

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF ROCKCASTLE)
COUNTY WATER ASSOCIATION FOR AN)
ADJUSTMENT OF RATES PURSUANT TO) CASE NO. 97-329
THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On August 5, 1997, Rockcastle County Water Association ("Rockcastle Water") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Rockcastle Water'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 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, or 90 days after the date the application was filed, whichever is later, 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 14th day of November, 1997.

ATTEST:

PUBLIC SERVICE COMMISSION


Executive Director


For the Commission

COMMONWEALTH OF KENTUCKY
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AN ADJUSTMENT OF RATES PURSUANT) CASE NO. 97-329
TO THE ALTERNATIVE RATE FILING)
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STAFF REPORT

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

Prepared By: Sam Reid, Jr.
Public Utility Rate
Analyst, Principal
Communications, Water
and Sewer Rate Design Branch
Financial Analysis Division

STAFF REPORT

ON

ROCK CASTLE COUNTY

WATER ASSOCIATION

CASE NO. 97-329

On July 23, 1997, the Rockcastle County Water Association ("Rockcastle") submitted its application seeking to increase its rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities. However, due to filing deficiencies, Rockcastle's application was not considered filed until August 5, 1997.

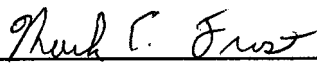
Rockcastle requested and received Commission Staff ("Staff") assistance in preparing its application. Carl Combs and Sam Reid of the Commission's Division of Financial Analysis performed the limited financial review of Rockcastle's test-period operations for the 1996 calendar year. The scope of the review was limited to obtaining information as to whether Rockcastle's test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

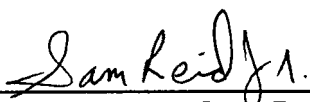
Mark Frost of the Commission's Division of Financial Analysis is responsible for the preparation of this Staff Report except for Attachment A, Adjustment A, Metered Water Sales; and Attachment C, Staff's Billing Analysis and Recommended Rates.

A comparison of Rockcastle's actual and Staff's recommended pro forma operations is shown in Attachment A. Using a debt service coverage of 1.2x, Staff determined that its recommended pro forma operations would support a revenue requirement from water sales of \$32,899, as set forth in Attachment B.

Rockcastle did not make any revisions or changes to the recommendations and findings of Staff's limited financial review. In fact the financial exhibit in Rockcastle's application is Staff's recommended pro forma operations and Rockcastle's requested increase in revenues from water rates of \$11,199 is the amount Staff determined to be fair, just, and reasonable. Therefore, Staff recommends Rockcastle be granted its requested revenue increase of \$11,199. Rockcastle's proposed rates, contained in Attachment D, will achieve the level of revenue recommended herein.

Signatures


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


Prepared By: Sam Reid, Jr.
Public Utility Rate
Analyst, Principal
Communications, Water and
Sewer Rate Design Branch
Financial Analysis Division

ROCKCASTLE
COUNTY WATER
ASSOCIATION

ATTACHMENT
A

STAFF'S
PRO FORMA
OPERATIONS

	Actual Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Metered Water Sales	\$21,958	(\$258)	A	\$21,700
Operating Expenses:				
Salaries & Wages - Officers	\$0	\$3,600	B	\$3,600
Purchased Water	8,724	(3,903)	C	4,821
Contractual Services	4,274	(2,849)	D	1,425
Insurance	1,661	0		1,661
Reg. Commission Exp.	50	0		50
Bad Debts	2,152	(2,152)	E	0
Miscellaneous	946	0		946
Depreciation	6,764	0		6,764
Total Operating Expenses	<u>\$24,571</u>	<u>(\$5,304)</u>		<u>\$19,267</u>
Net Operating Income	(\$2,613)	\$5,046		\$2,433
Other Income:				
Interest Income	3,302	0		3,302
Income Available for Debt Service	<u>\$689</u>	<u>\$5,046</u>		<u>\$5,735</u>

A. Metered Water Sales:

Normalized revenue from water rates reflects the billing analysis prepared by Commission Staff and the current tariffed water rates on file with the Commission.

Normalized Revenue from Water Rates	\$21,700
Less: Reported Revenue from Water Rates	21,958
Staff's Pro Forma Adjustment	<u><u>(\$258)</u></u>

B. Salaries & Wages - Officers:

Rockcastle did not pay or report a salary for its manager during the test period. Also, Rockcastle's Commissioners do not receive any form of compensation. Since, the duties performed by its manager are similar to the general oversight responsibilities of a water district commissioner, Rockcastle requests that a manager salary of \$3,600 be included in its test period operations.

