

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF NORTH LOGAN)
WATER DISTRICT FOR AN ADJUSTMENT)
OF RATES PURSUANT TO THE) CASE NO. 97-399
ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

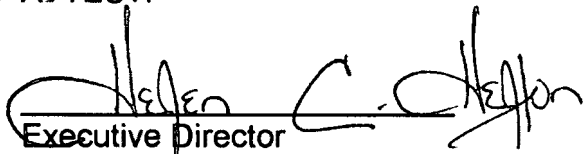
O R D E R

On September 25, 1997, North Logan Water District ("North Logan") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of North Logan'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 5th day of December, 1997.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

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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

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Public Utility Rate
Analyst, Senior
Communications, Water
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Financial Analysis Division

STAFF REPORT

ON

NORTH LOGAN WATER DISTRICT

CASE NO. 97-399

On September 25, 1997, the North Logan Water District ("North Logan") submitted its application seeking to increase its rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities. North Logan requested and received Commission Staff ("Staff") assistance in preparing its application. Mark Frost and Sam Reid of the Commission's Division of Financial Analysis performed the limited financial review of North Logan's test-period operations for the 1996 calendar year.

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

Mr. Frost is responsible for the preparation of this Staff Report except for Attachment A, Adjustment A, Metered Water Sales; Attachment A, Adjustment B, Other Water Revenues; Attachment C, Staff's Billing Analysis and Recommended Rates; and Attachment D, Staff's Recommended Non-Recurring Charges. A comparison of North Logan'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 \$178,195, as set forth in Attachment B. As shown in that same attachment, Staff determined that North Logan's meter replacement program will cost \$13,550.

North Logan did not make any revisions or changes to the recommendations and findings of Staff's limited financial review. In fact the financial exhibit in North Logan's application is Staff's recommended pro forma operations and North Logan's requested increase in revenues from water rates of \$37,839 and the surcharge collections of \$13,550 are the amounts Staff determined to be fair, just, and reasonable. Therefore, Staff recommends North Logan be granted its requested revenue increase of \$37,839 and its meter replacement surcharge of \$13,550. North Logan's proposed rates, contained in Attachment C, will achieve the level of revenue from water sales recommended herein.

North Logan provided adequate cost justification to support its proposed increase in its non-recurring fees. Therefore, Staff recommends that North Logan's non-recurring fees contained in Attachment D be approved.

North Logan has implemented a meter replacement program and has proposed to assess each customer a monthly surcharge to fund its proposed program. This meter replacement program was implemented to comply with the requirements of 807 KAR 5:066, Section 16, Periodic Tests, which requires 5/8" x 3/4" water meters to be tested at 10 year intervals and 2" meters to be tested at 4 year intervals. North Logan intends to test and replace 300 5/8" x 3/4" meters and one 2" meter. Given the requirements of 807 KAR 5:066, Section 16, Staff believes that North Logan's replacement program is justified, and therefore recommends North Logan's proposed meter replacement surcharge contained in Attachment C be approved.

During the test-period, North Logan reported a line-loss of 33.10 percent and a review of North Logan's Annual Reports on file at the Commission has shown that excessive line loss is a historical problem for North Logan. In the 1980's the Commission established a water loss demonstration project designed to assist water utilities in reducing their unaccounted-for water loss. Through the demonstration project, the Commission allowed water utilities to collect a temporary monthly surcharge from their customers for the sole purpose of reducing line loss below the 15 percent allowable limit.

Given the severity of North Logan's line-loss, Staff is of the opinion that a surcharge similar to the line loss demonstration project is justified. Based on the test-period line-loss, Staff has determined that the surcharge should produce \$12,082 annually, which will result in a monthly customer assessment of \$2, as shown in Attachment C.

North Logan may wish to amend its application to reflect the line-loss surcharge that it could justify. Such an amendment should be filed with any comments on the Staff Report. Should it choose to amend the application, Staff recommends that North Logan be required to notify its customers of the amended rate proposal, the line-loss surcharge of \$2 per month.

If North Logan amends its application to include a line loss surcharge, than Staff recommends that the surcharge be in effect for a period not to exceed 3 years, unless otherwise extended by the Commission. The monthly meter replacement surcharge should

be in effect for a period not to exceed 2 years or until \$13,550 has been collected. If either surcharge is granted, the proceeds from each surcharge should be placed in separate interest bearing accounts. Before expending any funds from the line-loss account, North Logan should be directed to submit to the Commission a comprehensive plan outlining the steps that will be taken to reduce North Logan's line loss to 15 percent.

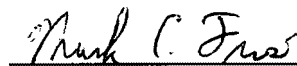
Monthly transfers to the surcharge accounts should be equal to the proceeds from each monthly surcharge recommended herein and should be transferred from gross operating revenue prior to the revenue being dispersed for another purpose. North Logan should be directed to file with its Annual Report, a separate summary for each surcharge containing the following information: monthly surcharge billings and collections; monthly bank statements for the interest bearing surcharge account; a descriptive list of the amounts expended from the account to reduce its water loss; copies of the invoices to support the amounts expended from this account; and a narrative explanation of the steps taken to correct the line loss, including an analysis of each steps effect on line loss.

North Logan's failure to comply with the above funding requirements or to file the summaries should warrant the revocation of the surcharges and refunding of the monies already collected, plus interest thereon.

