

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE GRANT)	
COUNTY SANITARY SEWER DISTRICT)	CASE NO.
FOR AUTHORITY TO ADJUST RATES)	2005-00314

O R D E R

On July 25, 2005, Grant County Sanitary Sewer District ("Grant County") submitted its application for Commission approval of its proposed sewer rates. On December 27, 2005, Grant County's application was considered filed by the Commission based upon Grant County's filing of supplemental information. Commission Staff, having performed a limited financial review of Grant County'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 23rd day of March, 2006.

By the Commission

ATTEST:


Executive Director

STAFF REPORT

GRANT COUNTY SANITARY SEWER DISTRICT

CASE NO. 2005-00314

On July 25, 2005, Grant County Sanitary Sewer District ("Grant County") submitted its application for Commission approval of its proposed sewer rates. Grant County's application was deficient in several respects. On December 27, 2005, Grant County's application was considered filed by the Commission based upon Grant County's filing of supplemental information. Commission Staff ("Staff") performed a limited financial review of Lewis Sanitation's test year operations for the calendar year ending May 31, 2005. 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.

The application submitted on July 25, 2005 included an adjusted pro forma operating income statement, as shown in Attachment B to this report, wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable. The supplemental application filed on December 27, 2005 included an adjusted income statement (also shown in Attachment B) with minor variations to the income statement previously submitted on July 25. The rates proposed by Grant County were based on the pro forma income statement shown in the application. The application also included the calculation of Grant County's revenue requirement using a 1.2 Debt Service Coverage, which is frequently used by the Commission to determine revenue requirements for small utilities. Grant County is

proposing to increase its annual revenue by \$178,941, an increase of 45.7% over test period revenue from rates of \$391,879.

Grant County provided adequate documentation to support its pro forma revenues and expenses. Therefore, Commission Staff recommends acceptance of Grant County's proposed pro forma revenues and expenses with one minor adjustment, as shown in Attachment B. Specifically, Grant County calculated its 1.2x debt service of \$150,106 by using an 18-year average, whereas the Commission normally uses a pro forma average of the next three years, which results in debt service coverage of \$150,190. In addition, Staff's review indicated that Grant County could have justified increased revenues of \$194,335. However, Grant County's proposed revenue increase of \$178,941 will produce a positive cash flow, and will allow it to meet its operating expenses and repay its long-term debt. Therefore, Staff recommends acceptance of the proposed increase.

Eddie Beavers is responsible for all revenue adjustments and the calculation of the proposed rates, as discussed in Attachments C and D. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the information included herein, Staff is of the opinion that the 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. 2005-00314
STAFF'S RECOMMENDED RATES

Monthly Sewer Rates

5/8'X3/4" Water Meter

First	2,000	gallons	\$21.06	Minimum bill
Next	3,000	gallons	8.25	per 1,000 gallons
Next	5,000	gallons	6.76	per 1,000 gallons
All Over	10,000	gallons	5.31	per 1,000 gallons

1" Water Meter

First	5,000	gallons	\$45.81	Minimum bill
Next	5,000	gallons	6.76	per 1,000 gallons
All Over	10,000	gallons	5.31	per 1,000 gallons

1 1/2" Water Meter

First	10,000	gallons	\$79.61	Minimum bill
All Over	10,000	gallons	5.31	per 1,000 gallons

2" Water Meter

First	20,000	gallons	\$132.71	Minimum bill
All Over	20,000	gallons	5.31	per 1,000 gallons

