

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH MANCHESTER WATER)
ASSOCIATION FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY, AND) CASE NO. 93-396
FOR ORDERS APPROVING AN ADJUSTMENT IN)
WATER RATES AND CONSTRUCTION FINANCING)

O R D E R

On November 18, 1993, North Manchester Water Association ("North Manchester") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of North Manchester's operations, has prepared the attached Amended 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 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 31st day of March, 1994.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION

For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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THE APPLICATION OF NORTH MANCHESTER WATER)
ASSOCIATION FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY, AND FOR ORDERS) CASE NO. 93-396
APPROVING AN ADJUSTMENT IN WATER RATES)
AND CONSTRUCTION FINANCING)

AMENDED STAFF REPORT

Prepared By: Karen Harrod, CPA
Public Utility Financial
Analyst, Chief
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Public Utility Rate Analyst
Communications, Water and
Sewer Rate Design Branch
Division of Rates and Research

AMENDED STAFF REPORT

ON

NORTH MANCHESTER WATER ASSOCIATION

CASE NO. 93-396

A. Preface

On October 21, 1993, North Manchester Water Association ("North Manchester") submitted an application seeking approval of its proposed water system improvements and line extensions, financing and an increase in water rates. The application was considered filed on November 18, 1993, when all deficiencies were cured. The proposed rates would generate approximately \$588,552 in annual revenues, reflecting an increase of 66 percent over normalized test-year revenues from water sales of \$354,322.

On November 18-19, 1993, the Commission Staff ("Staff") conducted a field review of North Manchester's test-period financial records. On February 17, 1994, Staff issued its initial report recommending that North Manchester's annual operating revenues be increased by \$204,373.

On March 4, 1994, North Manchester filed comments to the Staff Report wherein it requested Staff re-evaluate its findings based on a revised number of customers to be added to the system as a result of the construction proposed in this filing. North Manchester originally proposed that 384 new customers would be added. However, as of March 1, 1994, 555 Water User Agreements had been received by the district.

Based on the information provided by North Manchester subsequent to the issuance of the Staff Report, Staff amends its

original report as set forth in the following paragraphs.

A. Analysis of Operating Revenues and Expenses

Operating Revenues

Staff initially considered total normalized operating revenue from rates to be \$354,322, provided that 384 new customers were added from line extensions. Based on a revised new customer level from line extensions of 555, an additional \$47,472 has been included in the total, calculated as follows:

1992 Revenue from Rates	\$ 236,464
Billing Analysis Adjustment	2,039
New Customers added in 1993	10,238
555 New Customers from Line Extensions	<u>153,053</u>
Total Normalized Revenue from Rates	<u>\$ 401,794</u>

For the purposes of this amended report, total normalized operating revenue from rates shall be considered to be \$401,794.

Purchased Water Expense

In its report Staff recommended an increase in purchased water expense of \$49,223. This included a provision for the estimated usage of proposed new customers of 30,303,648 gallons. Based on the revised proposed new customer level of 555, Staff recommends an additional increase to this expense of \$24,234 to \$73,457, calculated as follows:

Normalized test year usage	70,608,772 gallons
Usage for 1993 new customers	3,002,760 gallons
Usage-555 proposed new customers	<u>44,036,508 gallons</u>
Total normalized usage	117,648,040 gallons
Adjustment for 15% line loss	<u>+ .85</u>
Recommended usage	138,409,459 gallons
Current purchased water rate (\$1.50 per 1,000 gallons)	<u>x .0015</u>
Recommended expense	\$ 207,614
Less: Test year expense	<u>134,157</u>
Recommended Increase	<u>\$ 73,457</u>

Purchased Power Expense

Staff initially recommended an increase to purchased power expense of \$4,378, based on the percentage increase of water usage. In lieu of the aforementioned adjustment, Staff revises its recommended increase to \$6,183.¹

Contractual Services Expense

In its report Staff recommended an adjustment to increase contractual services expense by a net amount of \$3,790. This included an increase of \$4,800 for billing and other services provided by North Manchester's CPA, Mr. Charles Stivers. Based on the revised proforma customer level of 1,404, Staff amends its

¹ Recommended normalized usage	117,648,040 gallons
Normalized test year usage	<u>70,608,772 gallons</u>
Increase in normalized usage	<u>47,039,268 gallons</u>
Percentage increase (47,039,268 ÷ 70,608,772)	66.62 percent
Test year purchased power expense	\$ 9,281
Percentage increase	<u>x 66.62</u>
Recommended increase	<u>\$ 6,183</u>

recommended increase to \$6,336.² Combined with the \$1,010 decrease to this account which was discussed in the initial Staff Report, this results in a net increase to contractual services expense of \$5,326.

