

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SYMSONIA SEWER)
DISTRICT FOR A RATE ADJUSTMENT)
PURSUANT TO THE ALTERNATIVE RATE) CASE NO. 94-497
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On December 7, 1994, Symsonia Sewer District ("Symsonia") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Symsonia'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
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SYMSONIA SEWER)
DISTRICT FOR A RATE ADJUSTMENT)
PURSUANT TO THE ALTERNATIVE RATE) CASE NO. 94-497
FILING PROCEDURE FOR SMALL UTILITIES)

STAFF REPORT

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

Prepared By: John Geoghegan
Public Utility Rate Analyst,
Principal
Communications, Water and
Sewer Rate Design Branch
Research Division

STAFF REPORT

ON

SYMSONIA SEWER DISTRICT

CASE NO. 94-497

On December 7, 1994, Symsonia Sewer District ("Symsonia") filed an application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed sewer rates by 25 percent. Symsonia 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 Symsonia's operations for the test year, the calendar year ending December 31, 1993.

Karen Harrod of the Commission's Division of Financial Analysis performed the limited review on August 2-3, 1994. Ms. Harrod is responsible for the preparation of this Staff Report except for the determination of Normalized Operating Revenue, Rate Design, and Appendix B, which were prepared by John Geoghegan of the Commission's Division of Rates and Research.

Scope

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.

During the course of the review, Symsonia 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.

It should be noted that Symsonia's operations consist of both a sewer division and a water division. As a result, certain expenditures are allocated between the two divisions. For rate-making purposes, these expenditures have been allocated on a 50:50 basis, as recommended in the December 31, 1992 audit report of Staff, dated August 25, 1993.

B. Analysis of Operating Revenues and Expenses

Operating Revenue

In its application Symsonia's proposed test year normalized revenue was erroneously stated as \$50,385. Staff has calculated the correct amount of test year normalized revenue to be \$47,988.¹ This results in a decrease to test year operating revenue of \$2,253.

Operating Expenses

Symsonia reported test year operating expenses of \$71,083 which it proposed to adjust by a net increase of \$3,161. The pro-forma adjustments to test period expenses are discussed in the following sections of this report.

Salaries & Wages

For the test year Symsonia reported salaries and wages expenses of \$23,428 based on an allocation of 66 percent of salary expense to sewer operations. An adjustment was proposed to

¹ \$18.60 x 215 customers x 12 months = \$47,988

decrease this account by \$2,248 to reflect the current level of salary expense. This includes a 25 cent per hour raise for each employee which became effective January 1, 1995, and reflects a revised allocation of 50 percent of salary expense to sewer operations. Staff is of the opinion that this adjustment is known and measurable and should be allowed for rate-making purposes. Therefore, an adjustment has been included to decrease salaries and wages expenses to a pro forma level of \$21,180.

Chemicals

Symsonia reported test year chemicals expense of \$1,263. An adjustment was proposed to increase this account by \$456 to reflect the increased cost of chemicals subsequent to the test year. Symsonia uses a 50-pound bag of ferri-floc each day. In August of 1994 the cost of ferri-floc increased from \$16.25 to \$17.50, or \$1.25 per bag. This results in an increase to chemicals expense of \$456.² Accordingly, Staff recommends this adjustment be allowed in the determination of Symsonia's revenue requirement.

Outside Services

During the test year Symsonia incurred outside services expense of \$600, \$300 of which was allocated to sewer operations. An adjustment was proposed to increase this account by \$50 to reflect the current level of expense for accounting services. This adjustment was calculated as follows:

² 365 x \$1.25 = \$456

	<u>Total</u>	<u>50%-Sewer</u>	<u>50%-Water</u>
1994 Expense	\$700	\$350	\$350
Test Year Expense	<u>600</u>	<u>300</u>	<u>300</u>
Proposed Increase	<u>\$100</u>	<u>\$ 50</u>	<u>\$ 50</u>

Staff recommends the proposed adjustment be included for rate-making purposes.

Depreciation Expense

Symsonia reported test year depreciation expense of \$21,750. An adjustment was proposed to include depreciation for necessary capital expenditures that have been or will be purchased when funds are available. The proposed increase of \$5,075 was calculated as follows:

<u>Description</u>	<u>Total Est. Cost</u>	<u>Estimated Serv. Life</u>	<u>Annual Exp.</u>
Pump	\$ 3,187	5 yrs.	\$ 637.00
Flotation Unit	12,212	5 yrs.	2,443.00
Backhoe (50% - Sewer)	39,900	10 yrs.	<u>1,995.00</u>
Proposed Increase			<u>\$5,075.00</u>

Staff concurs with this adjustment and therefore, has included the increase to depreciation expense of \$5,075.

