COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WEST DAVIESS COUNTY WATER DISTRICT FOR APPROVAL OF A SURCHARGE TO FUND EXPANSION OF EXISTING SYSTEM FACILITIES	))))	CASE NO. 93-103
THE APPLICATION OF WEST DAVIESS COUNTY WATER DISTRICT FOR APPROVAL OF AN INCREASE IN RATES	)))	CASE NO. 93-115

O R D E R

On March 24, 1993, West Daviess County Water District ("West Daviess") filed its application for Commission approval of a surcharge to fund the expansion of existing system facilities. On April 19, 1993, West Daviess filed for approval of a proposed increase in water rates and a revision of its current rate design. Commission Staff, having performed a limited financial review of West Daviess' operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposals. 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 23rd day of June, 1993.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY

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STAFF REPORT

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STAFF REPORT

ON

WEST DAVIESS COUNTY WATER DISTRICT

CASE NOS. 93-103 & 93-115

A. Preface

On March 24, 1993, West Daviess County Water District ("West Daviess") filed its application with the Kentucky Public Service Commission ("Commission") seeking approval of a surcharge to fund the expansion of existing system facilities in accordance with KRS 74.395. An additional application was submitted to the Commission seeking approval of a proposed increase in water rates and a revision of its current rate design. The applications were considered filed on March 24, 1993 and April 19, 1993, when all deficiencies were cured. The proposed rates would generate approximately $42,401 annually in additional revenues. This represents an increase of 6 percent over normalized test-year revenues from water sales of $706,886.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of West Daviess' operations for the test period, the twelve month period ending December 31, 1992. Karen Harrod, CPA, of the Commission's Division of Financial Analysis, conducted the review on May 3 and 4, 1993 at the office of West Daviess in Owensboro, Kentucky. Nicky Moore of the Commission's Division of Rates and Research performed a review of West Daviess' reported revenues at the offices of the Commission.

The findings of Staff's review have been reduced to writing in this report. Mr. Moore is responsible for the sections related to operating revenues and rate design. The remaining sections of this report were

prepared by Ms. Harrod. Based upon the findings of this report, Staff recommends that West Daviess be allowed to increase its annual operating revenues by $33,892 or 5 percent. Staff also recommends that the monthly surcharge requested by West Daviess should be granted.

Scope

The scope of the review was limited to obtaining information to determine whether test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

During the course of the review, West Daviess was advised that all adjustments to test year expenses must be supported by some form of documentation and that all such adjustments must be known and measurable.

B. Analysis of Operating Revenues and Expenses

Operating Revenues

In its application, West Daviess reported test-year revenue of $684,981 and water sales of 308,947,470 gallons. The company has filed a billing analysis that Staff has reviewed and accepted as reasonable. This analysis was used in determining the annualized revenue.

On May 1, 1992, in Case No. 92-200, West Daviess received a purchased water adjustment in the amount of 35 cents per 1,000 gallons. Staff has adjusted the sales during the test period to reflect this increase. The total annualized revenue from water sales at the current

rates to be used in this report is $706,886.[1] At the time of its filing, West Daviess had 2,964 customers.

Operating Expenses

For the test year West Daviess reported operating expenses of $655,897. No adjustments to test year expenses were proposed in the application. Staff's recommended adjustments to test year expenses are discussed in the following sections of this report.

During the review Staff was advised that West Daviess and Southeast Daviess County Water District ("Southeast Daviess") share a portion of their operating expenses including salaries and wages, rental of office space, and various other office expenses. These expenses are allocated at a ratio of 45% to West Daviess and 55% to Southeast Daviess for accounting purposes. In order to test the reasonableness of West Daviess' allocation ratios, Staff compared them to allocation factors based on number of customers, gross operating revenues and utility plant in service. Based on this comparison, it was determined that West Daviess' allocations are reasonable and should be used for rate-making purposes.

Salaries and Wages

For the test year West Daviess reported salaries and wages expense of $111,122. The district currently has 12 employees with a total

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[1]

Residential Sales	$536,240
Commercial Sales	76,250
Wholesale Sales	86,690
Fire Protection	698
Irrigation Customers	7,008
	$706,886

annual salary expense of $241,628. Based on the aforementioned allocation, West Daviess' portion of the salary expense would be $108,733.[2] Accordingly, Staff has made an adjustment to decrease test year expenses by $2,389 to reflect salary expense of $108,733.

