

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF NORTH MCLEAN COUNTY )  
WATER DISTRICT FOR AN ADJUSTMENT OF )  
RATES PURSUANT TO THE ALTERNATIVE RATE ) CASE NO. 94-440  
FILING PROCEDURE FOR SMALL UTILITIES )

O R D E R

On November 11, 1994, North McLean County Water District ("North McLean") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of North McLean'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 23rd day of January, 1995.

ATTEST:

  
Executive Director

PUBLIC SERVICE COMMISSION

  
For the Commission

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF NORTH McLEAN )  
COUNTY WATER DISTRICT FOR A ) CASE NO. 94-440  
RATE ADJUSTMENT )

STAFF REPORT

Prepared By: Jack Scott Lawless, CPA  
Public Utility Financial  
Analyst  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division

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

STAFF REPORT

ON

NORTH McLEAN COUNTY WATER DISTRICT

CASE NO. 94-440

On November 11, 1994, North McLean County Water District ("North McLean") filed an application with the Kentucky Public Service Commission ("Commission") seeking approval for a water rate increase based on its operations for the year ending December 31, 1993. North McLean requested assistance from Commission Staff ("Staff") in the preparation of its Alternative Rate Filing Form as allowed pursuant to 807 KAR 5:076, Section 2. In order to assist in the preparation of this application, Staff performed a limited financial review of North McLean's test year operations.


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


Scott Lawless of the Commission's Division of Financial Analysis performed the limited review on July 19, 1994. Mr. Lawless is responsible for the preparation of this Staff Report except for the determination of Normalized Operating Revenue, Rate Design, and Attachment C, which were prepared by Sam Reid of the Commission's Division of Rates and Research.

A copy of North McLean's Adjusted Net Operating Income Statement is shown on Attachment A. Attachment B details the revenue requirement determination. Staff recommends that North McLean be allowed to increase its annual operating revenues by the requested amount of

\$27,100. The rates contained in Attachment C will achieve Staff's recommended level of revenue.

Signatures

  
Prepared By: Jack Scott Lawless, CPA  
Public Utility Financial  
Analyst  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division

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

ATTACHMENT A  
STAFF REPORT CASE NO. 94-440

NORTH McLEAN WATER DISTRICT  
STATEMENT OF OPERATIONS

	<u>Test Year</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Pro forma Present Rates</u>
Operating Revenues				
Water Sales	\$237,992	\$ 38,933	(A)	\$276,925
Other Operating Revenue	<u>4,237</u>	<u>          </u>		<u>4,237</u>
Total Operating Revenues	<u>242,229</u>	<u>38,933</u>		<u>281,162</u>
Operating Expenses				
Operation and Maintenance				
Salaries and Wages	43,420			43,420
Employee Benefits	4,990			4,990
Bad Debts	635			635
Purchased Water	139,285	28,999	(A)	168,284
Purchased Power	2,990	495	(B)	3,485
Materials and Supplies	10,989			10,989
Contractual Services	8,327			8,327
Rents	1,550	130	(B)	1,680
Transportation	2,432			2,432
Insurance	6,784	181	(B)	6,965
Miscellaneous	556	120	(B)	636
	<u>          </u>	<u>911</u>	(B)	<u>1,587</u>
Total O&M	221,958	30,836		252,794
Depreciation	20,887			20,887
Taxes Other Than Income	<u>3,569</u>	<u>          </u>		<u>3,569</u>
Total Operating Expenses	<u>246,414</u>	<u>30,836</u>		<u>277,250</u>
Net Operating Income	(4,185)	8,097		3,912
Interest Income	<u>4,585</u>	<u>          </u>		<u>4,585</u>
Income Available to Service Debt	<u>\$ 400</u>	<u>\$ 8,097</u>		<u>\$ 8,497</u>

A. Purchased Water Adjustment Normalization

Adjustments to both water sales and purchases were necessary in order to normalize the effects of the most recent purchased water adjustment which was filed as Case No. 94-255<sup>1</sup>.

B. New Office Building Adjustments

The referenced adjustments were made to reflect the increased cost of operations due to the utility's office being moved from the office manager's home to a new location at the end of the test year. Here the utility has to pay electric, additional rent, insurance, garbage pick-up and gas. These adjustments were based on what the utility had paid for these expenses during 1994. These adjustments are as follows:

Electric for the office	
Average monthly bill	\$ 41.28
Annualize	<u>12</u>
Pro forma	<u>\$ 495</u>
Office rent	
Pro forma	\$ 1,680
Less: Test year	<u>(1,550)</u>
Adjustment - Increase	<u>\$ 130</u>
Insurance	<u>\$ 181</u>
Garbage pick-up	<u>\$ 120</u>
Natural gas (Office Heat)	
Average monthly bill	\$ 75.93
Annualize	<u>12</u>
Pro forma	<u>\$ 911</u>

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<sup>1</sup> Purchased water adjustment of North McLean County Water District.

ATTACHMENT B  
STAFF REPORT CASE NO. 94-440

NORTH McLEAN WATER DISTRICT  
REVENUE REQUIREMENT DETERMINATION

Three year average debt service payments	\$ 29,665
Times: Debt Service Coverage Required	<u>120%</u>
Coverage Requirement	35,598
Plus: Operating Expenses	<u>277,250</u>
Revenue Requirement	312,848
Less: Other Operating Income	(4,237)
Interest Income	<u>(4,585)</u>
Revenue Requirement to be generated from water sales	304,026
Less: Normalized Operating Revenue	<u>(276,925)</u>
Revenue Increase	<u>\$ 27,101</u>
Percentage Increase	<u>10%</u>

## ATTACHMENT C

STAFF REPORT CASE NO. 94-440

Recommended Rates

North McLean proposed in its application to revise its rate structure by consolidating gallonage increments. The minimum bill includes usage of 2,000 gallons. The next three increments (2,000, 2,000 and 4,000) in the present rate structure are to be consolidated into one step.

The 60,000 and 100,000 gallon increments are to be revised to an over 40,000 gallon increment. Staff is of the opinion that the proposed revisions will result in a more equitable distribution of costs among North McLean's customers. The rates proposed in the table below will produce sufficient revenue to satisfy the revenue requirement.

	<u>Increment</u>	<u>Bills</u>	<u>Gallons</u>	<u>Rate</u>	<u>Revenue</u>
First	2,000 Gallons	11,294	19,887,300	\$10.70 Min. Bill	\$120,845
Next	8,000 Gallons		31,950,500	3.75 per 1,000 gallons	119,814
Next	30,000 Gallons		10,100,300	3.67 per 1,000 gallons	37,069
Over	40,000 Gallons	_____	<u>7,499,900</u>	3.51 per 1,000 gallons	<u>26,325</u>
	TOTAL	11,294	69,438,200		\$304,054