

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF PAR-TEE LLC D/B/A)
PERRY PARK RESORT FOR AN)
ADJUSTMENT OF RATES PURSUANT TO) CASE NO. 2004-00362
THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On September 10, 2004, Par-Tee LLC D/B/A Perry Park Resort ("Par-Tee") filed its application for Commission approval of its proposed sewer rates. Commission Staff, having performed a limited financial review of Par-Tee'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 have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 31st day of March, 2005.

By the Commission

ATTEST:


Executive Director

STAFF REPORT

PAR-TEE LLC D/B/A PERRY PARK RESORT

CASE NO. 2004-00362

On September 10, 2004, Par-Tee LLC D/B/A Perry Park Resort ("Par-Tee") filed its application seeking to increase its rates pursuant to 807 KAR 5:076. Par-Tee's current rate is a flat monthly fee of \$13.33. Par-Tee proposes to increase its current rate by 37 percent to \$18.23, which would produce increased revenues of \$11,805. In order to evaluate the requested increase, Commission Staff ("Staff") performed a limited financial review of Par-Tee's test period operations for the calendar year ending December 31, 2003. Based on its review Staff recommends approval of Par Tee's requested monthly rate of \$18.23.

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.

Jack Kaninberg of the Commission's Water and Sewer Revenue Requirements Branch began the limited review with a field visit on October 29, 2004. At that time, Par-Tee indicated its operations had changed significantly since the 2003 test period, because it was no longer using a contract operator to maintain its sewer facilities. Therefore, Staff requested information relative to current operations and expenses in order to accurately reflect pro forma operations. Such information did not become available until March 2005, when Par-Tee filed its 2004 Annual Report with the

Commission. On March 17, 2005, Staff made a second field visit to Par-Tee to gather additional information relative to 2004 expenses, and Staff has based its recommendations upon 2004 financial information, as shown in Attachment B.

During Staff's field visits, Par Tee indicated it is incurring additional expenses beyond those reflected in the 2004 financial information. For instance, Par Tee's bookkeeper has not been charging her estimated time of 12 to 16 hours per month to sewer operations, and Staff has adjusted pro forma operations to include an allowance for this expense. In fact, Staff's review indicates Par Tee could have justified a rate slightly higher than proposed in its application, but Par Tee indicated it was not requesting to increase its proposed sewer rate beyond the proposed rate of \$18.23.¹

The application provided by Perry Park stated that the rates were based on 198 customers. The application was based on information using 2003 as the test year. The utility's response to questions during the field review of March 16, 2005 prompted staff to adjust the number of customer to 203 residential customers and 1 commercial customer (Perry Park Resort). The commercial customer is billed by residential equivalents, utilizing information from the October 2004 field review this customer should be billed an average of 2.6 residential equivalents for the test year. Using information from the responses during the field reviews, Staff has established the total residential equivalents for rate making at 205.6.

Eddie Beavers is responsible for all revenue adjustments and the calculation of the proposed rates. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the recommendations herein, Staff is of the opinion that the

¹ Revenue Generated: $(205.6 \times \$18.23) \times 12 \text{ months} = \$44,977$

rates as shown in Attachment A of this report are reasonable and should be approved by this Commission.

Signatures

Prepared by: Jack Kaninberg
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

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

ATTACHMENT A
STAFF REPORT CASE NO. 2004-00362
STAFF'S RECOMMENDED RATES

Monthly Sewer Rate

Single Family
Residential Customers

\$18.23

Commercial Customers

\$18.23 per residential equivalent

Par-Tee Attachment B	2003	2004	Adjustments	Ref	Adjusted
Revenues	\$31,892	\$32,719	\$169	A	\$32,888
Treatment Labor & Materials	\$8,169	6,653	0	B	6,653
Rents	52	0			0
Owner/Manager. fee	0	500	3,100	C	3,600
Misc. Collection system	159	0			0
Water Cost	0	0			0
Treatment and Disposal	7,577	0			0
Pumping Maintenance	4,698	18,095	(3,315)	D	14,780
Fuel/Power for Pumping	0	0			0
Chemicals	3,517	2,610	1,890	E	4,500
Mt. Of Treatment & Disposal	1,400	0			0
Other Maintenance	120	0			0
Cust. Records & Collection	0	0	2,630	F	2,630
Uncollectible Accounts	31	0			0
Outside Services Employed	7,512	0			0
Miscellaneous General Exp.	88	2,029	875 (1,200) (225)	G	1,479
<i>Total Sewer O&M</i>	<i>33,323</i>	<i>29,887</i>	<i>3,755</i>		<i>33,642</i>
Depreciation Exp.	9,494	3,396	1,044	H	4,440
Amortization Exp.	500	0	400	I	400
Taxes OT Income		1,507	275	J	1,782
Total Operating Exp.	\$43,317	\$34,790	\$5,474		\$40,264
Net Operating Income	(\$11,425)	(2,071)	(\$5,305)		(\$7,376)

Calculation of Revenue Requirement using Operating Ratio Method:

\$40,264 Proforma Operating Expenses Before Income Taxes

88% Operating Ratio

\$ 45,754 Revenue Requirement Before Tax

(\$40,264) Proforma Operating Expenses

\$ 5,490 After Tax Net Income

x 1.23839 Tax Factor

\$ 6,799 Net Income Before Income Tax (Tax is \$1,309)

\$ 47,063 Revenue Requirement Including Tax

(\$32,888) Normalized Revenues

\$ 14,175 Justifiable Revenue Increase (43.1% increase)

\$47,063 / 12 = \$3,922 divided by 205.6 residential equivalents = \$19.08 per month. Par Tee requested a rate of \$18.23 per month. Staff recommends approval of the request.

