

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BRACKEN COUNTY WATER)
DISTRICT #1 FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO CONSTRUCT) CASE NO. 94-211
AND FINANCE A WATER STORAGE TANK)

O R D E R

On October 20, 1994, Bracken County Water District #1 ("Bracken County") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Bracken County'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 10th day of November, 1994.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BRACKEN COUNTY WATER)
DISTRICT #1 FOR A CERTIFICATION OF)
PUBLIC CONVENIENCE AND NECESSITY TO) CASE NO. 94-211
CONSTRUCT AND FINANCE A WATER STORAGE)
TANK AND INCREASE ITS RATES)

STAFF REPORT

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STAFF REPORT

ON

BRACKEN COUNT WATER DISTRICT NO. 1

CASE NO. 94-211

A. Preface

On May 20, 1994, Bracken County Water District No. 1 ("Bracken County") submitted an application to the Kentucky Public Service Commission ("Commission") seeking approval of its proposed construction of a 300,000 gallon water storage tank, accessories, site improvement, and waterline and access road. In response to Commission inquiries, Bracken County subsequently requested approval of associated proposed financing and water rate increases. In its application Bracken County requested rates that would generate approximately \$350,217 in annual revenues. This represents an increase of \$80,037, or 30 percent, over normalized revenues from water sales of \$270,180. The application was filed reflecting the operating results for the calendar year ended July 31, 1994.

In order to evaluate the requested increase, Commission Staff ("Staff") chose to perform a limited financial review of Bracken County's test year operations. Jack Scott Lawless of the Commission's Division of Financial Analysis began the review on October 18, 1994 at Bracken County's office in Brooksville, Kentucky. Carryn Lee and Sam Reid of the Commission's Division of Rates and Research performed a review of Bracken County's reported revenues and proposed rate design at the offices of the Commission.

The findings of Staff's review have been reduced to writing in this report. Ms. Lee and Mr. Reid are responsible for the sections related

to operating revenues and rate design. The remaining sections of this report were prepared by Mr. Lawless. Based upon the findings of this report, Staff recommends that Bracken County be allowed to increase its annual operating revenues by \$43,552, an increase of 16 percent over normalized revenues from water sales.

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, Bracken County was advised that all proposed 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

Bracken County's net operating income statement for the test year showed test-year revenues from water sales in the amount of \$265,777. The billing analysis filed by Bracken County produced revenue from water sales in the amount of \$270,180. Bracken County adjusted its income statement to reflect the operating revenue shown in the billing analysis. Therefore, total test-year operating revenue from water sales shall be considered to be \$270,180.

Operating Expenses

In its application Bracken County reported test year operating expenses of \$267,430 which it proposed to decrease by \$7,769. Staff has calculated pro forma adjustments that decrease operating expenses by \$41,025. Staff's adjustments are shown on Appendix A attached to this report. Bracken County's and Staff's pro forma adjustments are discussed in the following sections of this report.

Capitalized Expenditures

Bracken County proposed to decrease test year operating expenses by \$14,786 which was paid for services that should have been capitalized. Staff agrees with this adjustment and recommends that it be accepted by the Commission.

During its review, Staff discovered additional expenses in the amount of \$34,964 which also should have been capitalized. Therefore, Staff proposes that these costs be eliminated from test year expenses and that test year depreciation expense be adjusted to allow proper cost recovery. The following table summarizes these adjustments by account:

<u>Description of Item</u>	<u>Amount</u>	<u>Estimated Life</u>	<u>Annual Recovery</u>
Account: Materials and Supplies			
Water "Salesman" (Drop)	\$ 1,115	40	\$ 28
Flush Hydrants	1,546	40	38
Valve Box Locater	499	5	100
Account: Office Supplies			
Computer Hardware	2,748	5	550
Computer Software	8,344	5	1,669
Account: Miscellaneous			
Portable Radios	2,852	5	570
Engine for S-10	2,492	5	498
Fees paid for project ¹	<u>30,156</u>		
Total	<u>\$49,752</u>		<u>\$3,453</u>

Utility Taxes

Bracken County reported test year utility tax expense of \$4,974. Bracken County is acting as an agent of the taxing authorities to collect and remit this tax. Accordingly, these monies should not be reported by Bracken County as an expense and therefore have been eliminated from test year operations.

Engineering Fees

During the test year Bracken County paid Blevins Engineering \$4,841 for computer modeling of its water system. They have proposed to amortize this amount over a three year period by decreasing test year

¹ The fees paid during the test year associated with the tank project are included in the depreciation adjustment calculated on the total project cost.

operating expenses by \$3,227². Staff agrees with this adjustment and recommends that it be accepted by the Commission.

