

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE GARRISON- )  
QUINCY-KY-O-HEIGHTS WATER DISTRICT )  
OF LEWIS COUNTY, KENTUCKY, FOR ) CASE NO. 9658  
APPROVAL OF CONSTRUCTION, FINANCING )  
AND INCREASED WATER RATES )

O R D E R

IT IS ORDERED that:

1. The Staff Report for Garrison-Quincy-Ky-O-Heights Water District ("Garrison") 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 Staff Report will be available for cross-examination.

2. Garrison shall have until the close of business December 5, 1986, to file written comments concerning the contents of Appendix A. In the event Garrison desires a public hearing, it shall file a Motion requesting such hearing, with a copy to all parties to record.

Done at Frankfort, Kentucky, this 20th day of November, 1986.

PUBLIC SERVICE COMMISSION

*Richard D. Hemans*  
For the Commission

ATTEST:

\_\_\_\_\_  
Executive Director

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

STAFF REPORT

ON

GARRISON-QUINCY-KY-0-HEIGHTS WATER DISTRICT

CASE NO. 9658

Prepared By: Jeff Shaw  
Public Utilities Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Rates and Tariffs Division

Prepared By: Carryn Lee  
Public Utilities Rate  
Analyst, Chief  
Communication, Water and  
Sewer Rate Design Branch  
Rates and Tariffs Division

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. 9658

DATED 11/20/86

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

STAFF REPORT

ON

GARRISON-QUINCY-KY-0-HEIGHTS WATER DISTRICT

Prepared By: Jeff Shaw  
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STAFF REPORT

ON

GARRISON-QUINCY-KY-0-HEIGHTS WATER DISTRICT  
CASE NO. 9658

PREFACE

On July 30, 1986, Garrison-Quincy-Ky-O-Heights Water District ("Garrison") filed its application in Case No. 9658 seeking approval of construction, financing and increased rates for water service. The proposed rates were designed to generate additional revenues of \$46,754 on an annual basis, which represents an increase of approximately 91 percent above the revenues generated by Garrison's existing rates.

In order to shorten and simplify the processing of this case the Commission chose to have its staff perform a limited financial audit of Garrison's operations and prepare an analysis of Garrison's billings for the purpose of evaluating the requested increase in rates. The Commission's objective was to reduce the need for written data requests and, hopefully, reduce the time and expense related to this application. Jeff Shaw of the Commission's staff performed the audit and Carryn Lee, also of the Commission's staff, performed the billing analysis.

SCOPE

The scope of the staff's work was limited to obtaining information to determine whether the operating expenses reported in the test year were representative of normal operating conditions, to evaluate the pro forma adjustments proposed in Garrison's application and to analyze Garrison's customer billings

for the purpose of calculating an appropriate schedule of rates. Insignificant or immaterial discrepancies were not pursued and are not addressed herein. The findings and recommendations included in this report do not pertain to Garrison's proposed construction or its proposed plan of financing.

#### FINDINGS

##### Test Year

In its application Garrison proposed as its test year calendar year 1984 during which total operating expenses were reported to be \$54,435. A review of Garrison's operations for calendar years 1983 and 1985 showed that during those years the district's operating expenses were \$44,658 and \$43,415 respectively. In view of the significantly greater level of expense incurred during the proposed test year the staff attempted to determine whether calendar year 1984 was representative of normal operating conditions for Garrison and whether the more current period, calendar year 1985, would better reflect Garrison's current and ongoing operations.

Through a review of Garrison's financial records and discussions with Mr. James Vergne, Treasurer and Commissioner for the water district, the staff has determined that calendar year 1984 is not representative of Garrison's normal operating conditions and should not be used as the test year for rate-making purposes. Garrison's previous management, during the years 1981, 1982, and part of 1983 neglected to maintain and repair the system to such an extent that in 1984 the new management had to make significant expenditures for maintenance, repairs and outside

labor to adequately operate the system. These "catch-up" expenditures resulted in an abnormal level of operating expenses during calendar year 1984 which cause that 12-month period to be less representative of current conditions than the more recent period, calendar year 1985. The staff, therefore, recommends that calendar year 1985 be used as the test year in this case in lieu of calendar year 1984.

#### Operating Revenues

For the test year Garrison reported operating revenues of \$53,507. Based on the billing analysis attached as Appendix A to this report, the staff accepts this amount as Garrison's test period operating revenues subject to the adjustment addressed below.

Garrison collected \$59 in sales tax during the test year and reported it as operating revenue. A tax collected by Garrison is not revenue of the district and should not be reported as such for accounting or rate-making purposes. Therefore, the staff recommends making an adjustment of \$59 to remove sales tax from operating revenues.

