

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF COUNTRY VILLAGE)
SEWER SYSTEM FOR RATE ADJUSTMENT) CASE NO. 9628
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

IT IS ORDERED that:

1. The Staff Report for Country Village Sewer System attached hereto as Appendix A shall be included as a part of the record in this proceeding. In the event a public hearing is held, staff preparing the report will be available for cross-examination.

2. Country Village Sewer System shall have 10 days from the date of this Order to file written comments concerning the contents of Appendix A. In the event Country Village Sewer System desires a public hearing, it shall file a motion requesting such hearing with a copy to all parties of record.

Done at Frankfort, Kentucky, this 26th day of September, 1986.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

STAFF REPORT
ON
COUNTRY VILLAGE SEWER SYSTEM

Prepared By:
Angela Schweickart
Public Utilities Financial
Analyst, Sr.
Water and Sewer Revenue
Requirements Branch
Rates and Tariffs Division

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 9628 DATED 9/26/86

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

STAFF REPORT

ON

COUNTRY VILLAGE SEWER SYSTEM

Prepared By:
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STAFF REPORT

ON

COUNTRY VILLAGE SEWER SYSTEM

CASE NO. 9628

PREFACE

On July 7, 1986, Country Village Sewer System ("Country Village") filed its application seeking an increase in rates. The proposed rates would generate additional revenues of approximately \$6,432 over test year revenues of \$20,698, an increase of approximately 31 percent. As part of its endeavor to shorten and simplify the regulatory process for utilities, the Commission staff chose to perform a limited financial review of Country Village's operations for the test year, calendar year 1985. The Commission's objective was to eliminate the need for written data requests, decrease the time necessary to examine the application and, therefore, decrease the expense to the utility. Ms. Angela Schweickart of the Commission's Division of Rates and Tariffs performed the review on September 4, 1986, at the office of Clore and Duncan Realty in Crestwood, Kentucky.

SCOPE

The scope of the review was limited to obtaining information to determine whether the operating expenses as reported in Country Village's 1985 Annual Report used as the test year in this case were representative of normal operations and to gather information to evaluate the pro forma adjustments proposed in Country Village's filing. Expenditures charged to test year operations

were reviewed, including the invoices. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

FINDINGS

Operating Revenues

Country Village stated in the application that they have 127 customers. Since Country Village's proposed adjustments included annualizing various expenses, Staff is of the opinion that the operating revenues should also be annualized. Therefore, operating revenues have been increased by \$150 over test year revenues of \$20,698 based upon 127 customers and the current monthly rate charged of \$13.68.

Operation and Maintenance Expenses

In the course of the audit, Staff examined invoices related to test period operation and maintenance expenses. Staff found no material discrepancies in the level of test period operation and maintenance expenses, however some expenses had been misclassified as to the proper account prescribed by the Uniform System of Accounts ("USoA").

In its filing, Country Village proposed increases totalling \$3,727 to operation and maintenance expenses. The majority of these adjustments are for annualizing expenses occurring during the test year such as price increases.

Sludge Hauling

Country Village reported sludge hauling expense of \$2,236 for the test period. Country Village proposed, and Staff accepts, an

annualization adjustment of \$77 to reflect the monthly price increase from \$154 to \$177 effective as of March, 1985.

Fuel and Power Purchased

Country Village reported power purchased expense for the test period of \$4,117. After examining the records, it was apparent that the test year water cost of \$90 was included in this account. Pursuant to the USOA, the water expense should be classified in Account 701-C Utility Service-Water Cost. Therefore, staff has accordingly increased Account 701-C by \$90 and reduced Account 703, Power Purchased, by a like amount.

Country Village proposed to increase the power purchased expense by \$1,298 based upon the annualized power expense of January 1, 1986, through June 30, 1986. Beginning in January, 1986, Country Village performed more aeration at the plant due to the requirements of the Environmental Protection Agency ("EPA"). EPA required more aeration in order to maintain a level of quality of the affluent.

After reviewing the monthly power purchased invoices, the staff agrees with the adjustment proposed and has increased Country Village's operating expenses by \$1,298.

