Staff recommends these adjustments be denied.

- (d) River Bluffs proposes to purchase a computer and depreciate the cost over 3-years. River Bluffs provided a brochure showing the anticipated cost but failed to provide the date the computer will be purchased. Therefore, this adjustment fails to

¹ Case No. 2001-00211, The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff, dated March 1, 2002.

ATTACHMENT B
STAFF REPORT CASE NO. 2001-00252
STAFF DISCUSSIONS OF
RIVER BLUFFS PRO FORMA ADJUSTMENTS

meet the rate-making criteria of known and measurable because River Bluffs has failed to demonstrate with certainty that the computer will be purchased.

(e) River Bluffs assumes that it will replace one or more pump each year, which is the basis for its increase to test-period operating expenses of \$2,500. To support its proposed adjustment, River Bluffs provided a schedule showing that for the 3 year period from 1999 to 2001 it has replaced 6 sewer pumps at a cost of \$8,527 or an average annual cost of \$2,842.²

The correct accounting treatment is to depreciate all capital expenditures over their estimated useful lives. In its adjustments, Staff has depreciated the cost of the pump and blower that was replaced in 2001. Furthermore, at a recent plant visit, a representative of Sanders Sales and Service, the company responsible for performing the routine maintenance on the Applicant's system, informed Staff that since the pumps are relatively new River Bluffs should not have to replace a pump in the near future. For these reasons Staff recommends that this proposed adjustment be denied and River Bluffs directed to more closely monitor all future expenditures to insure all capital items are depreciated rather than expensed.

² Response to Item 8(c) of the First Data Request of the Commission Staff released January 24, 2002.

ATTACHMENT C
STAFF REPORT CASE NO. 2001-00252
STAFF S PRO FORMA OPERATIONS

	Test-Period Operations	Pro Forma Adjustments	Adj Ref	Pro Forma Operations
Operating Revenues:				
Residential Flat Rate	\$ 74,651	\$ 2,977	(a)	\$ 77,628
Interest	59	0		59
Surcharge Fees	12,637	(12,637)	(b)	0
Total Operating Revenues	<u>\$ 87,347</u>	<u>\$ (9,660)</u>		<u>\$ 77,687</u>
Operating Expenses:				
Amortization Tax Only	\$ 50	\$ -		\$ 50
Collection Fee Louisville Water	1,810	165	(c)	1,975
Amortization Expense	100	0		100
Salary	5,850	(450)	(d)	5,400
Rent	4,800	0		4,800
Office Supplies	282	0		282
Gas, Oil, & Misc. Equip Repairs	192	0		192
Electricity Expense	4,927	0		4,927
Water	81	0		81
Operations	7,440	2,160	(e)	9,600
Repairs Pump	2,748	0		2,748
Repairs Collection System	3,445	0		3,445
Telephone	1,487	(743)	(f)	744
Testing	9,040	320	(g)	9,360
Chemicals	835	0		835
Supplies	196	0		196
Repairs Lift Station & Tanks	520	0		520
Repairs Electrical Controls	1,019	0		1,019
Sludge Hauling	10,878	806	(h)	11,684
Postage	165	0		165
Seminars & Meetings	306	(306)	(i)	0
Misc. Labor	87	0		87
Bank Service Charges	95	0		95
Taxes	1,719	(648)	(j)	1,071
Casualty Insurance	587	0		587
Legal	3,010	(3,010)	(k)	0
Accounting	1,275	725	(l)	2,000
Subscriptions	975	(474)	(m)	501
Insurance	8,930	(5,690)	(n)	3,240
Charitable Contributions	500	(500)	(o)	0
Interest	1,319	(1,319)	(p)	0
Permits	1,020	(680)	(q)	340
Automobile Expense	407	0		407
Depreciation Expense	2,413	822	(r)	3,235
Amortization Expense	0	989	(s)	989
Total Operating Expense	<u>\$ 78,508</u>	<u>\$ (7,833)</u>		<u>\$ 70,675</u>
Net Income	<u>\$ 8,839</u>	<u>\$ (1,827)</u>		<u>\$ 7,012</u>

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

(a) Residential Flat Rate. According to its 2000 Annual Report, River Bluffs test-period operating revenues from the residential customer were \$74,651. Using the end-of-period customer level of 177 and River Bluffs current tariffed rate of \$36.55 per month, the normalized test period operating revenues from the residential customer is \$77,628, \$2,977 above the test-period level. Accordingly, operating revenues have been increased by that amount.

