

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF RIDGEWOOD SUBDIVISION)
SEWER PLANT FOR A RATE ADJUSTMENT) CASE NO. 94-490

O R D E R

On December 2, 1994, Ridgewood Subdivision Sewer Plant ("Ridgewood") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Ridgewood'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 7th day of February, 1995.

ATTEST:



Executive Director

PUBLIC SERVICE COMMISSION



For the Commission

COMMONWEALTH OF KENTUCKY
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THE APPLICATION OF RIDGEWOOD)
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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

RIDGEWOOD SEWER PLANT

CASE NO. 94-490

On December 2, 1994, Ridgewood Sewer Plant ("Ridgewood") filed an application with the Kentucky Public Service Commission ("Commission") seeking approval for a sewer rate increase based on its operations for the year ending December 31, 1993. Ridgewood 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 Ridgewood'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 November 9, 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 Ridgewood's Adjusted Net Operating Income Statement is shown on Attachment A. Attachment B details the revenue requirement determination. Staff recommends that Ridgewood be allowed to increase its annual operating revenues by the requested amount of \$5,762. The

rates contained in Attachment C will achieve Staff's recommended level of revenue.

Signatures

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

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

- A. Revenue Normalization
To normalize operating revenue to reflect the test year end number of customers.
- B. Maintenance of Plant
The referenced adjustment was made to reflect the amortization of the cost of a motor that was installed outside of the test period at a cost of \$2,945. The amortization period recommended is five years.
- C. Class II Operator
Beginning in January of 1995 Ridgewood will be contracting a Class II operator to maintain the plant facilities. The cost of the operator is \$300 per month. Thus the \$3,600 should be allowed for proper recovery of this expense.
- D. Maintenance Person
The test year maintenance fee will decrease by \$550 as a result of the Class II operator beginning in January.
- E. Depreciation Expense
Test year depreciation was eliminated due to the fact that 100 percent of the utility plant in service was recovered through lot sales as stated in Ridgewood's application.
- F. Taxes Other Than Income
This account has been adjusted to reflect the amortization of the five year KPDES permit. The cost of the permit is estimated to be \$1,800.

ATTACHMENT A
STAFF REPORT CASE NO. 94-490

RIDGEWOOD SEWER PLANT
STATEMENT OF OPERATIONS

	<u>Test Year</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Pro forma Present Rates</u>
Operating Revenues	<u>\$ 11,025</u>	<u>(225)</u>	(A)	<u>\$ 10,800</u>
Operating Expenses				
Operation and Maintenance				
Sludge Hauling	600			600
Fuel and Power	2,340			2,340
Chemicals	170			170
Maintenance of Plant	1,328	589	(B)	1,917
Customer Records	2,054			2,054
Outside Services	3,350	3,600	(C)	
	<u> </u>	<u>(550)</u>	(D)	<u>6,400</u>
Total O&M	9,842	3,639		13,481
Depreciation	2,892	(2,892)	(E)	0
Taxes Other Than Income	<u>734</u>	<u>360</u>	(F)	<u>1,094</u>
Total Operating Expenses	<u>13,468</u>	<u>1,107</u>		<u>14,575</u>
Net Operating Income	<u>\$ (2,443)</u>	<u>\$ (1,332)</u>		<u>\$ (3,775)</u>

ATTACHMENT B
STAFF REPORT CASE NO. 94-490

RIDGEWOOD SEWER PLANT
REVENUE REQUIREMENT DETERMINATION

Pro forma Operating Expenses	\$ 14,575
Divide by: Operating Ratio	<u>88%</u>
Revenue Requirement	16,562
Less: Normalized Operating Revenue	<u>(10,800)</u>
Revenue Increase	<u>\$ 5,762</u>
Percentage Increase	<u>53%</u>

ATTACHMENT C

STAFF REPORT CASE NO. 94-490

Recommended Rates

Ridgewood proposed no change in rate design in its application. Staff concurs that the present flat rate method is appropriate for Ridgewood at this time.

<u>Customers</u>	<u>Monthly Rate</u>	<u>Annual Revenue</u>
75	\$18.45	\$16,605