Grant County Attachment B	Applic.	Supplemt.	Proposed Adjstmts.	Proposed Proforma	Staff Adjstmts.	Staff Adjusted
Revenue from Rates	\$391,883	\$391,879	0	\$391,879	(\$9,788)	\$382,091
Other Operating Revenue	\$16,611	\$16,612	\$2,852	\$19,464	0	\$19,464
Interest Income	\$1,013	\$1,076	(\$765)	\$311	0	\$311
Total Revenue**	\$409,507	\$409,567	\$2,087	\$411,654	(\$9,788)	\$401,866
Commissioners' Salaries	\$5,300	\$5,300	\$700	\$6,000	0	\$6,000
Purchased Power	\$56,306	\$56,306	0	\$56,306	0	\$56,306
Chemicals	\$5,043	\$5,043	0	\$5,043	0	\$5,043
Materials and Supplies	\$25,627	\$27,077	(\$7,215)	\$19,862	0	\$19,862
Contract Services – Eng.	\$9,750	\$9,750	0	\$9,750	0	\$9,750
Contract Services – Acct.	\$12,574	\$12,574	(\$2,574)	\$10,000	0	\$10,000
Contract Services - Legal	\$10,088	\$9,713	\$375	\$10,088	0	\$10,088
Contract Services - Mgmt	\$142,507	\$142,507	(\$6,741)	\$135,766	0	\$135,766
Contract Services - Other	\$45,744	\$45,744	\$984	\$46,728	0	\$46,728
Contract Services – Tests	\$3,705	\$3,705	0	\$3,705	0	\$3,705
Rent	\$833	\$833	0	\$833	0	\$833
Transportation Exp.	\$5,485	\$5,669	(\$3,086)	\$2,583	0	\$2,583
Insurance – Vehicles	\$1,556	\$1,556	\$124	\$1,680	0	\$1,680
Insurance – Gen. Liability	\$2,871	\$2,871	\$106	\$2,977	0	\$2,977
Insurance – Property	0	0	\$3,730	\$3,730	0	\$3,730
Advertising	\$110	\$110	0	\$110	0	\$110
Bad Debt	\$2,500	\$2,500	\$1,210	\$3,710	0	\$3,710
Misc. Expense	0	\$12	(\$12)	0	0	0
<i>Total Sewer O&M</i>	<i>\$329,999</i>	<i>\$331,270</i>	<i>(\$12,399)</i>	<i>\$318,871</i>	<i>0</i>	<i>\$318,871</i>
Depreciation Exp.	\$116,587	\$116,587	\$2,476	\$119,063	0	\$119,063
Amortization Exp.	\$4,638	\$4,638	\$1,946	\$6,584	0	\$6,584
Taxes OT Income	\$405	\$405	\$54	\$459	0	\$459
Total Operating Exp.	\$451,629	\$452,900	(\$7,923)	\$444,977	0	\$444,977
Net Operating Income	(\$42,122)	(\$43,333)	\$10,010	(\$33,323)	(\$9,788)	(\$43,111)
<i>Interest Expense</i>		(\$69,950)	\$2,271	(\$67,679)	0	(\$67,679)
<i>Amortiz. of Debt Exp.</i>		(\$1,034)	0	(\$1,034)	0	(\$1,034)
<i>Total Other Expense</i>		(\$70,984)	\$2,271	(\$68,713)	0	(\$68,713)
Net Income		(\$114,317)	\$12,281	(\$102,036)	(\$9,788)	(\$111,824)
Total Operating Exp.				\$444,977	0	\$444,977
Amortiz. Debt Exp.				\$1,034	0	\$1,034
Debt Service Coverage*				\$150,106	\$84	\$150,190
Revenue Requirement				\$596,117	\$84	\$596,201
Normalized Revenues						\$401,866
Increase				\$178,941		\$194,335

Explanatory Notes:

*Grant County's Application at Exhibit 5-S calculated debt service coverage at \$150,106 using an average of 18 years remaining debt service, or \$125,088 times 1.2; Staff used the 2006-2008 average of \$125,158 x 1.2 , or \$150,190

**Grant County's Application and Supplemental Application included the proposed rate increase in pro forma revenues, whereas Staff's adjusted pro forma does not.

ATTACHMENT C
STAFF REPORT CASE NO. 2005-00314

Rates: In response to Staff's Second Information Requests Grant County states that the rates were established by a trial and error method.

Based on the Billing Analysis and other information provided in the filings made by Grant County, Staff developed proposed rates in this report following the guidelines set out in the AWWA Manual M1.

Staff's review established the total revenue required for Grant County is \$596,117, \$19,464 is obtained through other operating revenue and \$311 is obtained through interest income. Staff developed rates that will collect the remaining \$576,426 from the company's retail and commercial customers. The utility's expenses were analyzed and allocated according to three different classifications: Commodity, Demand, and Customer.

Commodity costs are those directly associated with the cost of sewage treatment. Demand costs are those associated with providing the facilities to meet the peak demands placed on the system. Customer costs are those incurred to serve customers regardless to the varying usage.