(b) Surcharge Fee. River Bluffs proposes to remove surcharge revenue of \$12,637 from its test-period operating revenues. In River Bluffs last rate proceeding,³ the Commission granted its approval for the collection of a monthly surcharge of \$6.18 per customer for the purpose of repaying the National City Bank loan (Loan). River Bluffs was to collect its surcharge until the Loan was retired, but not to exceed a 60-month period from the date of the Order. Subsequent to the end of the test-period, the Loan was retired and River Bluffs discontinued collecting its surcharge. Since the surcharge is not a future revenue source, operating revenues have been decreased by \$12,637.

(c) Collection Fee. River Bluffs proposes to increase test-period collection fee expenses of \$1,810 by \$190 to a pro forma level of \$2,000. Louisville Water Company (Louisville Water) performs the billing and collection service for River Bluffs. In its letter of April 2, 2001, Louisville Water informed River Bluffs that effective with the May 1, 2001 billing, the joint billing cost would increase from \$2.75 to \$3.00 per bill, an

³ Case No. 95-365, The Application of River Bluffs, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure, Order dated May 9, 1996.

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

increase of 9.091 percent. By applying the 9.091 percent increase to the test-period collection fee expense of \$1,810, Staff arrives at its pro forma adjustment of \$165.⁴

(d) Salary. River Bluffs proposes to increase its test-period salary expense of \$5,850 by \$550 to a pro forma level of \$6,400. However, River Bluffs did not provide either an explanation or documentation in support of its pro forma adjustment.

The test-period salary expense is comprised of the following fees paid to River Bluffs principal officers:

Stockholder Name	Title	Annual Fee
Harold Helm, II	President Owner/Manager	\$ 4,050
Anne Helm	Vice President/Treasurer	\$ 1,800

As the owner and operator, Mr. Helm is responsible for overseeing the management of River Bluffs and to insure that the treatment plant operates and conforms to the appropriate regulatory guidelines. In River Bluffs last rate proceeding, the Commission found that for this responsibility, a reasonable level of compensation for Mr. Helm was \$3,600. The Commission also found in that proceeding, that \$150 per month or \$1,800 annually was reasonable compensation for the duties performed by River Bluffs Vice President/Treasurer.

Staff believes that the levels of compensation deemed reasonable in the prior rate proceeding remain so, and therefore, salary expense has been reduced by \$450.

(e) Routine Maintenance. River Bluffs proposes to increase test-period operations expense of \$7,440 by \$2,160 to a pro forma level of \$9,600. In its letter of July 4, 2001, Jack Wolford Enterprises informed River Bluffs that on October 1, 2001 the routine

⁴ \$1,810 (Annual Collection Expense) x 9.091% (Percentage Fee Increase) = \$165.

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

maintenance fee would increase from \$620 to \$800 per month, which is the basis for River Bluffs adjustment. In reviewing the 2001 General Ledger, Staff notes that Sanders Sales and Service is performing River Bluffs routine maintenance and is charging \$800 per month. Staff believes that the \$800 per month fee is reasonable, and therefore, has increased operations expense by \$2,160.

