

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST PENDLETON)
WATER DISTRICT FOR AN INCREASE IN)
RATES PURSUANT TO THE ALTERNATIVE) CASE NO. 9701
RATE FILING PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

IT IS ORDERED that:

1. The Staff Report for East Pendleton Water District ("East Pendleton") 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. East Pendleton shall have until the close of business December 8, 1986, to file written comments concerning the contents of Appendix A. In the event East Pendleton 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 2nd day of December, 1986.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

STAFF REPORT
ON
EAST PENDLETON WATER DISTRICT
CASE NO. 9701

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. 9701
12/02/86**

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

STAFF REPORT

ON

EAST PENDLETON WATER DISTRICT

**Prepared By: Jeff Shaw
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STAFF REPORT

ON

EAST PENDLETON WATER DISTRICT

CASE NO. 9701

PREFACE

On October 1, 1986, East Pendleton Water District ("East") filed its application in Case No. 9701 under the Alternative Rate Filing Procedure for Small Utilities ("ARF"). The proposed rate adjustment was designed to generate additional revenues of \$16,057 annually, or 10.8 percent, above East's normalized revenues calculated for calendar year 1985. On November 7, 1986, Carryn Lee and Jeff Shaw of the Commission staff conducted a limited rate case audit for the purpose of evaluating the requested increase in rates.

SCOPE

The scope of the staff's work was limited to obtaining information to determine the validity and accuracy of the amounts reported as revenues and expenses during calendar year 1985 and to evaluate the pro forma adjustments proposed in East's application. The staff also reviewed the adequacy of East's accounting system and accounting practices. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

FINDINGS

Operating Revenues

East filed a billing analysis in its application based on the rates granted in a purchased water adjustment effective July 18,

1985. The billing analysis filed by East produces revenue in the amount of \$148,788. After reviewing the billing analysis it was discovered that East had not included the \$300 per month meter charge paid by the Black River Mining Company in its total revenue calculations. Therefore, test year normalized revenue has been increased by \$3,600 for a total test year normalized revenue of \$152,388.

Operation and Maintenance Expenses

For the test year East reported \$121,136 in total operation and maintenance expenses. East proposed several adjustments which increased expenses by \$25,855 to \$146,991. The staff's examination of these matters has resulted in the following recommendations:

For the test year East reported water purchases of 55,020,500 gallons and water sold or used by the district of 42,815,800 gallons. The resulting level of water lost or unaccounted for is 22.2 percent, which is greater than the 15 percent maximum water loss the Commission typically allows for rate-making purposes. East calculated its pro forma purchased water expense to be \$77,029 based on its actual test year purchases and its supplier's current rate of \$1.40 per 1,000 gallons. In the three years preceding the test year East's water loss never exceeded 15 percent. Using a water loss of 15 percent East's water purchases would be 50,371,500 gallons which would result in a pro forma expense of \$70,520. Based on the historical data and the Commission's normal rate-making practices the staff would recommend the Commission limit East's water loss to 15 percent for

rate-making purposes and allow a maximum purchased water expense of \$70,520.

East proposed an adjustment of \$700 for rate case expense based on an estimated expense of \$2,100 to be amortized over three years. During the course of the audit the staff determined that the actual expense incurred by East for the preparation of its application is approximately \$1,500. Based on the amount of work required in preparing an ARF application, particularly the preparation of a billing analysis, the staff is of the opinion that \$1,500 is a reasonable amount for rate case expense. Therefore, using the three-year amortization period proposed by East, the staff recommends making an adjustment of \$500 for rate case expense.

During the test year East reported \$11,968 in depreciation expense which represented depreciation on utility plant net of contributions in aid of construction. This is appropriate for rate-making purposes as the Commission does not allow the recovery, through rates, of depreciation on contributed property. Therefore, for rate-making purposes, no adjustment is necessary.

However, for accounting purposes, an adjustment to East's accumulated depreciation is necessary. For the years 1980 through 1985 East did not record depreciation expense for its total utility plant in service but recorded depreciation only for non-contributed utility plant. This does not conform to generally accepted accounting principles nor to the accounting practices prescribed by this Commission. During the course of its investigation the staff learned that this problem had already been

addressed by East's independent auditors in the course of the district's financial audit for calendar years 1984 and 1985. Having discussed this matter with the independent auditors, the staff believes that the simplest and least costly way of reflecting the adjustments necessary to East's financial statements as reflected in its annual reports to the Commission would be to make the required cumulative adjustments as part of the district's 1986 annual report to the Commission with appropriate notes, or remarks, explaining the adjustments.

Revenue Requirements

Based on the rate-making adjustments recommended herein, East's adjusted operating statement would appear as follows:

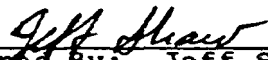
	<u>Applicant's Pro Forma</u>	<u>Staff Adjustments</u>	<u>Staff Pro Forma</u>
<u>Operating Revenues</u>			
Water Sales	\$ 148,788	\$ 3,600	\$ 152,388
Other Revenues	162	-0-	162
Total	<u>\$ 148,950</u>	<u>\$ 3,600</u>	<u>\$ 152,550</u>
<u>Operating Expenses</u>			
Source of Supply	\$ 77,369	\$ <6,509>	\$ 70,860
Pumping Expense	11,931	-0-	11,931
Treatment Expense	3,507	-0-	3,507
Transmission and Distribution Expenses	20,789	-0-	20,789
Customer Accounts	11,885	-0-	11,885
Administrative And General Expenses	9,015	<200>	8,815
Depreciation Expense	11,968	-0-	11,968
Taxes	527	-0-	527
Total	<u>\$ 146,991</u>	<u>\$ <6,709></u>	<u>\$ 140,282</u>
Income Available For Debt Service	<u>\$ 1,959</u>	<u>\$ 10,309</u>	<u>\$ 12,268</u>

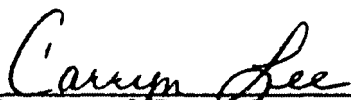
East's average annual debt service is \$24,930. Based on the adjusted test period operations, East's Debt Service Coverage

("DSC") is .49X. 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 1.0X to 1.2X is necessary to allow East to meet its operating expenses, service its debt and provide for reasonable equity growth. The additional revenue requested by East would produce a DSC of 1.13X which should be adequate to meet its needs. Therefore, the staff recommends that East be allowed to increase its revenues by the full amount requested of \$16,057 which will result in annual revenues of \$168,607.

The rates required to generate this level of revenue are set out in Appendix A to this report.

Respectfully submitted,


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

The following rates will produce annual operating revenue
in the amount of \$168,450.

RESIDENTIAL

<u>USAGE BLOCKS</u>	<u>RATES</u>
First 1,000 gallons	\$ 9.16 Minimum
Next 99,000 gallons	3.41 per 1,000 gallons
Over 100,000 gallons	3.01 per 1,000 gallons

BLACK RIVER MINING COMPANY

Monthly Meter Charge	\$300.00 Minimum
First 100,000 gallons	3.41 per 1,000 gallons
Over 100,000 gallons	3.01 per 1,000 gallons

KINCAID LAKE PARK

First 100,000 gallons	\$571.00 Minimum
Over 100,000 gallons	3.01 per 1,000 gallons

MT. AUBURN APARTMENT

First 20,000 gallons	\$ 73.95 Minimum
Next 80,000 gallons	3.41 per 1,000 gallons
Over 100,000 gallons	3.01 per 1,000 gallons

E. MORRIS TRUCK STATIONS

All water	\$ 3.01 per 1,000 gallons
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