#### Operation and Maintenance Expenses

For the 1985 test year Garrison reported \$43,415 in total operation and maintenance expenses. The staff's examination revealed some minor discrepancies in Garrison's accounting for expenses and several areas in which adjustments should be made. The following recommendations outline these items.

For the test year Garrison reported \$59 as expense for sales taxes. Taxes imposed on Garrison's customers are not an expense

to the district. Garrison merely acts as a collection agent for the taxing authority. To record such a tax as an expense of the district is improper both for accounting and rate-making purposes. Therefore, the staff recommends an adjustment of \$59 to remove this tax from Garrison's operating expenses.

During the 1985 test year Garrison's pumping expense for electricity was \$5,777. Since the test year Garrison has received two increases in rates from its electric supplier which will increase pumping expense significantly. The staff, therefore, recommends an adjustment to increase pumping expense by \$2,657 to reflect the rates currently charged by Garrison's electric supplier.

Garrison's billing is done by the Buffalo Trace Area Development District at a current rate of \$.64 per bill. Based on the 440 customers served by Garrison at the end of the test year the normalized annual expense is \$3,380 compared to the 1985 test year expense of \$3,250. To reflect this increase in billing costs the staff recommends an adjustment of \$130 be made.

The staff reviewed Garrison's insurance expense for the 1985 test year and for the first nine months of 1986. For the test period Garrison's insurance expense was \$1,436. The increased premiums Garrison has received in 1986 result in an annual expense of \$2,008 which is an increase of \$572 over the test year expense. The staff recommends this increase be reflected with an adjustment in the amount of \$572.

During the 1985 test year Garrison's labor-related expenses for its treatment plant operator were \$14,154 including salary and

overheads. The operator resigned in August 1986 and a new treatment plant operator began working in September 1986. The staff has calculated an annual expense of \$15,569 for salary and overheads based on the \$275 per week salary the new operator will receive. To reflect this increase the staff recommends an adjustment of \$1,415 be made to the test year operating expenses.

In the application Garrison calculated annual depreciation of \$16,458 on non-contributed property after reflecting the increase in plant in service resulting from the proposed construction project. The staff has reviewed this calculation and recommends this level of depreciation expense be included in the determination of Garrison's revenue requirements. This inclusion requires an adjustment of \$9,536 to the reported test year depreciation expense of \$6,922.

During the test year Garrison received interest income of \$1,468. Since the test year Garrison's balance of funds available for investment has declined to \$10,000 and its current interest rate on certificates of deposit is 5.5 percent. Given these circumstances, the staff recommends an adjustment, for rate-making purposes, to decrease Garrison's interest income by \$913 to \$550.

#### ACCOUNTING ISSUES

The staff observed one significant instance of improper classification of expenses as reported in Garrison's 1985 Annual Report. This item has been incorporated into the summary section of this report.

The salary of the treatment plant operator was charged entirely to Customer Accounts Expense and allocated between meter



reading labor and accounting and collecting labor. While the operator does read meters, he also operates the treatment plant and performs various maintenance services. Accordingly, a portion of his salary should be charged to these functions. For purposes of this report the staff has allocated this salary equally between Water Treatment Expense and Customer Accounts Expense.

#### SUMMARY

Based on the staff's recommendations contained in this report Garrison's adjusted operating statement would appear as follows:

	<u>Test Year Actual</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
<u>Operating Revenues</u>	\$53,507	\$ <59>	\$53,448
<u>Operating Expenses</u>			
Pumping Expense	\$ 5,908	\$ 2,657	\$ 8,565
Treatment Expense	11,603	650	12,253
Transmission and Distribution Expenses	2,401	-0-	2,401
Customer Accounts Administrative and General Expenses	6,500	650	7,150
Depreciation Expense	8,747	643	9,390
Taxes	6,922	9,536	16,458
Taxes	1,334	115	1,449
Total	<u>\$43,415</u>	<u>\$ 14,251</u>	<u>\$57,666</u>
Operating Income	10,092	<14,310>	<4,218>
Other Income	<u>1,468</u>	<u>&lt;918&gt;</u>	<u>550</u>
Income Available for Debt Service	<u>\$11,560</u>	<u>\$&lt;15,228&gt;</u>	<u>\$&lt;3,668&gt;</u>

Based on the approval of the proposed construction Garrison's average annual debt service will increase to \$32,200. Based on the adjusted test period operations, Garrison's Debt Service Coverage ("DSC") is -.11X. The staff is of the opinion that this coverage is inadequate and fails to meet the requirements of KRS