The Allocation of Costs sheet allocates the remaining portion of the Revenue Requirement from Rates to the customer in the functional cost components of Commodity, Demand and Customer. The allocation process results in \$61,349 in commodity costs, \$465,349 in demand costs and \$49,728 in customer costs.

Calculation of Proposed Rates:

Total commodity costs are allocated across the rate steps in accordance with usage percentages. Total demand costs are allocated across the rate steps in

accordance with usage that has been adjusted to reflect the higher peak demands that are caused in the lower rate steps. Total customer costs are all collected in the first rate step, or minimum bill, since those costs do not differ with varying usage.

The total for the first rate step is \$309,269 which is divided by the number of bills issued on an annual bases which calculates to a minimum bill of \$21.16 for the first ,000 gallons. The totals for the remaining rate steps are each divided by the actual water usage for each rate step to calculate the remainder of the rates.

ATTACHMENT D
STAFF REPORT CASE NO. 2005-00314
COST OF SERVICE STUDY

Allocation of Plant Value				
	Total	Commodity	Demand	Customer
Land	\$25,000			\$25,000
Structures & Improvements	1,164,442		\$1,164,442	
Collection Sewers – Force	328,112		328,112	
Collection Sewers - Gravity	1,705,064		1,705,064	
Other Plant Collection Facilities	64,805		64,805	
Rec Wells & Pump Pits	560,704		560,704	
Tools Shop & Garage Equipment	4,986			4,986
Treatment & Disposal Equipment	13,265		13,265	
Transportation Equipment	11,624			11,624
Subtotal	\$3,878,002		\$3,836,392	\$41,610
Allocation Percentages	100%		0.99	0.01
Source: 2004 Annual Report				

Allocation of Depreciation				
	Total	Commodity	Demand	Customer
Pumping Equipment	\$1,825		\$1,825	
Total Mains	63,115		63,115	
Pump Stations	18,221		18,221	
Structures & Improvements	33,577		33,577	
Transportation Equipment	2,325			\$2,325
Access Road - Sewer Plant	30,072		30,072	
TOTAL	\$149,135		\$146,810	\$2,325
Allocation Percentages	100%		0.98	0.02
Source: Initial Application in Case No. 2005-00314 Exhibit 5				

Allocation of Operation & Maintenance Expense				
	Total	Commodity	Demand	Customer
Contractual Services - Management	\$37,442		\$35,273	\$2,169
Contractual Services - Engineering	9,750		9,750	
Contractual Services - Accounting	10,000			10,000
Contractual Services - Testing	3,705		3,705	
Equipment Rental	833		833	
Chemicals	5,043	\$5,043		
Purchased Power	56,306	56,306		
Materials & Supplies	19,862		14,654	5,208
Bad Debt Expense	3,710			3,710
Subtotal	\$146,651	\$61,349	\$64,215	\$21,087
Less Commodity	(61,349)			
Percentage Total	85,302			
Total	\$146,651	\$61,349	\$64,215	\$21,087
Allocation Percentages	100%		75.3%	24.7%
Salaries - Commissioners	\$6,000		\$4,518	\$1,482
Contractual Services - Admin & Gen	80,324		60,484	19,840
Contractual Services - Legal	10,088		7,596	2,492
Contractual Services - Other	46,728		35,186	11,542
Contractual Services - Management Office Rent	18,000		13,554	4,446
Transportation Expense	2,583		1,945	638
Insurance - Vehicles	1,680		1,265	415
Insurance - General Liability	2,977		2,242	735
Insurance - Property	3,730		2,809	921
Advertising	110		83	27
Amortization	7,618		5,736	1,882
Taxes other than Income	459		346	113
Operating Expenses	\$326,948	\$61,349	\$199,979	\$65,620

Allocation of Cost of Service				
	Total	Commodity	Demand	Customer
Operation & Maintenance	\$326,948	\$61,349	\$199,979	\$65,620
Depreciation	119,063		116,682	2,381
Debt Service	150,190		148,688	1,502
General Water Service Cost	\$596,201	\$61,349	\$465,349	\$69,503
Less: Interest Income	(311)			(311)
Less: Other Income	(19,464)			(19,464)
Revenue Required from Rates	\$576,426	\$61,349	\$465,349	\$49,728
NOTES:				
¹ Debt Service has been allocated on the Retail Allocation Percentage of Plant Value from plant value allocation sheet.				
² Depreciation has been allocated on the Retail Allocation Percentage of Depreciation from depreciation allocation sheet.				