Payroll Tax Expense

In its test year operations West Daviess reported payroll tax expense of $9,309. Staff recommends an adjustment be made to decrease this expense to allow for FICA and Medicare taxes based on the recommended level of salary expense. Accordingly, payroll tax expense has been decreased by $991, to a level of $8,318[3].

Employee Benefits

West Daviess reported employee insurance expense of $21,026 for the test year. Based on the current monthly premium expense of $4,222.86, West Daviess' portion would be $1,900.29 per month, or $22,803 annually. This results in an increase of $1,777 over the test-year level.

Another component of West Daviess' employee benefits expense is pension expense which was reported at a level of $14,332 for the test year. Based on the current employer contribution rate of 11 percent, Staff has calculated pension expense to be $11,961, a decrease of $2,371 from the test-year level.

Based on the aforementioned adjustments Staff recommends a total decrease to test-year employee benefits expense of $594.

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[2] $241,628 x 45% = $108,733

[3] $108,733 x 7.65% = $8,318

Insurance

For the test year West Daviess reported property and liability insurance expense and worker's compensation insurance expense in the amounts of $3,457 and $3,864, respectively. Based on the premiums in effect for the fiscal year ended June 30, 1993, the actual expenses incurred were in the amounts of $3,541 and $4,323, respectively. Accordingly, Staff has increased test year insurance expense by $543 to the current level of $7,864.

Accounting & Legal

For the test period West Daviess reported accounting and legal expense of $7,310. This amount includes a legal expense of $5,000 for the negotiation of a new long-term Water Purchase Agreement with the City of Owensboro. Since this expense is not likely to recur, Staff is of the opinion that it should be amortized over a period of three years for rate-making purposes. Therefore, Staff has made an adjustment to decrease test year expense by $3,333[4] to a level of $3,977.

Rent Expense

During the test period West Daviess incurred rent expense of $3,303. Of that total $2,102 was for the rental of land where its offices are located. Based on Staff's review the current rent for this land is $605 per month. The portion of this expense to be allocated to West Daviess is $272.25 per month or $3,267 per year. Staff is of the opinion that this adjustment meets the rate-making criteria of being

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[4] $5,000 + 3 = $1,666.67 x 2 = $3,333

known and measurable and therefore, has included an increase to test-year rent expense of $1,165.

Tank Painting

During the test year West Daviess incurred tank painting expenses of $12,750. Of this amount $3,932 was included in test year materials, supplies and repairs expense. The remaining $8,818 was not reflected as an operating expense. After consulting with the Commission's Division of Engineering, Staff recommends that total tank painting expense be amortized over a period of 7 years. Therefore, adjustments have been made to decrease materials, supplies and repairs expense by $3,932 and to include tank painting expense of $1,821[5] in test-year operations.

Rate Case Expense

Based on Staff's review West Daviess has incurred rate case expenses totaling $5,650 with regard to the two filings addressed in this report. The Commission generally allows a three-year amortization of rate case expenses. Therefore, Staff has included an adjustment to reflect annual rate case expense of $1,883.[6]

Operations Summary

Based on the recommendations of Staff, West Daviess' operating statement would appear as set forth in Appendix B to this report.

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[5] $12,750 ÷ 7 = $1,821

[6] $5,650 ÷ 3 = $1,883

C. Revenue Requirements Determination

Staff has calculated West Daviess' average annual debt service to be $103,377. Based on the adjusted test period operations, West Daviess' debt service coverage ("DSC") is .87x.[7] Staff is of the opinion that a DSC of 1.2x is necessary to allow West Daviess to meet its operating expenses and service its debt. Therefore, Staff recommends that West Daviess be allowed to increase its annual revenues by $33,892, calculated as follows:

Adjusted Operating Expenses	$650,070
Average Annual Debt Service	103,377
20 Percent DSC	20,675
Other Expense	2,833
Total Revenue Requirement	$776,955
Less: Normalized Operating Revenues	727,829
Other Income	15,234
Required Revenue Increase	$ 33,892

D. Surcharge

As mentioned previously West Daviess filed a separate application seeking approval of a monthly surcharge of $0.27 per 1,000 gallons for a period of not more than 60 months to fund the expansion of existing system facilities. The proposed improvements, consisting primarily of connector lines within the existing system network and some main line upgrades, are projected to cost $400,000. The project will include approximately 115,100 linear feet of water lines and appurtenances. This project proposal will be the initial implementation of system

[7] $90,160 ÷ $103,377 = .87

upgrades based upon recommendations resulting from a 1993 Preliminary Engineering Study.