Chemical Expense

Country Village proposed to increase the test year chemical expense of \$1,152 to \$3,456 due to annualizing the monthly application of bacteria (LLMO) on the lagoon. Due to EPA's requirements, Country village began using a \$288 monthly application in September, 1985. Staff agrees that an adjustment

to annualize the chemical expense is appropriate and has increased Country Village's operating expenses by \$2,304.

Testing Expense

During the test year, the testing expense increased from \$155 per quarter to \$170. Country Village proposed, and Staff accepts, the \$30 adjustment to annualize the price increase.

Operators Monthly Fee

Country Village reported a Routine Maintenance Service Fee for the test period of \$4,225. Since this amount included 13 monthly payments instead of 12, Country Village proposed, and Staff accepts, a \$325 adjustment to eliminate the extra monthly fee. Therefore, Country Village's operating expenses have been decreased by \$325.

Repairs and Maintenance

Country Village reported Repairs and Maintenance expense for the test year of \$2,357 and did not propose any adjustments to this account. After examining the invoices, it is Staff's opinion that the repairs to the aerator pump totalling \$979 should have been capitalized and depreciated since the repairs will benefit more than one period. The repairs were performed by the Louisville Pump and Valve Company and the invoices were dated July 30 and November 22, 1985. Therefore, Country Village's operating expenses have been decreased by \$979.

Collection Fees

Country Village proposed, and Staff accepts, an \$11 adjustment to Collection Fees to normalize the expense based upon

the number of customers at December 31, 1985. Therefore, Country Village's operating expenses have been increased by \$11.

Rate Case Expense

Country Village reported no accounting expenses for the test period. However, Country Village has proposed a \$300 adjustment due to preparation of this rate case. It is Staff's opinion that this rate case will benefit more than one period and should, therefore, be amortized over a 3-year period. Thus, Country Village's operating expenses have been increased by \$100.

Depreciation Expense

Country Village reported depreciation expense of \$2,342 for the test period. In addition, Country Village proposed, and Staff accepts, a \$32 normalization adjustment for an asset purchased during the test year.

With regard to the capitalization of the aforementioned \$979 repairs to the aerator pump, Staff believes these items should be depreciated over 7 years, or \$140 per year. Therefore, the test year depreciation expense has been increased by \$172 to a level of \$2,514.

SUMMARY

Based on the recommendations proposed by Staff in this report Country Village's operations are as follows:

	<u>Per the 1985 Annual Report</u>	<u>Staff Adjustments</u>	<u>Recommended</u>
<u>Revenues</u>	\$ 20,698	\$150	\$ 20,848
<u>Operating Expenses:</u>			
Sludge Hauling	2,236	\$ 77	\$ 2,313
Power Purchased	4,117	1,208	5,325
Water Purchased	-0-	90	90
Chemicals	1,152	2,304	3,456
Supplies	521		521

Testing	650	30	680
Operator's Monthly Fee	4,225	<325>	3,900
Repairs and Maintenance	2,357	<979>	1,378
Collection Fees	1,513	11	1,524
Rate Case Expense	-0-	100	100
Depreciation	2,342	172	2,514
Property Taxes	201		201
PSC Assessment	50		50
Amortization Expense	783		783
Total Operating Expenses	20,147	2,688	22,835
Net Operating Income	551	<2,538>	<1,987>
Interest Income	380		380
Net Income	<u>\$ 931</u>	<u>\$ <2,538></u>	<u>\$ <1,607></u>

Staff is of the opinion that this margin is neither fair, just, nor reasonable as required by KRS 278.030. Staff is further of the opinion that the proposed operating ratio method for determining revenue requirements is appropriate and that an operating ratio of .88 percent is reasonable. However, contrary to Country Village's proposal Staff is of the opinion interest income should be considered when determining the allowed increase in revenues. Therefore, Staff recommends that Country Village be allowed to increase its revenues on an annual basis by \$4,721, calculated as follows:

Operating Expenses	\$22,835
Divided by	.88
Total Revenue Requirement	<u>\$25,949</u>

LESS:

Annualized Test Period Revenues	<\$20,848>
Interest Income	<380>
Required Increase	<u>\$ 4,721</u>

Respectfully submitted,

Angela M. Schweickart
Angela M. Schweickart
Public Utilities
Financial Analyst, Sr.