(f) Telephone. River Bluffs proposes to increase test-period telephone expense of \$1,487 by \$507 to a pro forma level of \$1,994. This adjustment reflects the cost of the cellular telephone service and the estimated cost of a commercial telephone line. To support its proposed adjustment, River Bluffs provided a January 30, 2002, letter from BellSouth showing that the fee would be \$40 per month or \$480 annually. However, River Bluffs states that, New telephone service will not be installed until rate application is granted.⁵

As mentioned in Attachment C, all pro forma adjustments must meet the rate-making criteria of being both known and measurable. Since the date the commercial telephone will be installed is unknown, River Bluffs has failed to demonstrate with certainty that the commercial telephone line will be installed. Therefore, Staff recommends this pro forma adjustment be denied.

Mr. Helm has several business interests that require the use of a cellular telephone. However, River Bluffs reports 100 percent of the cellular telephone cost in its test-period operating expenses. According to River Bluffs, 50 percent of the cellular

⁵ Response to Item 2(a) of the First Data Request of the Commission Staff released January 24, 2002.

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

telephone service is used in conducting its business.⁶ Allocating 50 percent of the test-period cellular telephone expense to the other businesses results in a decrease to the test-period telephone expense of \$743.⁷

(g) Testing. River Bluffs proposes a pro forma level of testing expense of \$10,000 an increase of \$960 above the test-period level of \$9,040. According to River Bluffs this adjustment reflects the catch-up of past due amounts. It s the owner/managers responsibility and duty to monitor the financial condition of the utility and seek rate relief in a timely manner. Allowing an increase in rates to catch-up the past due amounts would be retroactive rate-making.

River Bluffs KPDES permit requires the treatment plant effluent to be tested on a weekly basis. Combining the KPDES testing requirement with Beckmar s current fee of \$180 per test results in a normalized level of testing expense of \$9,360.⁸ Accordingly, testing expense has been increased by \$320 to reflect the normalized level.

(h) Sludge Hauling. River Bluffs proposes to increase test-period sludge hauling expense of \$10,878 by \$4,422 to a pro forma level of \$15,300. This adjustment reflects River Bluffs estimate that it will remove 15.3 loads of sludge per year at a cost of \$1,000 per load.

⁶ Response to Item 2(b) of the First Data Request of the Commission Staff released January 24, 2002.

⁷ \$1,487 (Cellular Telephone Expense) x 50% (Allocation Rate) = \$743.

⁸ \$180 (Fee per Test) x 52-Weeks = \$9,360.

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

Upon review of the James Headden Septic System (James Headden) invoices, Staff determined that in the test-period 24 loads or 118,000 gallons of sludge was removed from River Bluffs treatment system. Effective February 1, 2001, James Headden increased the sludge hauling fee from \$92 to \$98 per 1,000 gallons. Based on this fee, Staff has calculated a pro forma sludge hauling expense of \$11,684,⁹ which is \$806 above the test-period level. Accordingly, test-period sludge hauling expense has been increased by that amount.

(i) Seminars & Training. River Bluffs proposes to increase its test-period seminars & training expense of \$306 by \$54 to a pro forma level of \$360. However, River Bluffs did not provide either an explanation or documentation in support of its proposed pro forma adjustment.

In reviewing the MasterCard invoices, Staff determined that this expense represents meals purchased by Mr. Helm in California and New Jersey. River Bluffs provided the following explanation for this expense:

Two Board meeting per year are conducted with adult children one on each coast, who also happen to be board members. When visits occurred, a company meeting was held; and the expenses were generated at a dinner meeting at which official business was conducted as described above¹⁰

The only principal officers listed in River Bluffs 2000 Annual Report are the President and Secretary, which are Mr. and Ms. Helm. River Bluffs did not provide a

⁹ 118,000 (Gallons of Sludge) x \$98 (Rate per 1,000 Gallons) + \$120(Fuel Surcharge: \$5 x 24 Loads) = \$11,684.

¹⁰ Response to Item 8 of the First Data Request of the Commission Staff released January 24, 2002.

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

copy of the minutes of the board meetings to support its argument that official business was conducted. Furthermore, in its 2000 Annual Report, River Bluffs did not report the cost of the meals as a operating expense, but rather the cost was included below-the-line in other deductions. For these reasons, Staff believes that this cost should be borne by the stockholder and has reduced operating expenses by \$306.

