

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE BEECH)
GROVE WATER SYSTEM FOR A)
RATE ADJUSTMENT PURSUANT)
TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL)
UTILITIES)

CASE NO.
2003-00015

ORDER

On January 13, 2003, Beech Grove Water System (Beech Grove) submitted its application requesting the Commission to approve its proposed increase in water rates. Commission Staff (Staff), having performed a limited financial review of Beech Grove 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 latter than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall, no latter 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 on all issues raised by the application.

Done at Frankfort, Kentucky, this 6th day of March, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Thomas M. Dixon", written over a horizontal line.

Executive Director

STAFF REPORT
ON
BEECH GROVE WATER SYSTEM
CASE NO. 2003-00015

Pursuant to a request by Beech Grove Water System (Beech Grove) for assistance with the preparation of a rate application, Commission Staff (Staff) performed a limited financial review of Beech Grove s test period operations, the calendar year ending December 31, 2001. 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.

Upon completion of the review, Staff assisted Beech Grove in the development and preparation of a rate application. The application included an adjusted pro forma operating income statement wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable. The water rates proposed by Beech Grove were based on the pro forma income statement and the cost-of-service study as shown in the application page 2 and Exhibit 5, respectively. Exhibit 2 of the application and Attachment B of this Order, shows the revenue requirement from water rates including depreciation expense to be \$270,984, an increase of \$40,945 or 17.8 percent over normalized test period revenue from rates of \$230,039.

On January 13, 2003, Beech Grove submitted its rate application to the Commission for consideration. The City of Henderson (Henderson) filed with the Commission notification on November 18, 2002 that it will be increasing the wholesale water rates being charged to Beech Grove on March 1, 2003. Applying Henderson s increased whole sale water rates to Beech Groves test period water purchases of 56,154,871 gallons results in an increase in pro forma purchased water expense of \$1,579, as shown in Attachment A. That attachment also shows that the increase in purchased water expense will have a corresponding impact on Beech Grove s revenue requirement of \$1,794.

Staff is hereby adopting the contents of Beech Grove s application, with the exception of pro forma purchased water expense and revenue requirement, as its recommendation in this report as if fully set out herein. Staff recommends adjusting Beech Groove s test period purchased water expense by \$1,579 and revenue requirement by \$1,794 to reflect Henderson s March 1, 2003 increase in its whole sale water rates. This results in a revised revenue requirement from water rates including depreciation expense of \$272,778, an increase of \$42,739 or 18.6 percent over normalized test period revenue from rates of \$230,039, as calculated in Attachment B.

Sam Reid is responsible for the revenue normalization adjustment, the billing analysis, and the cost-of-service study. Mark Frost is responsible for the remaining pro forma adjustments and the determination of Beech Grove s revenue requirement. Based on the information included in Beech Grove s application and the adjustments recommended herein, Staff is of the opinion that the rates for water service, as shown in

Attachment C of this report, are reasonable and should be approved by this Commission.

Signatures

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

Prepared by: Sam Reid
Acting Manager, Communications,
Water and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
 STAFF REPORT CASE NO. 2003-00015
 CALCULATION OF
 PURCHASED WATER ADJUSTMENT

Purchased Water Increase

Monthly Rate <u>Steps (Gallons)</u>	March 1, 2003 Rate per <u>1,000 Gallons</u>	Beech Grove Test-Period <u>Water Purchases</u>	Purchased Water Expense <u>Adjustment</u>
First 4,000,000	\$ 2.32	45,676,171	\$ 105,969
Next 1,000,000	\$ 2.17	7,107,798	15,424
Next 1,000,000	\$ 1.96	3,113,508	6,102
Over 6,000,000	\$ 1.75	257,394	+ 450
Total Adjusted Purchased Water			\$ 127,945
Less: Pro Forma Purchased Water Application			- 126,366
Purchased Water Adjustment			<u>\$ 1,579</u>

Revenue Requirement Increase

Purchased Water Adjustment	\$ 1,579
Divided by:	÷ 88%
Revenue Requirement Increase	<u>\$ 1,794</u>

ATTACHMENT B
 STAFF REPORT CASE NO. 2003-00015
 CALCULATION OF STAFF S
 RECOMMENDED REVENUE REQUIREMENT

Revenue Requirement

	<u>Application</u>	Purchased Water <u>Adjustment</u>	<u>Revised</u>
Operation & Maintenance Expense	\$ 231,027	\$ 1,579	\$ 232,606
Add: Depreciation	15,125	0	15,125
Add: Taxes Other Than Income Taxes	+ 4,865	+ 0	+ 4,865
Operating Expenses	<u>\$ 251,017</u>	<u>\$ 1,579</u>	<u>\$ 252,596</u>
Divided by: Operating Ratio	÷ 88%	÷ 88%	÷ 88%
Total Revenue Requirement	<u>\$ 285,247</u>	<u>\$ 1,794</u>	<u>\$ 287,041</u>
Less: Other Income & Deductions	- 151	- 0	- 151
Revenue Requirement - Operations	<u>\$ 285,096</u>	<u>\$ 1,794</u>	<u>\$ 286,890</u>
Less: Other Operating Revenues	- 14,112	- 0	- 14,112
Revenue Requirement - Water Rates	<u><u>\$ 270,984</u></u>	<u><u>\$ 1,794</u></u>	<u><u>\$ 272,778</u></u>

Revenue Increase

	<u>Application</u>	Purchased Water <u>Adjustment</u>	<u>Revised</u>
Revenue Requirement - Water Rates	\$ 270,984	\$ 1,794	\$ 272,778
Less: Normalized Operating Revenue	- 230,039	- 0	- 230,039
Revenue Increase	<u><u>\$ 40,945</u></u>	<u><u>\$ 1,794</u></u>	<u><u>\$ 42,739</u></u>

Percentage Revenue Increase

	<u>Application</u>	<u>Revised</u>
Revenue Increase	\$ 40,945	\$ 42,739
Divided by: Normalized Operating Revenues	÷ 230,039	÷ 230,039
Percentage Revenue Increase	<u><u>17.8%</u></u>	<u><u>18.6%</u></u>

ATTACHMENT B
STAFF REPORT CASE NO. 2003-00015
STAFF S RECOMMENDED WATER RATES

MONTHLY RATES

Usage Block

First	2,000	Gallons	\$	15.00	Minimum Bill
Next	98,000	Gallons	\$	4.48	per 1,000 Gallons
Over	100,000	Gallons	\$	3.75	per 1,000 Gallons