

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE MALLARD POINT)
DISPOSAL SYSTEM, INC. FOR AN ADJUSTMENT)
OF RATES PURSUANT TO THE ALTERNATIVE) CASE NO. 94-266
RATE FILING PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

On July 13, 1994, Mallard Point Disposal System, Inc. ("Mallard Point") filed its application for Commission approval of proposed increased sewer rates. Commission Staff issued its Staff Report containing Staff's findings and recommendations on November 16, 1994. Mallard Point responded requesting the Staff reconsider certain adjustments. An informal conference was held between Mallard Point representatives, the Attorney General's office, and Commission Staff on December 9, 1994. 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 22nd day of December, 1994.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MALLARD)
POINT DISPOSAL SYSTEM, INC.)
FOR A RATE ADJUSTMENT PURSUANT) CASE NO. 94-266
TO THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

AMENDED

STAFF REPORT

Prepared By: Mark C. Frost
Public Utility Financial
Analyst, Chief
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Requirements Branch
Financial Analysis Division

Prepared By: John Geoghegan
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AMENDED STAFF REPORT

ON

MALLARD POINT DISPOSAL SYSTEM, INC.

CASE NO. 94-266

A. Preface

On July 13, 1994, the Mallard Point Disposal System, Inc. ("Mallard Point") filed its application seeking to increase its rates pursuant to the Alternative Rate Filing Procedure for Small Utilities. Mallard Point's proposed rates would produce an increase in its annual revenues of \$61,599, an increase of 109.68 percent over test-period normalized revenues from rates of \$56,160.

The Commission Staff ("Staff") performed a limited financial review of Mallard Point's test period operations on August 23, 1994 and September 2, 1994. On November 16, 1994, Staff issued its initial report recommending that Mallard Point be allowed to increase its normalized revenues from rates by \$19,733.

Mallard Point requested that an informal conference be scheduled to discuss Staff's interest expense recommendation. An informal conference was held at the Commission's offices on December 9, 1994.

At the informal conference Mallard Point explained that the Division of Water ("DoW") had modified its proposed plant expansion to include a 7,000 gallon sludge holding tank. On December 13, 1994, Mallard Point filed the sludge holding tank cost information that was requested at the informal conference.

B. Amendments to Staff Recommendations

Depreciation: Mallard Point proposed to increase its test period depreciation expense of \$11,500 to \$21,650, an adjustment of \$10,150. Mallard Point has requested a Certificate of Convenience and Necessity to increase its treatment plant capacity.¹ This adjustment reflects depreciating Mallard Point's proposed plant expansion.

The depreciation schedule shows that Mallard Point uses an accelerated depreciation method and a composite depreciation life of 10 years. Staff used straight line depreciation, a 20 year composite depreciation life, and the plant expansion cost of \$191,028, to arrive at its recommended depreciation expense of \$15,940,² an increase of \$4,440 above the actual test period level.

As previously mentioned, DoW has required Mallard Point to include a 7,000 gallon sludge holding tank in its proposed plant expansion. An adjustment to reflect the additional sludge holding tank would meet the rate-making criteria of known and measurable, and Staff's recommendation should be revised to reflect that cost.

Mallard Point provided letters from Purestream, the tank manufacturer, and Shirley & Jarboe Construction, Inc., the company that will install the tank, showing that the additional sludge

¹ Case No. 94-267, The Petition of Mallard Point Disposal System, Inc. for Approval of a Certificate of Convenience and Necessity to Construct Sanitary Sewer Facilities and for Approval of Financing.

² \$127,775 Plant Investment + 20 Years = \$6,389.

hauling tank will cost \$20,296.³ Purestream also stated that due to the nature of the digester operation, the tank and piping would have a 10 to 12 year design life.

Upon consulting with Ghasem Pour-Ghasemi of the Commission's Engineering Division, Staff agreed that the proposed cost of the sludge holding tank is reasonable. However, Staff is of the opinion that 20 years is a more appropriate depreciation life for this piece of equipment. Staff's recommended depreciation expense of \$15,940 has been increased by \$1,014⁴ to reflect depreciating the sludge holding tank over a 20 year life.

Interest Expense: Mallard Point proposed a pro forma level of interest expense of \$15,934, an increase of \$1,500 above its test period level of \$14,434. Mallard Point has requested Commission approval of its proposed plan to finance its plant expansion, which is the basis for this adjustment.

Mallard Point's application was unclear as to what costs were being financed by the December 31, 1993, First National Bank & Trust note ("First National note") in the amount of \$200,000. Also, the proposed package treatment plant was purchased with a lease/purchase agreement that was executed without Commission approval, a violation of KRS 278.300(1).