Depreciation

Bracken County reported test year depreciation expense of \$59,100 which it proposed to increase \$10,245 to reflect depreciation on the proposed project. Staff agrees with this amount and has added it to the previous depreciation adjustment bringing the net adjustment to \$13,698³.

Operations Summary

Based on the recommendations of Staff, Bracken County's operating statement would appear as set forth in Appendix A of this report.

D. Revenue Requirements Determination

The Commission normally allows a 20 percent debt service coverage (DSC) on outstanding long-term debt. Using this methodology Staff has calculated a debt service requirement for Bracken County of \$110,836⁴

²	Test year	\$ 4,841
	Divide by: 3 years	<u>3</u>
	Annual Recovery	1,614
	Less: Test year	<u>(4,841)</u>
	Adjustment	<u>\$ (3,227)</u>
³	Depreciation on test year expenses which were capitalized	\$ 3,453
	Depreciation on new project	<u>10,245</u>
	Net Adjustment	<u>\$ 13,698</u>
⁴	Existing KIA: Three year average	\$ 54,238
	Proposed annual payment	<u>38,125</u>
	Total Debt Service	92,363
	Times: Debt Service Coverage	<u>1.20%</u>

which requires an increase in normalized revenue from water sales of \$43,552, as shown below.

Debt Service Requirement	\$ 110,836
Add: Proforma Operating Expenses	223,175
Less: Interest Income	(16,686)
Other Operating Income	(3,593)
Normalized Water Sales	<u>(270,180)</u>
Required Revenue Increase	<u>\$ 43,552</u>

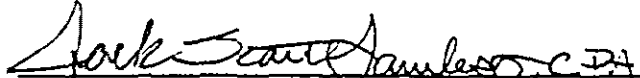
Staff's findings in this report are contingent upon the approval of the requested construction and financing. In the event approval for any portion of the construction or financing is not obtained, the recommendations contained herein would change accordingly.

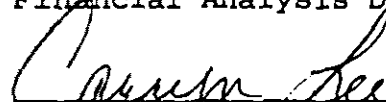
Rate Design

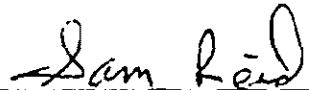
Bracken County's application did not include any changes in rate design. An increase of 29.6 percent was proposed for each rate increment. Staff conducted a limited cost-of-service study in order to allocate expenses in a fair manner to each customer classification. Staff agrees that the current rate structure should not be altered. However, based on the rate analysis, Staff determined that the expenses should be reallocated among the customer classifications in order to reduce subsidy between the classes. The rates recommended by Staff will generate annual revenues of \$313,733, satisfying the operating revenue from rates requirement. Therefore, Staff recommends the rates in Appendix B be approved.

Debt Service Requirement	<u>\$ 110,836</u>
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E. Signatures


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APPENDIX A
TO STAFF REPORT CASE 94-211

Bracken County Water District No. 1
Statement of Adjusted Operations

	Test Year	Adj.	Pro forma Present Rates
Operating Revenue			
Water Sales	265,777	4,403	270,180
Other Operating Revenue	3,593		3,593
Total Operating Revenue	269,370	4,403	273,773
Operating Expenses			
Operation and Maintenance			
Materials and Supplies	38,663	(3,160)	35,503
Maintenance of Pumping	3,123		3,123
Purchased Power	25,855		25,855
Chemicals	5,742		5,742
Maintenance of Mains	2,821		2,821
Meter Reading	25,475		25,475
Customer Accounts	12,751		12,751
Office Supplies	22,190	(11,092)	11,098
Miscellaneous	68,581	(4,974)	
		(35,500)	
		(3,327)	24,880
Total O&M	205,201	(57,953)	147,248
Depreciation	59,100	13,698	72,798
Taxes Other Than Income	3,129		3,129
Total Operating Expenses	267,430	(44,255)	223,175
Net Operating Income	1,940	48,658	50,598
Plus: Interest Income	16,686		16,686
Income Available to Service Debt	18,626	48,658	67,284

APPENDIX B
TO STAFF REPORT CASE NO. 94-211

The Staff recommends the following rates be prescribed for customers in the area served by Bracken County Water District.

RESIDENTIAL, COMMERCIAL AND INDUSTRIAL

GALLONAGE BLOCK

First 2,000 Gallons	\$10.19 Minimum Bill
Over 2,000 Gallons	2.00 per 1,000 Gallons

WHOLESALE

First 50,000 Gallons	\$72.50 Minimum Bill
Over 50,000 Gallons	1.45 per 1,000 Gallons

BULK SALES

LOADING STATION	\$ 2.25 per 1,000 Gallons
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