Explanatory Notes:

- A. Normalized Revenues based on 204 customers (and 205.6 residential equivalents) currently paying \$13.33 per month. It should be noted that Par Tee's 2004 financial information included in Operating Revenues \$900 from tap fees, which Staff has excluded from the revenue requirement calculation.
- B. Par-Tee's 2004 Annual Report shows Treatment System Labor and Materials of \$7,153. That amount consisted of two categories: hourly wages of \$6,653 and salaries of \$500. Resort employees charge time directly to sewer operations whenever they perform sewer-related duties, and those charges totaled \$6,653 in 2004. In addition, Par-Tee charged \$500 for the resort manager's time in 2004, and the PSC normally allows an owner/manager fee of \$3,600 for operators of sewer utilities. Such a fee is justified in this case, resulting in an adjustment of \$3,100, although Staff has made this adjustment in note C.
- C. Adjustment to allow an owner/manager fee of \$3,600, as noted in note B. Par-Tee's resort manager maintains a state license to oversee the operation of the sewer facilities. He also has recurring duties related to management and oversight of the plant, and has not been tracking time related to the sewer operation. Therefore, Staff recommends allowance of an owner/manager fee in this case.
- D. Par-Tee's 2004 Annual Report included Pumping Maintenance Expense of \$18,095. Staff discovered during the March 16, 2005 field visit that the following expenses were lumped into this category:

Expense	Amount
Supplies	\$6.93
Misc. Operating Exp.	\$2,802.50
Electric	\$4,805.74
Water	\$712.72
Equipment Repairs	\$1,075.78
Tools	\$123.08
Parts	\$377.89
Misc. Repairs and Mt.	\$4,827.35
Interest Expense	\$3,314.52
Bad Debt	\$47.73
Total	\$18,094.24

Of these amounts, Staff recommends exclusion of the Interest Expense of \$3,314.52. Par-Tee believed this Interest Expense was a corporate allocation, and could not explain how it related to sewer operations. In addition, any sewer related debt may need Commission approval depending upon its terms, and there is no evidence that Par-Tee has sought or been granted such approval.

- E. Chemicals Expense has been adjusted to include a pro forma expense of \$4,500 based upon 30 pails of chlorine at \$150 per pail.
- F. Customer Records and Collection Expense of \$2,630 is recommended to allow bookkeeping time of 12 hours per month at the bookkeeper's current salary. Par Tee estimates that the bookkeeper spends 12 to 20 hours per month on sewer-related bookkeeping duties, but has not been allocating such time to sewer operations.
- G. Miscellaneous General Expense included the following expenses:

Expense	Amount
Postage	\$130.89
Travel meals	\$90.04
Over/Short	\$2.96
Professional Fees	\$1,200.00
Miscellaneous Admin.	\$604.60
Total	\$2,028.49

Staff recommends three adjustments to these accounts. First, Par-Tee's operations will change in April, 2005 when the sewer utility will be required to issue monthly bills. Postage for these bills will be calculated at (204 customers x \$0.37 x 12 = \$905.76). Second, Professional fees of \$1,200 consisted of rate case and tariff consulting fees. These charges will not recur annually, and have therefore been removed and amortized over three years. Third, Par-Tee paid dues for 2004 and 2005 to Kentucky Rural Water Association, so the 2004 fees of \$225 have been removed.

- H. Pro forma Depreciation Expense was adjusted for several reasons. Par Tee's reported Depreciation Expense decreased from \$9,494 in 2003 to \$3,396 in 2004. Par Tee's reported Depreciation Expense was based on accelerated depreciation for federal tax purposes, as well as shorter depreciation lives than recommended by Commission Engineering Staff. In addition, in this utility's last rate case under different ownership, there was no allowance for sewer plant depreciation expense. Therefore, Staff recommends disallowance of \$1,600 in depreciation expense claimed by Par Tee relative to Asset # 21 – "Sewer Treatment Plant with a corrected 25 year life," which was recorded on August 1, 1998.

In summary, Staff's recommended Depreciation Expense of \$4,440 is based upon the following:

Asset #	Added	Amount	Par Tee's Life	Staff's life	Annual deprec.	Notes
19	9/6/01	\$98,902.14	25	50	\$1,978	Major sewer line replacement
56	11/3/03	18,950.00	25	50	379	2-inch sewer main.
21	8/1/98	40,000.00	25	25	0	Sewer treatment plant with a corrected 25 year life.
44	6/16/99	1,506.00	5	5	0	Pump - Fully depreciated.
74	1/1/03	1,849.00	7	7	264	Blower for sewer plant
71	4/22/03	1,760.76	7	7	252	Testing meters.
72	6/30/03	5,642.70	7	5	1,129	New comminutor.
87	3/15/04	3,068.50	7	7	438	Grinder pump
					\$4,440	

- I. Amortization Expense was adjusted to include a 3-year amortization of rate case and tariff consulting fees costing \$1,200, resulting in annual amortization expense of \$400.
- J. Taxes Other Than Income Tax Expense was increased to allow FICA tax on \$10,253 in Salaries and Wages Expenses. At a rate of 7.65%, the pro forma FICA expense would be \$784, and 2004 FICA expense was \$509, an adjustment of \$275.