(j) Taxes. River Bluffs proposes to increase pro forma tax expense of \$1,719 by \$1,235 to a pro forma level of \$2,955. River Bluffs did not provide documentation to support its pro forma adjustment to reflect the estimated taxes.

In reviewing the test-period invoices, Staff determined that River Bluffs incorrectly recorded the 1999 property taxes of \$648 as an expense in the test-period. Accordingly, test-period tax expense has been decreased by \$648 to correct River Bluffs error.

(k) Legal Fees. River Bluffs estimates that this current proceeding will cost \$5,000. However, River Bluffs did not provide either a calculation or workpaper to show how its estimated rate case cost corresponds to the proposed \$9 decrease to test-period legal fees of \$3,009.

River Bluffs provided a letter from its accountant stating that by using normal hours and rates they estimate the cost of their rate case assistance will be \$650. The invoice from Masters, Mullins & Arrington shows that River Bluffs has incurred legal fees to date of \$3,807, but \$3,756 is listed as a previous balance and no description of the services provided for the fee charged was presented. Given River Bluffs failure to

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

provide sufficient documentation of its actual rate case cost incurred to date, Staff has not included an adjustment to reflect rate case amortization.

In reviewing the test-period legal invoices, Staff notes that the legal fees incurred were associated with Mr. Helm s failed attempt to negotiate the transfer of River Bluffs to AquaSource. Staff believes that there would be no direct benefit realized by the ratepayers in the transfer of ownership from Mr. Helm to AquaSource. The costs incurred in the failed transfer attempt are Mr. Helm s personal expenses and should not be borne by the ratepayers. Therefore, test-period operating expenses have been decreased by \$3,009 to eliminate test-period legal fees.

(l) Accounting. According to River Bluffs, it has changed its tax year in an attempt to reduce its costs. However, without further explanation, River Bluffs proposes to increase its test-period accounting expense from \$1,275 to \$2,500, a pro forma adjustment of \$1,225.

In the letter dated January 31, 2002, R.L. Moore CPA, states that the annual accounting fee will be \$2,000. For this fee, River Bluffs accountant will prepare the following items: (1) the year-end journal entries; (2) the corporate income tax returns; (3) the annual Public Service Commission report; and (4) the property tax report. Given the level of services provided, Staff believes that the accounting fee of \$2,000 is reasonable, and therefore, has increased test-period accounting expense by \$725.

(m) Subscriptions. River Bluffs proposes to increase its test-period subscription expense of \$975 by \$111 to a pro forma level of \$1,086. River Bluffs did not explain or provide documentation to support its proposed pro forma adjustment. Included in this

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

expense is a subscription to the New York Times of \$474. Given the size of River Bluffs, Staff is of the opinion that a New York Times subscription is not warranted, and therefore, test-period subscription expense has been decreased by \$474.

(n) Insurance. River Bluffs proposes to increase its test-period insurance expense of \$8,930 to \$9,600, an increase of \$670. This adjustment reflects the increase in the health insurance deductibles. River Bluffs provides its two employees, the stockholders, with 100 percent medical expense coverage, which includes premiums and deductibles.

In River Bluffs last rate proceeding, the Commission found that the deductibles/co-payments are the personal responsibility of Mr. Helm and excluded those costs from test-period operating expenses. The Commission further found that Mr. Helm s employment status did not entitle him to family insurance coverage and that because the position of Vice President/Treasurer was part-time, Ms. Helm was not entitled to health insurance coverage. For these reasons, the Commission only allowed River Bluffs to include as an operating expense the cost of providing single health insurance coverage to its owner/manager.

Nothing has been presented in this proceeding to persuade Staff that the Commission s findings in the last rate proceeding should be modified. Therefore, insurance expense has been decreased by \$5,690 to reflect providing single health insurance coverage to River Bluffs owner/manager.