278.030. The staff is further of the opinion that a DSC of 1.2X is necessary to allow Garrison to meet its operating expenses, service its debt and provide for reasonable equity growth. Therefore, the staff recommends that Garrison be allowed to increase its annual revenues by \$42,308, calculated as follows:

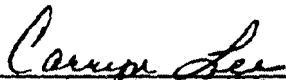
Operating Expenses	\$57,666
Average Annual Debt Service	32,200
20 Percent DSC	6,440
Total Revenue Requirement	<u>\$96,306</u>

LESS:

Normalized Operating Revenues	\$53,448
Interest Income	<u>550</u>
Required Increase	<u>\$42,308</u>

The rates required to generate this increase in revenue are set out in Appendix B to this report.

  
Prepared By: Jeff Shaw  
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APPENDIX A

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

CASE NO. 9658 TEST YEAR 1985

USAGE TABLE - PRESENT

Increments	Bills	Gallons		First		Next		Next		Next		Over
		1,000's	2,000	3,000	5,000	10,000	10,000	30,000				
First 2,000 gal.	1,610	1,585,800	1,585,800	3,008,000	2,455,900	961,600	161,000	1,171,600				
Next 3,000 gal.	2,057	7,122,000	4,114,000	3,789,000	1,595,000	410,000	310,000	1,171,600				
Next 5,000 gal.	1,263	8,770,900	2,526,000	957,000	205,000	410,000	310,000	1,171,600				
Next 10,000 gal.	319	4,151,600	638,000	123,000	155,000	310,000	471,000	1,171,600				
Next 10,000 gal.	41	981,000	82,000	93,000	155,000	310,000	471,000	1,171,600				
Over 30,000 gal.	31	2,101,600	62,000	93,000	155,000	310,000	471,000	1,171,600				
Total	5,321	24,712,900	9,007,800	7,970,000	4,410,900	1,681,600	471,000	1,171,600				

USAGE TABLE - PROPOSED

Increments	Bills	Gallons		First		Next		Next		Next		Over
		1,000	2,000	3,000	5,000	10,000	10,000	20,000				
First 2,000 gal.	1,610	1,585,800	1,585,800	3,008,000	2,455,900	961,600	161,000	1,642,600				
Next 3,000 gal.	2,057	7,122,000	4,114,000	3,789,000	1,595,000	360,000	720,000	1,642,600				
Next 5,000 gal.	1,263	8,770,900	2,526,000	957,000	216,000	360,000	720,000	1,642,600				
Next 10,000 gal.	319	4,151,600	638,000	144,000	216,000	360,000	720,000	1,642,600				
Over 20,000 gal.	72	3,082,600	144,000	216,000	360,000	720,000	1,642,600	1,642,600				
Total	5,321	24,712,900	9,007,800	7,970,000	4,410,900	1,681,600	471,000	1,642,600				

APPENDIX A

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

CASE NO. 9658 TEST YEAR 1985

REVENUE TABLE - PRESENT

	<u>Bills/Gallons</u>	<u>Present Rates</u>	<u>Revenue</u>
First 2,000 gal.	5,321	\$ 6.50	\$34,586.50
Next 3,000 gal.	7,970.0	1.65	13,150.50
Next 5,000 gal.	4,410.9	1.00	4,410.90
Next 10,000 gal.	1,681.6	.90	1,513.44
Next 10,000 gal.	471.6	.80	376.80
Over 30,000 gal.	1,171.6	.55	644.38
			\$54,683
			< 1,176 >
			\$53,507
			Uncollectibles
			Total

REVENUE TABLE - PROPOSED

	<u>Bills/Gallons</u>	<u>Proposed Rates</u>	<u>Revenue</u>
First 2,000 gal.	5,321	\$10.00	\$ 53,210.00
Next 3,000 gal.	7,970.0	4.00	31,880.00
Next 5,000 gal.	4,410.9	3.00	13,232.70
Next 10,000 gal.	1,681.6	2.00	3,363.20
Over 20,000 gal.	1,642.6	1.50	2,463.90
			\$104,149.80
			Total

APPENDIX B

The following monthly rates have been designed to produce \$96,306 annually.

First 2,000 gallons	\$10.00 Minimum Bill
Next 3,000 gallons	3.40 per 1,000 gallons
Next 5,000 gallons	2.70 per 1,000 gallons
Next 10,000 gallons	2.00 per 1,000 gallons
Over 20,000 gallons	1.50 per 1,000 gallons