

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HIMA-SIBERT WATER)
DISTRICT FOR AN ADJUSTMENT OF RATES)
PURSUANT TO THE ALTERNATIVE RATE) CASE NO. 93-327
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On September 22, 1993, Hima-Sibert Water District ("Hima-Sibert") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Hima-Sibert's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the 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 no more than 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, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 4th day of November, 1993.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

COMMONWEALTH OF KENTUCKY
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DISTRICT FOR A RATE ADJUSTMENT)	
PURSUANT TO THE ALTERNATIVE RATE)	CASE NO. 93-327
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STAFF REPORT

Prepared By: Carl Salyer Combs
Public Utility Financial
Analyst, Senior
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Financial Analysis Division

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Analyst
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STAFF REPORT
ON
HIMA-SIBERT WATER DISTRICT
CASE NO. 93-327

A. Preface

On September 22, 1993, Hima-Sibert Water District ("Hima-Sibert") filed an application with the Commission seeking to increase its water rates pursuant to the Alternative Rate Filing Procedure for Small Utilities. The proposed rates would generate approximately \$32,145 annually in additional revenues, an increase of 26.2 percent over normalized test-year revenues of \$122,559.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Hima-Sibert's operations for the test period, calendar year 1992. Since Hima-Sibert requested and received Staff assistance in preparing this application, the field review was done prior to the filing of the application. Carl Salyer Combs of the Commission's Division of Financial Analysis completed the review at Hima-Sibert's office in Hima, Kentucky, on August 6, 1993. Mr. Combs is responsible for this Staff Report except for the sections on operating revenues and rate design which were prepared by Brent Kirtley of the Commission's Division of Rates and Research.

During the course of the review, Hima-Sibert was advised that all proposed adjustments to test-year expenses must be supported by some form of documentation, such as an invoice, or that all such adjustments must be known and measurable. Based upon the findings

of this report, Staff recommends that Hima-Sibert be authorized to increase its annual operating revenue by \$30,745.

Scope

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

B. Analysis of Operating Revenues and Expenses

Operating Revenues

Hima-Sibert reported test-period revenue from rates of \$123,267 in its 1992 Annual Report. The results of the billing analysis conducted by staff indicate that \$708 should be deducted from reported revenues. Therefore, for the purposes of this report, normalized test-year revenue shall be considered to be \$122,559.

Operating Expenses

Hima-Sibert reported test-period operating expenses of \$133,276 which it proposed to increase by \$1,400. After reviewing Hima-Sibert's records, Staff found test-year operating expenses to be reasonable. Staff's adjustment to test-period operations is discussed in the following section:

Salaries and Wages

Hima-Sibert proposed to increase reported test-year salaries and wages expense of \$26,640 by \$1,400. The proposed adjustment

represents a 10 percent increase in the manager's annual salary of \$14,000 which, according to Hima-Sibert, has been at that level since June of 1986.

At the time of the field review, Hima-Sibert was informed that a copy of the minutes of the water district commissioner's meeting reflecting approval of the proposed increase must be filed. Staff reminded Hima-Sibert twice by telephone of the need to have the proposed adjustment supported by such documentation. Since Hima-Sibert has not provided support for its proposed increase, Staff recommends that the proposed adjustment be denied and that annual salaries and wages expense of \$26,640 be included for rate-making purposes.

Operations Summary

Based on the recommendations of Staff contained in this report, Hima-Sibert's operating statement would appear as follows:

	<u>Test Period</u> <u>Application</u>	<u>Recommended</u> <u>Adjustments</u>	<u>Test Year</u> <u>Adjusted</u>
OPERATING REVENUES:	\$ 123,267	\$ <708>	\$ 122,559
OPERATING EXPENSES:			
Salaries and Wages	\$ 26,640	\$ -0-	\$ 26,640
Employee Pensions and Benefits	1,248	-0-	1,248
Purchased Water	53,890	-0-	53,890
Materials & Supplies	15,433	-0-	15,433
Contractual Services	8,669	-0-	8,669
Rents	3,000	-0-	3,000
Transportation	1,715	-0-	1,715
Insurance	8,419	-0-	8,419
Regulatory Commission	163	-0-	163
Miscellaneous	889	-0-	889
Depreciation	8,022	-0-	8,022

Taxes Other Than Income	5,188	-0-	5,188
Total Operating Exp.	\$ 133,276	\$ -0-	\$ 133,276
Operating Income	\$ <10,009>	\$ <708>	\$ <10,717>
Other Income	892	-0-	892
Income Available for Debt Service	\$ <9,117>	\$ <708>	\$ <9,825>

C. Revenue Requirements Determination

Staff has calculated Hima-Sibert's annual debt service to be \$17,433.¹ Hima-Sibert's adjusted operations reflect \$<9,825> in income available for debt service which results in a debt service coverage ("DSC") of <.56X>. Staff is of the opinion that Hima-Sibert's current rates are inadequate and will not cover payment of operating expenses and debt service requirements. In cases involving water districts, the Commission's normal practice is to allow a 1.2X DSC which provides a 20 percent margin above annual principal and interest requirements. In this instance, Staff is of the opinion that Hima-Sibert should be granted an increase in revenues sufficient to produce a DSC ratio of 1.2X. Therefore, Staff recommends an increase in annual revenues of \$30,745 calculated as follows:

¹ 3-year avg. of interest payments due (EDA Bonds)	\$ 1,259
3-year avg. of principal payments due (EDA Bonds)	1,500
3-year avg. of interest payments due (FmHA Bonds)	12,307
3-year avg. of principal payments due (FmHA Bonds)	2,367
Total of 3-year avg. of P&I payments due	<u>\$ 17,433</u>

1.2X DSC	\$ 20,920
Adjusted Operating Expense	133,276
Total Revenue Requirement	<u>\$ 154,196</u>
LESS:	
Adjusted Test-Year Revenues	122,559
Other Income	892
Increase Required	<u>\$ 30,745</u>

D. Rate Design

In its application, Hima-Sibert filed a schedule of present and proposed rates that did not include any changes in rate design. Staff agrees that the current rate structure should not be altered. The recommended rates will generate and satisfy the revenue requirement from rates of \$153,304. Therefore, Staff recommends that the rates in Appendix A be approved for water service.

E. Signatures

Carl Salyer Combs
Prepared By: Carl Salyer Combs
Public Utility Financial
Analyst, Senior
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

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

APPENDIX A
TO STAFF REPORT CASE NO. 93-327

The Staff recommends the following rate be prescribed for customers of the Hima-Sibert Water District.

Schedule of Rates

First 2,000 gallons	\$12.75 Minimum Bill
Next 8,000 gallons	4.35 per 1,000 gallons
Next 10,000 gallons	4.00 per 1,000 gallons
Next 20,000 gallons	3.70 per 1,000 gallons
Over 40,000 gallons	3.35 per 1,000 gallons