³	7,000 Gallons Sludge Tank	\$ 11,506
	Sales Tax	690
	Installation Cost	<u>+ 8,100</u>
	Total Cost	<u>\$ 20,296</u>

⁴ \$20,296 + 20 years = \$1,014.

For these reasons, Staff recommended that Mallard Point be allowed to recover interest expense of \$7,995 to reflect financing the treatment plant installation costs of \$80,000,⁵ and the interest expense approved in Case No. 9517.⁶

Mallard Point has accepted Staff's recommended interest expense, but requested it be revised to include the cost to finance the sludge holding tank. Staff is of the opinion that Mallard Point's requested revision is reasonable and that it should be included in test period operations.

Including the cost of the sludge holding tank in the First National note results in an increase to interest expense of \$1,541, for a revised level of interest expense of \$9,536.

Operations Summary

Based on the revised Staff recommendation contained in this report, Mallard Point's operating statement would appear as set forth in Appendix B to this report.

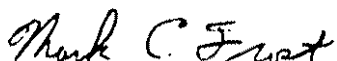
⁵	Installation Cost	\$ 72,000
	Engineering Fee	<u>+ 8,000</u>
	Total Installation Cost	<u>\$ 80,000</u>


⁶ Case No. 9517, The Application of Mallard Point Disposal Systems, Inc., for an Order Pursuant to Chapter 278 of the Kentucky revised Statutes for a Certificate of Public Convenience and Necessity and for an Order Approving Uniform Rates for a Waste Water Treatment System to Serve the residents of Mallard Point Subdivision, Scott County, Kentucky, Order issued September 22, 1986.

C. Revenue Requirements Determination

Staff's amended operations provide Mallard Point with an operating ratio of 108.26 percent.⁷ An operating ratio of 88 percent results in a revenue requirement of \$78,627.⁸ Staff recommends a revised revenue increase of \$22,467,⁹ and that the rate set out in Appendix A be approved.

D. Signatures


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Communications, Water and
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Rates and Research Division

⁷ \$60,800 + \$56,160 = 108.26%.

⁸ Adjusted Operating Expenses \$ 60,800
Operating Ratio + 88%
Subtotal \$ 69,091
Add: Interest Expense + 9,536
Required Operating Revenue \$ 78,627

⁹ Required Operating Revenue \$ 78,627
Normalized Operating Revenue - 56,160
Required Revenue Increase \$ 22,467

APPENDIX A

The following rate is recommended for customers of Mallard Point Disposal System:

Flat Monthly Rate	\$31.10
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APPENDIX B

TO THE AMENDED STAFF REPORT IN CASE NO. 94-266

	<u>Staff's Recommended Operations</u>	<u>Staff's Revisions</u>	<u>Staff's Revised Operations</u>
Operating Revenue:			
Flat Rate - Residential	<u>\$ 56,160</u>	<u>\$ -0-</u>	<u>\$ 56,160</u>
Operating Expenses:			
Operation & Maintenance:			
Owner/Manager Fee	\$ 2,400	\$ -0-	\$ 2,400
Testing Fee	1,857	-0-	1,857
Fuel & Power	10,311	-0-	10,311
Chemicals	430	-0-	430
Routine Maint. Fee	1,200	-0-	1,200
Internal Supervision	9,880	-0-	9,880
Maintenance	2,029	-0-	2,029
Admin. & Gen. Salaries	3,600	-0-	3,600
Office Supplies	2,805	-0-	2,805
Accounting	800	-0-	800
Insurance	739	-0-	739
Miscellaneous	160	-0-	160
Rent	<u>3,900</u>	<u>-0-</u>	<u>3,900</u>
Total Operation & Maint	\$ 40,111	\$ -0-	\$ 40,111
Depreciation	15,940	1,015	16,955
Amortization	3,274	-0-	3,274
Taxes Other Than Income Tax	<u>460</u>	<u>-0-</u>	<u>460</u>
Total Operating Expenses	<u>\$ 59,785</u>	<u>\$ 1,015</u>	<u>\$ 60,800</u>
Net Operating Income	<u>\$ < 3,625 ></u>	<u>\$ < 1,015 ></u>	<u>\$ < 4,640 ></u>
Interest Expense	<u>7,955</u>	<u>1,581</u>	<u>9,536</u>
Net Income	<u>\$ <11,580 ></u>	<u>\$ < 2,596 ></u>	<u>\$ <14,176 ></u>