Calculation of Water Rates

	Total	First 2,000	Next 3,000	Next 5,000	Over 10,000
Actual Water Sales:					
Thousand Gallons	62,192,000	26,483,000	21,639,000	7,327,000	6,743,000
Percent	100%	42.58%	34.79%	11.78%	10.84%
Weighted Sales for Demand:		2	1.67	1.33	1
Thousand Gallons	105,591,040	52,966,000	36,137,130	9,744,910	6,743,000
Percent	100%	50.16%	34.22%	9.23%	6.39%
Allocation of Volumetric Costs:					
Commodity	\$61,349	\$26,122	\$21,343	\$7,227	\$6,650
Demand	465,349	233,419	159,242	42,952	29,736
Customer	49,728	49,728			
Total	\$576,426	\$309,269	\$180,585	\$50,179	\$36,386
Number of Bills	14,618				
Cost of Service Rates		\$21.16	\$8.35	\$6.85	\$5.40

Verification of Rates				
	Bills	Gallons	Cost of Service Rates	Revenue
First 2,000 gallons	14,618	26,483,000	\$21.16	\$309,317
Next 3,000 gallons		21,639,000	8.35	180,686
Next 5,000 gallons		7,327,000	6.85	50,190
Over 10,000 gallons		6,743,000	5.40	36,412
Subtotal		62,192,000		\$576,605
Interest Income	\$311			311
Other Income	19,464			19,464
Total Revenue				\$596,380

Comparison of Rates				
Grant County Sanitary Sewer District				
5/8" x 3/4" Water Meter – Residential				
Gallon Usage	Current Rates	PSC Adjusted Rates	Increase	Percentage
2,000	\$10.92	21.06	10.14	92.86%
3,000	14.78	29.31	14.53	98.31%
4,000	18.64	37.56	18.92	101.50%
5,000	22.50	45.81	23.31	103.60%
6,000	26.28	52.57	26.29	100.04%
7,000	33.68	63.11	29.43	87.38%
8,000	40.84	73.77	32.93	80.63%
9,000	37.62	72.85	35.23	93.65%
10,000	41.40	79.61	38.21	92.29%
15,000	59.50	106.16	46.66	78.42%
20,000	77.60	132.71	55.11	71.02%
25,000	95.70	159.26	63.56	66.42%
30,000	113.80	185.81	72.01	63.28%
35,000	131.90	212.36	80.46	61.00%
40,000	150.00	238.91	88.91	59.27%
50,000	186.20	292.01	105.81	56.83%
75,000	276.70	424.76	148.06	53.51%
100,000	367.20	557.51	190.31	51.83%
Block Usage	Current Rates	PSC Adjusted Rates		
1st 2,000	\$10.92	\$21.06		
Next 3,000	3.86	8.25		
Next 5,000	3.78	6.76		
Over 10,000	3.62	5.31		
Effect on Customer Average Bill - 5,000 Gallons Usage				
Current Rates	PSC Adjusted Rates	Amount Increase	% Increase	
\$22.50	\$45.81	\$23.31	103.60%	

Comparison of Rates				
Grant County County Sanitary Sewer District				
5/8" x 3/4" Water Meter - Commercial				
Gallon Usage	Current Rates	PSC Adjusted Rates	Increase	Percentage
2,000	\$30.00	\$21.06	\$(8.94)	-29.80%
3,000	35.00	29.31	(5.69)	-16.26%
4,000	40.00	37.56	(2.44)	-6.10%
5,000	45.00	45.81	0.81	1.80%
6,000	48.00	52.57	4.57	9.52%
7,000	50.00	63.11	13.11	26.22%
8,000	56.50	73.77	17.27	30.57%
9,000	57.00	72.85	15.85	27.81%
10,000	60.00	79.61	19.61	32.68%
15,000	72.50	106.16	33.66	46.43%
20,000	85.00	132.71	47.71	56.13%
25,000	97.50	159.26	61.76	63.34%
30,000	110.00	185.81	75.81	68.92%
35,000	122.50	212.36	89.86	73.36%
40,000	135.00	238.91	103.91	76.97%
50,000	160.00	292.01	132.01	82.51%
75,000	222.50	424.76	202.26	90.90%
100,000	285.00	557.51	272.51	95.62%
Block Usage	Current Rates	PSC Adjusted Rates		
1st 2,000	\$30.00	\$21.06		
Next 3,000	5.00	8.25		
Next 5,000	3.00	6.76		
Over 10,000	2.50	5.31		
Effect on Customer Average Bill - 5,000 Gallons Usage				
Current Rates	PSC Adjusted Rates	Amount Increase	% Increase	
\$45.00	\$45.81	\$0.81	1.80%	