Staff is of the opinion that West Daviess should be granted the monthly surcharge requested. If the surcharge is granted, the Commission should direct West Daviess to file semi-annual statements detailing surcharge revenues collected, including any interest earned thereon, and all expenditures made. Failure to file the semi-annual reports should warrant cessation of the surcharge and refunding of the monies previously collected. In addition, West Daviess should be reminded that if construction has not begun within five years after implementation of the surcharge, all funds must be returned to the ratepayers, together with interest and earnings.

Staff is of the opinion that the surcharge constitutes contributions, and should be accounted for in the manner prescribed by the Uniform System of Accounts for Class A and B Water Districts and Associations. The monthly billing should be debited to customer accounts receivable and credited to the contributions account. When the amount is collected, special funds would be debited and customer accounts receivable credited.

Consistent with KRS 74.395, West Daviess should place all funds collected in a reserve trust account and such funds should be invested in securities issued or guaranteed by the United States government until needed.

Staff is of the opinion that the requested surcharge is reasonable. Accordingly, Staff recommends that West Daviess be allowed to collect

surcharge revenues, not to exceed $400,000, for the purposes discussed in this report.

It should be noted that in Case No. 89-086[6] West Daviess was granted a surcharge of $0.29 per 1,000 gallons for a period not to exceed 60 months. During the review Staff was advised that sufficient revenues have been collected and that the surcharge would no longer be billed subsequent to the June 1993 billing.

E. Rate Design

In its application, West Daviess did not propose a change to its rate design, but after a review of its operating revenues it became apparent that the current rate to its wholesale customers was lower than the cost to provide the service. Therefore, the increase it sought was applied to the wholesale rate.

In support of the increase to the wholesale rate, West Daviess filed as Exhibit B a "Wholesale Customer Rate Review." After reviewing the present rate structure and the "Wholesale Customers Rate Review" the Staff is of the opinion that the wholesale rates are deficient and should be adjusted. Therefore, any increase granted in this case has been added to the wholesale rates. The rates in Appendix A attached hereto will produce $740,778.

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[6] The Application of West Daviess County Water District for Approval of a Surcharge to Fund a Water Storage Standpipe.

F. Signatures

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APPENDIX A
TO STAFF REPORT CASE NOS. 93-103 & 93-115

The Staff recommends the following rate be prescribed for customers of West Daviess County Water District.

Rate Category	
Non-Users	$4.85
First 2,000 gallons	6.40
Next 8,000 gallons	2.40
Next 10,000 gallons	2.00
Next 20,000 gallons	1.85
Over 40,000 gallons	1.80
To Other Water Districts (per 1,000 gallons)	$1.83

APPENDIX B
TO STAFF REPORT CASE NOS. 93-103 & 93-115

West Daviess County Water District
Statement of Adjusted Operations
Test Year Ended 12/31/92

	Test Year	Recommended Adjustments	Test Year Adjusted
Revenues from Water Sales	$664,038	$42,848	$706,886
Other Operating Revenues	20,943		20,943
Total Operating Revenues	$684,981	$42,848	$727,829
Operating Expenses			
Purchased Water	330,467		330,467
Salaries & Wages	111,122	(2,389)	108,733
Payroll Taxes	9,309	(991)	8,318
Commissioner Fees	$7,200		7,200
Employee Benefits	35,549	(594)	34,955
Materials, Supplies & Repairs	22,603	(3,932)	18,671
Utilities	13,972		13,972
Transportation	10,134		10,134
Office supplies & Expense	12,236		12,236
Insurance	7,321	543	7,864
Accounting & Legal	7,310	(3,333)	3,977
Rent	3,303	1,165	4,468
Bad Debts	2,329		2,329
Engineering	170		170
Phone & Communication	2,812		2,812
Education & Seminars	1,598		1,598
Water Tests	2,608		2,608
Uniforms	1,090		1,090
PSC Assessment	870		870
Advertising	56		56
Miscellaneous	2,792		2,792
Depreciation	71,046		71,046
Tank Painting	0	1,821	1,821
Rate Case Expense	0	1,883	1,883
Total Operating Expenses	$655,897	($5,827)	$650,070
Operating Income	$29,084	$48,675	$77,759
Interest Income	15,234		15,234
Amortization of Bond Discounts	2,833		2,833
NET INCOME/(LOSS)	$41,485	$48,675	$90,160