Annual Manager's Salary	<u><u>\$3,600</u></u>
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C. Purchased Water:

Rockcastle's test-period line loss was 47 percent, which exceeds the Commission's allowable limit of 15 percent. This adjustment recognizes the 15 percent limitation on Rockcastle's purchased water cost.

$$3,205,000 \text{ (Water Sales)} / 85\% \text{ (1-15 \%: Line Loss Reciprocal)} = \underline{\underline{3,770,588}}$$

	City of Mt. Vernon	Jackson County W. A.
Percentage of Water Purchased	3,770,588	3,770,588
Multiplied by: Gallons Adjusted for Line Loss	56.016%	43.984%
Allocated Adjusted Purchased Water - Gallons	2,112,133	1,658,455
Multiplied by: Rates per Gallon	0.00112	0.00148
Purchased Water Adjusted for Line Loss	<u><u>\$2,366</u></u>	<u><u>\$2,455</u></u>
Jackson County Water Association		\$2,455
City of Mt. Vernon		<u>2,366</u>
Pro Forma Purchased Water Expense		\$4,821
Less: Reported Purchased Water Expense		<u>8,724</u>
Staff's Recommended Adjustment		<u><u>(\$3,903)</u></u>

D. Contractual Services:

During the test-period, Rockcastle had a major water-line break. The cost of the back-hoe rental is a non-recurring expenditure that for rate-making purposes should be amortized rather than expensed. Staff determined that two thirds of the contractual services expenses should be eliminated to reflect amortizing this non-recurring expenditure over 3-years.

Reported Contractual Services (Back-hoe Rental)	(\$4,274)
Multiplied by: Two-Thirds	66.667%
Staff's Recommended Adjustment	<u><u>(\$2,849)</u></u>

E. Bad Debts:

Rockcastle's reported bad debt expense of \$2,152 represents approximately 10 percent of normalized revenue from water sales. Staff is of the opinion that a bad debt expense of 10 percent of revenues does not reflect the current or on-going level of this expense. For this reason bad debt expense has been removed from test-period operations.

Staff's Recommended Adjustment	<u><u>(\$2,152)</u></u>
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ROCKCASTLE
COUNTY WATER
ASSOCIATION

ATTACHMENT
B

STAFF'S
REVENUE REQUIREMENT
DETERMINATION

ROCKCASTLE / STAFF

Monthly Debt Service	\$1,176
Multiplied by: 12-Months	12
Annual Debt Service	<u>\$14,112</u>
Add: Debt Service Coverage \$14,112 (Debt Service) x 0.2 (Coverage) =	<u>2,822</u>
Subtotal	\$16,934
Add: Pro Forma Operating Expenses	<u>19,267</u>
Total Revenue Requirement	\$36,201
Less: Interest Income	<u>3,302</u>
Revenue Requirement - Water Sales	\$32,899
Less: Normalized Revenue - Water Sales	<u>21,700</u>
Recommended Increase	<u><u>\$11,199</u></u>

ROCKCASTLE
COUNTY WATER
ASSOCIATION

ATTACHMENT
C

STAFF'S BILLING
ANALYSIS &
RECOMMENDED RATES

BILLING ANALYSIS FOR: ROCKCASTLE CO. WATER ASSOCIATION
TEST PERIOD FROM JANUARY TO DECEMBER 1996
USAGE TABLE

USAGE		BILLS	GALLONS	FIRST 2,000	OVER 2,000	TOTAL
FIRST	2,000	778	392,810	392,810		392,810
OVER	2,000	551	2,784,000	1,102,000	1,682,000	2,784,000

TOTAL	1,329	3,176,810	1,494,810	1,682,000	3,176,810
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REVENUE TABLE
PRESENT RATES
REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	2,000	1,329	\$10.00	\$13,290.00
OVER	2,000	1,682,000	5.00	8410.00

TOTAL	1,329	3,176,810	\$21,700.00
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ROCKCASTLE COUNTY WATER ASSOCIATION

RECOMMENDED RATES

Monthly Rates

First	2,000	\$16.93 (MINIMUM BILL)
Over	2,000	6.19 per 1,000 gallons