Comparison of Rates				
Grant County County Sanitary Sewer District				
1" Water Meter - Commercial				
Gallon Usage	Current Rates	PSC Adjusted Rates	Increase	Percentage
5,000	\$45.00	\$45.81	0.81	1.80%
6,000	48.00	52.57	4.57	9.52%
7,000	51.00	59.33	8.33	16.33%
8,000	54.00	66.09	12.09	22.39%
9,000	57.00	72.85	15.85	27.81%
10,000	60.00	79.61	19.61	32.68%
15,000	72.50	106.16	33.66	46.43%
20,000	85.00	132.71	47.71	56.13%
25,000	97.50	159.26	61.76	63.34%
30,000	110.00	185.81	75.81	68.92%
35,000	122.50	212.36	89.86	73.36%
40,000	135.00	238.91	103.91	76.97%
50,000	160.00	292.01	132.01	82.51%
75,000	222.50	424.76	202.26	90.90%
100,000	285.00	557.51	272.51	95.62%
Block Usage	Current Rates	PSC Adjusted Rates		
1st 5,000	\$45.00	\$45.81		
Next 5,000	3.00	6.76		
Over 10,000	2.50	5.31		
Effect on Customer Average Bill - 20,000 Gallons Usage				
Current Rates	PSC Adjusted Rates	Amount Increase	% Increase	
\$85.00	\$132.71	\$47.71	56.13%	

Comparison of Rates				
Grant County County Sanitary Sewer District				
1 1/2" Water Meter - Commercial				
Gallon Usage	Current Rates	PSC Adjusted Rates	Increase	Percentage
10,000	\$60.00	79.61	19.61	32.68%
15,000	72.50	106.16	33.66	46.43%
20,000	85.00	132.71	47.71	56.13%
25,000	97.50	159.26	61.76	63.34%
30,000	110.00	185.81	75.81	68.92%
35,000	122.50	212.36	89.86	73.36%
40,000	135.00	238.91	103.91	76.97%
50,000	160.00	292.01	132.01	82.51%
75,000	222.50	424.76	202.26	90.90%
100,000	285.00	557.51	272.51	95.62%
Block Usage	Current Rates	PSC Adjusted Rates		
1st 10,000	\$60.00	\$79.61		
Over 10,000	2.50	5.31		
Effect on Customer Average Bill - 30,000 Gallons Usage				
Current Rates	PSC Adjusted Rates	Amount Increase	% Increase	
\$110.00	\$185.81	\$75.81	68.92%	

Comparison of Rates				
Grant County County Sanitary Sewer District				
2" Water Meter - Commercial				
Gallon Usage	Current Rates	PSC Adjusted Rates	Increase	Percentage
20,000	\$85.00	\$132.71	47.71	56.13%
25,000	97.50	159.26	61.76	63.34%
30,000	110.00	185.81	75.81	68.92%
35,000	122.50	212.36	89.86	73.36%
40,000	135.00	238.91	103.91	76.97%
50,000	160.00	292.01	132.01	82.51%
75,000	222.50	424.76	202.26	90.90%
100,000	285.00	557.51	272.51	95.62%
Block Usage	Current Rates	PSC Adjusted Rates		
1st 20,000	\$85.00	\$132.71		
Over 20,000	2.50	5.31		
Effect on Customer Average Bill - 30,000 Gallons Usage				
Current Rates	PSC Adjusted Rates	Amount Increase	% Increase	
\$110.00	\$185.81	\$75.81	68.92%	