

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DOE VALLEY)
ASSOCIATION, INC. FOR AN ADJUSTMENT) CASE NO.
OF RATES PURSUANT TO THE ALTERNATIVE) 93-263
RATE FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On July 26, 1993, Doe Valley Utilities, Inc. ("Doe Valley") filed its application for Commission approval of proposed increased water and sewer rates. Commission Staff issued its Staff Report containing Staff's findings and recommendations on October 7, 1993. Doe Valley responded on October 20, 1993, requesting the Staff reconsider certain adjustments. An informal conference was held between Doe Valley representatives, several ratepayers, and Commission Staff on November 16, 1993. As a result of that conference, Commission Staff has prepared the attached Amended Staff Report. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Amended Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 9th day of December, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DOE VALLEY UTILITIES,)
INC. FOR AN ADJUSTMENT OF WATER AND SEWER) CASE NO. 93-263
RATES PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

AMENDED STAFF REPORT

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AMENDED STAFF REPORT
ON
DOE VALLEY UTILITIES, INC.
CASE NO. 93-263

A. Preface

On July 26, 1993, Doe Valley Utilities, Inc. ("Doe Valley") filed its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water and sewer rates by 45 and 50 percent, respectively.

Staff issued its report by Order dated October 7, 1993. In that report, Staff recommended that Doe Valley's Water and Sewer Divisions be allowed to increase their normalized operating revenues by \$9,778 and \$3,181 or 17.58 and 12.78 percent, respectively. Doe Valley and the intervenors in this case were instructed to file their comments to the Staff Report within 15 days.

The Commission received Doe Valley's comments by letter on October 20, 1993. In those comments Doe Valley objected to Staff's adjustments to Purchased Water, Depreciation and Other Operating Expense. To discuss Doe Valley's objections, an informal conference was held on November 16, 1993. Both Doe Valley and all intervenors were notified of the conference by Order dated November 8, 1993. Pursuant to the information submitted subsequent to Staff's field review, Staff adjusts its original report and recommendations as discussed below.

B: Analysis of Operating Revenues and Expenses

Operating Revenue

The initial Staff Report listed normalized test-year operating revenue for the Water and Sewer Divisions of \$55,629 and \$24,888, respectively. Staff made no amendments to these figures.

Operating Expenses

Purchased Water

In its original report, Staff decreased the Water Division's test-year purchased water expense by \$3,998 so that the water utility's pro forma purchased water would represent the same rate as paid by the Olin Corporation. Since that Staff Report was issued, Doe Valley Lake has been sold by the Federal Deposit Insurance Corporation ("FDIC") to Mr. Edward Keim, an outside party. Along with the purchase of Doe Valley, a contract was negotiated on March 1, 1993 between the FDIC and Doe Valley whereby Doe Valley agreed to pay Doe Valley Lake \$.20 per thousand gallons for raw water. Although this type of contract was requested by Staff in its confirmation letter dated August 12, 1993, it was never brought to Staff's direct attention until the response to the Staff Report was filed wherein Doe Valley attached a copy of the contract. After considering the evidence filed subsequent to the Staff Report, it is Staff's position that the original recommendation to decrease the test-year purchased water by \$3,998 be revised and that Doe Valley be allowed to recover 100 percent of the test-year purchased water expense.

Depreciation

In its original report, Staff reduced test-year depreciation expense for the Water and Sewer Divisions by \$7,242 and \$11,531, respectively, in order to reflect a 40-year depreciable life for the pre-1989 utility plant in service. Doe Valley argues that the 20-year depreciable life used by them is accepted by the IRS for tax purposes. Staff does not dispute this fact. However, this Commission allows cost recovery of utility plant in service over the estimated useful life of that plant. In this case, Staff has chosen a somewhat conservative life of 40 years. Staff is therefore not compelled to change its original recommendation on this matter.

Operating Expenses

Doe Valley is claiming that Staff is not allowing it the opportunity to recover the appropriate level of increased operating costs. Staff informed Doe Valley at its field review that an adjustment to test-year operating expenses must be known and measurable before it can be considered an appropriate pro forma adjustment by the Commission or its Staff. Doe Valley has not provided Staff with the appropriate supporting documentation of its proposed increases in operating cost. Therefore, Staff is still of the opinion that these adjustments should be disallowed for rate-making purposes.

C. Revenue Requirements Determination

By eliminating Staff's original adjustment to purchased water expense, Staff has increased its revenue requirement recommendation to

\$127,354 thus requiring a revenue increase of \$14,322 or 25.74 percent for the Water Division.

D. Rate Design

Water Division

The initial Staff Report listed the required revenue from rates as \$65,407. Staff amended this amount to \$69,951 and increased the recommended rates accordingly. This amount plus availability fees of \$57,403 meets the total revenue requirement of \$127,354. Doe Valley did not request any changes in rate design and Staff agrees that the current rate design should not be altered. Therefore, Staff recommends the rates in Appendix A be approved for water service.

Sewer Division

The initial Staff Report listed the revenue requirement from rates as \$28,069. Staff made no amendments to this figure. Staff still recommends that the current rate design be altered to provide a flat-rate monthly charge for sewer service. Given that Staff made no amendments to the revenue requirement, the recommended rates and rate design in the initial staff report remain unadjusted and are listed in Appendix B.

E. Signatures

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Requirements Branch
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APPENDIX A
TO STAFF REPORT CASE NO. 93-263

The Staff recommends the following rate be prescribed for customers of Doe Valley Water Division.

First 3,000 gallons	\$9.90 Minimum Bill
Next 4,000 gallons	2.70 per 1,000 gallons
Over 7,000 gallons	2.50 per 1,000 gallons

APPENDIX B
TO STAFF REPORT CASE NO. 93-263

The Staff recommends the following rate be prescribed for customers of Doe Valley Sewer Division.

Schedule of Rates

Monthly Charge

\$6.65