(o) Charitable Contributions. River Bluffs reports a test-period level of charitable contribution expense of \$500. In River Bluffs previous rate proceeding the Commission

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

found that charitable contributions are not a cost incurred in providing utility service and should be borne by the stockholder. Therefore, operating expenses have been decreased by \$500 to eliminate the charitable contribution.

(p) Interest Expense. To coincide with its proposed adjustment to remove surcharge revenues, River Bluffs proposes to decrease operating expenses by \$1,319 to eliminate interest expense from its test-period operations. As previously mentioned, River Bluffs retired its Loan, and therefore, the associated interest expense will not be incurred in the future. Staff accepts River Bluffs adjustment to decrease operating expenses by \$1,319.

(q) Permits. River Bluffs proposes to decrease its test-period permit expense of \$1,020 by \$20 to a pro forma level of \$1,000. According to River Bluffs its current KPDES permit is in effect for 3-years and that it is due to be replaced on September 30, 2003, with a permit that will have a 5-year effective period. In reviewing the invoices, Staff determined that the Division of Water charges a KPDES permit fee of \$1,700 and that the permit will be in effect for 5-years. Amortizing the KPDES permit fee over 5 years results in an annual amortization of \$340,¹¹ which is \$680 less than the test-period expense level. Accordingly, test-period permit expense has been decreased by \$680.

(r) Depreciation. River Bluffs proposes to decrease its test period depreciation expense from \$2,413 to \$2,000, a decrease of \$413. However, River Bluffs did not

¹¹ \$1,700 (KPDES Permit Fee) ÷ 5-Year Life = \$340.

ATTACHMENT D
STAFF REPORT CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
PRO FORMA ADJUSTMENTS

provide either an explanation or documentation in support of its proposed pro forma adjustment.

In reviewing the invoices and 2001 general ledger, Staff notes that River Bluffs purchased a 5 HP Blower for \$2,221, a 1HP Barnes Submersible Pump for \$1,044, and a computer printer for \$506. The purchase of blowers, pumps, and computer printers are capital expenditures that should be depreciated rather than expensed. Therefore, test-period depreciation expense has been increased by \$822¹² to reflect depreciating the pump and blower over 5 years and the computer printer over 3 years.

(s) Amortization. Subsequent to the end of the test-period, River Bluffs spent \$2,968 to clean up the effluent that was discharged into the stream. The cost to clean up the effluent is non-recurring, and therefore, should be amortized rather than expensed. Staff has increased test-period operating expenses by \$989¹³ to reflect amortizing the clean up cost over 3-years.

¹² \$3,265 (Blower & Pump) ÷ 5 Years =	\$ 653
\$506 (Printer) ÷ 3 Years =	<u>+ 169</u>
Pro Forma Adjustment	<u>\$ 822</u>

¹³ \$2,968 (Clean-up Cost) ÷ 3 Years = \$989.

ATTACHMENT E
STAFF REPORT CASE NO. 2001-00252
DETERMINATION OF
REVENUE REQUIREMENT
AND INCREASE

Revenue Requirement

Operating Expenses	\$ 70,675
Divided by: Operating Ratio	÷ 88%
Subtotal	<u>\$ 80,313</u>
Less: Operating Expenses	- 70,675
Net Operating Income after Income Taxes	\$ 9,638
Multiplied by: Gross-Up Factor	<u>x 1.2254902</u>
Net Operating Income before Income Taxes	\$ 11,811
Add: Operating Expenses	<u>+ 70,675</u>
Revenue Requirement	<u><u>\$ 82,486</u></u>

Operating Revenue Increase

Revenue Requirement	\$ 82,486
Less: Interest Income	- 59
Revenue Requirement from Rates	<u>\$ 82,427</u>
Less: Normalized Revenue from Rates	- 77,687
Recommended Increase	<u><u>\$ 4,740</u></u>

ATTACHMENT F
STAFF REPORT CASE NO. 2001-252
RECOMMENDED RATE

MONTHLY RATE

Residential Flat Rate	\$	38.81
-----------------------	----	-------