Operations Summary

Based on the recommendations of Staff contained in this report, North Manchester's operating statement would appear as set forth in Appendix B to this report.

B. Revenue Requirements Determination

Based on adjusted test year operations and the proposed debt, Staff recommends that North Manchester be allowed to increase its annual revenues by \$184,476, calculated as follows:

Adjusted Operating Expenses	\$433,036
Average Annual Debt Service	150,726
10 Percent DSC	15,073
Other Expense	<u>526</u>
Total Revenue Requirement	\$599,361
Less: Metered Water Sales	\$401,794
Other Water Revenues	12,442
Other Income	<u>649</u>
Required Revenue Increase	<u>\$184,476</u>

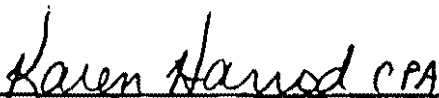
C. Rate Design


Staff affirms its recommendation in the initial report regarding the change in rate design. The rates recommended herein will generate the required operating revenue from rates of

² 700 bills @ \$1.00	\$ 700
704 bills @ \$.75	528
Total monthly expense	\$ 1,228
	x 12
Recommended annual expense	\$ 14,736
Less test year expense	8,400
Recommended increase	<u>\$ 6,336</u>

\$586,270. Therefore, Staff recommends the rates in Appendix A be approved for water service.

D. Signatures


Prepared By: Karen Harrod, CPA
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis


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Communications, Water and
Sewer Rate Design Branch
Division of Rates and Research

APPENDIX A
TO STAFF REPORT CASE NO. 93-396

The Staff recommends the following rate be prescribed for customers of North Manchester Water Association.

5/8" x 3/4" Meter

First 2,000 gallons	\$12.80 Minimum Bill
Above 2,000 gallons	4.25 per 1,000 gallons

1" Meter

First 5,000 gallons	\$25.55 Minimum Bill
Above 5,000 gallons	4.25 per 1,000 gallons

2" Meter

First 15,000 gallons	\$68.05 Minimum Bill
Above 15,000 gallons	4.25 per 1,000 gallons

APPENDIX B
TO STAFF REPORT CASE NO. 93-396

North Manchester Water Association
Statement of Adjusted Operations
Test Year Ended 12/31/92

	<u>Test Year per Annual Report</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues:			
Metered Water Sales	\$236,464	\$165,330	\$401,794
Other Water Revenues	<u>12,442</u>	<u> </u>	<u>12,442</u>
Total Operating Revenues	\$248,906	\$165,330	\$414,236
Operating Expenses:			
Salaries & Wages	\$ 23,620	\$ 30,460	\$ 54,080
Purchased Water	134,157	73,457	207,614
Purchased Power	9,281	6,183	15,464
Chemicals	290		290
Materials & Supplies	18,251	(730)	17,521
Contractual Services	15,856	5,326	21,182
Rents	600	1,500	2,100
Transportation Expense	2,273		2,273
Insurance	7,756		7,756
Reg. Commission Expense	500		500
Miscellaneous	<u>5,076</u>	<u> </u>	<u>5,076</u>
Total Operating Expenses	\$217,660	\$116,196	\$333,856
Depreciation Expense	24,642	70,052	94,694
Taxes other than Income	<u>2,156</u>	<u>2,330</u>	<u>4,486</u>
Utility Operating Expenses	<u>\$244,458</u>	<u>\$188,578</u>	<u>\$433,036</u>
Utility Operating Income	\$ 4,448	(\$ 23,248)	(\$ 18,800)
Interest Income	649		649
Interest Expense	<u>526</u>	<u> </u>	<u>526</u>
Net Income/(Loss)	<u>\$ 4,571</u>	<u>(\$ 23,248)</u>	<u>(\$ 18,677)</u>