Taxes other than Income Tax

For the test year Symsonia reported taxes other than income tax expense of \$2,385. A decrease of \$172¹ has been proposed to reflect the appropriate level of FICA expense based on the recommended decrease to test year salaries and wages expense.

¹ Recommended Salary Decrease	\$2,248
Applicable FICA Rate	<u>7.65%</u>
Recommended Decrease	<u>\$ 172</u>

Staff is of the opinion that this adjustment should be included for rate-making purposes.

Operations Summary

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

C. Revenue Requirements Determination

Symsonia requested an increase in its flat sewer rate from \$18.60 to \$23.30, or 25 percent. This results in an increase to operating revenues of \$12,126.⁴ Based on Staff's adjusted operations and the operating ratio of .88 normally allowed by the Commission, Staff believes Symsonia could justify additional revenue of \$34,778.⁵ However, since Symsonia's proposed increase produces a positive cash flow of \$14,297⁶ and would allow Symsonia

⁴	215 customers x \$23.30 x 12 months	\$ 60,114
	Normalized test year revenue	<u>47,988</u>
	Proposed Increase	<u>\$ 12,126</u>
⁵	Pro forma Present Rate Operating Expenses	\$ 74,244
	Operating Ratio	<u>+ .88</u>
	Required Revenue	\$ 84,368
	Less: Pro forma Present Rate Operating Rev.	47,988
	Other Income	<u>1,602</u>
	Allowable Revenue Increase	<u>\$ 34,778</u>
⁶	Adjusted Operations	\$(24,654)
	Add: Proposed Revenue Increase	12,126
	Depreciation Expense	<u>26,825</u>
	Net Cash Flow	<u>\$ 14,297</u>


to meet its operating expenses, Staff recommends the proposed rates be accepted.


If Symsonia chooses to amend its application to reflect rates that will generate the additional revenue of \$34,778 which Staff believes could be justified, it should do so when filing comments to the Staff Report. In the event that Symsonia does request rates that differ from those previously noticed to its customers, it should be required to renotify its customers of the new proposed rates.

D. Rate Design

Symsonia charges a flat monthly rate based on a residential equivalency. Staff agrees with this method and proposes no change to the present rate design.

E. Signatures


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


Prepared By: John Geoghegan
Public Utility Rate Analyst
Principal
Communications, Water and Sewer
Rate Design Branch
Rates and Research Division

APPENDIX A
STAFF REPORT CASE NO. 94-497

SYMSONIA SEWER DISTRICT
STATEMENT OF OPERATIONS
Test Year Ended 12/31/93

	<u>Test Year</u>	<u>Recommended Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 50,241	\$(2,253)	\$ 47,988
Operating Expenses:			
Salaries & Wages	\$ 23,428	\$(2,248)	\$ 21,180
Fuel & Purchased Power	10,494		10,494
Chemicals	1,263	456	1,719
Misc. Supplies & Expense	1,542		1,542
Maintenance	2,002		2,002
Customer Records & Collection	2,497		2,497
Uncollectible Accounts	158		158
Office Supplies & Other	3,432		3,432
Outside Services	300	50	350
Insurance	1,832		1,832
Depreciation	21,750	5,075	26,825
Taxes other than Inc. Taxes	<u>2,385</u>	<u>(172)</u>	<u>2,213</u>
Total Operating Expenses	<u>\$ 71,083</u>	<u>\$ 3,161</u>	<u>\$ 74,244</u>
Operating Income	\$(20,842)	\$(5,414)	\$(26,256)
Other Income	<u>1,602</u>	<u> </u>	<u>1,602</u>
Adjusted Operations	<u>\$(19,240)</u>	<u>\$(5,414)</u>	<u>\$(24,654)</u>

APPENDIX B
STAFF REPORT CASE NO. 94-497

SYMSONIA SEWER DISTRICT
RECOMMENDED RATE SCHEDULE

The following rate will produce a positive cash flow of \$14,297.

Residential Service	\$23.30
Other	23.30 per residential equivalent