

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MURRAY NO. 2 WATER )  
DISTRICT FOR A RATE ADJUSTMENT PURSUANT ) CASE NO.  
TO THE ALTERNATIVE RATE FILING PROCEDURE ) 92-519  
FOR SMALL UTILITIES )

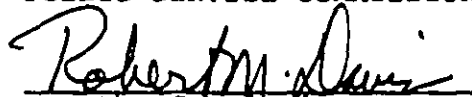
O R D E R

On November 20, 1992, Murray No. 2 Water District ("Murray No. 2") filed its application for Commission approval of a proposed increase in its rates for water service. Commission Staff, having performed a limited financial review of Murray No. 2's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Murray No. 2's 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 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 6th day of April, 1993.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director

COMMONWEALTH OF KENTUCKY  
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THE APPLICATION OF MURRAY NO. 2 WATER )  
DISTRICT FOR A RATE ADJUSTMENT ) CASE NO. 92-519  
PURSUANT TO THE ALTERNATIVE RATE )  
FILING PROCEDURE FOR SMALL UTILITIES )

AMENDED STAFF REPORT

Prepared By: Karen S. Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Rates and Tariffs Division

Prepared By: Brent Kirtley  
Public Utility Rate  
Analyst  
Communications, Water  
and Sewer Rate Design Branch  
Research Division

AMENDED STAFF REPORT

ON

MURRAY NO. 2 WATER DISTRICT

CASE NO. 92-519

Preface

On November 20, 1992, Murray No. 2 Water District ("Murray No. 2") filed its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water rates by \$6,591 or 28 percent.

On August 12, 1993, the Commission Staff ("Staff") conducted a limited financial review of Murray No. 2's test-period financial records. On February 3, 1993, Staff issued its report recommending that Murray No. 2's annual operating revenues be increased by \$6,091 and that a \$1.40 monthly surcharge be established for the purpose of replacing old meters.

On February 18, 1993, Murray No. 2 filed its written response to the Staff Report. In its response Murray No. 2 disagreed with the recommended surcharge and requested that the rates proposed in its application be granted rather than those recommended in Staff's report. It contended that the requested rate increase alone would provide sufficient funds for the replacement of meters over the next 2 or 3 years. Murray No. 2 also requested that the rates be rounded to the nearest dime for simplicity in calculating water bills. There were no comments made with regard to Staff's calculation of Murray No. 2's revenue requirement.

Murray No. 2 filed an additional letter of response on March 11, 1993 which was a reiteration of the previous comments.

However, it did include a plan for purchasing 100 new meters over a period of three years.

Based on the information provided by Murray No. 2 subsequent to the issuance of the Staff Report, Staff amends its original report as set forth in the following paragraphs.

Operating Expenses

Amortization Expense

In its report, Staff recommended that Murray No. 2 establish a monthly surcharge of \$1.40 for the purpose of collecting funds to purchase 100 new meters. The surcharge would be collected until such time as the total receipts reached \$5,000, but no longer than 24 months. In its response to the Staff Report, Murray No. 2 opposed the recommended surcharge. It indicated that implementation of the surcharge would increase bookkeeping expenses for the District. In addition, several customers had objected to a surcharge whereas no complaints had been received with regard to the initial increase requested. Murray No. 2 also raised concerns about the fairness of all customers being charged this surcharge. The District is in the process of taking over the customers of Fairview Acres Water Association ("Fairview Acres"). It is Staff's understanding that the customers of Fairview Acres have been required to pay a rather substantial fee to bring their system into compliance with the requirements of the Environmental Protection Agency and other regulatory agencies. Therefore, the District has

raised concerns as to whether or not the surcharge should be charged to these customers when they come on line.

Based on the plan submitted by the District, 100 meters will be purchased over a period of 3 years. At a cost of \$50 each, the total expense for these meters will be \$5,000. In lieu of the surcharge, Staff recommends that the total cost of the meters be amortized over the 3-year period. Accordingly, Staff has increased test-year operating expenses to include amortization expense of \$1,667.<sup>1</sup>

#### Summary

After consideration of the aforementioned adjustment, Murray No. 2's total operating expenses would be \$24,980, an increase of \$1,667 over that recommended in the Staff Report. Accordingly, Murray No. 2 should be allowed to increase its annual revenues by \$7,758, calculated as follows:

Adjusted Operating Expenses	\$24,980
Annual Debt Service	5,400
20 Percent DSC	1,080
Total Revenue Requirement	<u>\$31,460</u>
Less: Normalized Test-Year Revenue	23,702
Recommended Increase	<u>\$ 7,758</u>

#### Rate Design

Staff amends its February 3, 1993 report to exclude the implementation of the monthly surcharge. Based on the increase recommended herein, Staff recommends that the rates in Appendix A,

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<sup>1</sup> \$5,000 + 3 yrs. = \$1,667

attached hereto and incorporated herein, be approved for services rendered.

Subsequent Reporting

Staff recommends that Murray No. 2 be required to file, with its 1993, 1994 and 1995 annual reports, a status report of its meter purchases. The report should include the number of new meters purchased and the total expense for those purchases.

If the District does not implement and adhere to its plan for replacing meters the Commission should review Murray No. 2's revenue requirement for a possible rate reduction. In addition, the Commission should consider implementing the surcharge at that time to ensure that the District will have sufficient funds to purchase new meters and that those funds would be restricted for that purpose.

Signatures

*Karen S. Harrod CPA*

Prepared By: Karen S. Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Rates and Tariffs Division

*Brent Kirtley*

Prepared By: Brent Kirtley  
Public Utility Rate  
Analyst  
Communications, Water and  
Sewer Rate Design Branch  
Research Division

**APPENDIX A  
TO STAFF REPORT CASE NO. 92-519**

The Staff recommends the following rates be prescribed for customers of Murray No. 2 Water District.

**SCHEDULE OF RATES**

First	1,500	\$ 6.10	Minimum Bill
Next	8,500	3.20	per 1,000 gallons
Next	40,000	1.90	per 1,000 gallons
Over	50,000	1.60	per 1,000 gallons

**NON-RECURRING CHARGES**

1.	Connection Fee:	\$ 475.00
2.	Service Charge:	15.00
3.	Re-connection Fee:	25.00
4.	Requested Meter Test:	30.00
5.	Returned Check Charge:	10.00
6.	Late Payment Penalty:	10%