The surcharges constitute Contributions In Aid of Construction, and should be accounted for in the manner prescribed by the Uniform System of Accounts for Class C Water Districts and Associations. The monthly billing should be debited to customer

accounts receivable and credited to the contributions account. When the amount is collected, special funds would be debited and customer accounts credited.

Signatures



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



Prepared By: Brent Kirtley
Public Utility Rate
Analyst, Senior
Communications, Water and
Sewer Rate Design Branch
Financial Analysis Division

NORTH LOGAN
WATER DISTRICT

ATTACHMENT
A

STAFF'S
PRO FORMA
OPERATIONS

	Actual Operations	Pro Forma Adjustments	Foot- note Ref	Pro Forma Operations
Operating Revenues:				
Metered Water Sales	\$146,946	(\$6,590)	A	\$140,356
Other Water Revenues	4,759	(4,639)	B	120
Total Operating Revenues	\$151,705	(\$11,229)		\$140,476
Operating Expenses:				
Operation & Maintenance Expenses:				
Salaries & Wages - Employees	\$16,769	\$6,655	C	\$23,424
Salaries & Wages - Commissioners	5,400	0		5,400
Employee Pensions & Benefits	0	2,112	D	2,112
Purchased Water	96,982	(12,082)	E	84,900
Purchased Power	5,833	(1,138)	F	4,695
Materials & Supplies	16,609	1,683	G	18,292
Contractual Services	4,625	(875)	H	3,750
Insurance	2,133	0		2,133
Miscellaneous	1,251	0		1,251
Total Operation & Maintenance Exp.	\$149,602	(\$3,645)		\$145,957
Depreciation	8,663	1,355		10,018
Amortization	0	0		0
Taxes Other Than Income Taxes	5,646	(3,854)	I	1,792
Total Operating Expenses	\$163,911	(\$6,144)		\$157,767
Net Operating Income	(\$12,206)	(\$5,085)		(\$17,291)
Other Income & Deductions:				
Interest & Dividend income	68	0		68
Non-utility Income	897	0		897
Net Income Available for Debt Service	(\$11,241)	(\$5,085)		(\$16,326)

A. Operating Revenue:

The Commission Staff ("Staff") prepared a billing analysis using the 1996 customer usage information and the current tariffed rate on file with the Commission. This proposed adjustment reflects the results of Staff's analysis.

Normalized Operating Revenue from Rates	\$140,356
Less: Reported Operating Revenue from Rates	146,946
Requested Pro Forma Adjustment	<u>(\$6,590)</u>

B. Other Water Revenues:

A tap-on fee is a form of cost free capital that should be reported as a Contribution In Aid of Construction on the balance sheet. This proposed adjustment removes the tap-on fees from test-period operating revenue.

Tap-On Fees	<u>(\$4,639)</u>
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C. Salaries & Wages - Employees:

In December 1996, the maintenance employee began to read each customer's meter, which resulted in an increase in the number of hours worked in each month. This proposed adjustment reflects the increase in maintenance employees salary and the January 1997 pay raise given to the office employee.

Office	\$634 (Jan 1997 Monthly Salary) x	12 (Months) =	\$7,608
Maintenance	\$1,318 (Avg Dec Thru Jun 1997 Wages)	12 (Months) =	15,816
Pro Forma Salaries & Wages - Emp. Expense			<u>\$23,424</u>
Less: Salaries & Wages - Emp. Expense			16,769
Requested Pro Forma Adjustment			<u>\$6,655</u>

D. Employee Pensions & Benefits:

Health insurance is provided for the maintenance employee, which is the basis for this proposed adjustment.

\$176 (Monthly Health Insurance Premium) x	12 (Months) =	<u>\$2,112</u>
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E. Purchased Water:

The 1996 line loss was reported to be 33.10 percent, which exceeds the Commission's allowable limit of 15 percent. This proposed adjustment reduces purchased water expense to reflect the 15 percent line loss limitation.

Water Purchases Limited to 15% Line Loss:

44,702,445 (Water Sold & Used by Utility) /	85% (Line Loss Reciprocal) =	<u>52,591,112</u>
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Annual Class Usage	Bills	Gallons	Rate	Amount
First 18,000	12	18,000	\$5.42	\$65
Next 222,000		222,000	\$3.10	688
Next 360,000		360,000	\$2.75	990
Next 600,000		600,000	\$2.50	1,500
Next 4,800,000		4,800,000	\$2.25	10,800
Next 6,000,000		6,000,000	\$2.00	12,000
Over 12,000,000		40,591,112	\$1.45	58,857
Limited Purchased Water Expense to 15 Percent				\$84,900
Less: Reported Purchased Water Expense				96,982
Requested Pro Forma Adjustment				<u>(\$12,082)</u>

F. Purchased Power:

This adjustment reflects the actual electric expense incurred during the test period.

Acct # 54-02545-13	\$95
Acct # 54-01810-13	126
Acct # 54-01020-19	4,474
Test-Period Purchased Power Expense	<u>\$4,695</u>
Less: Reported Purchased Power Expense	5,833
Requested Pro Forma Adjustment	<u>(\$1,138)</u>

G. Materials and Supplies:

A business telephone line was installed in the office and a cellular phone was acquired for the maintenance employee in 1996, which is the basis for this proposed adjustment.

BellSouth	(Actual Jun 1996 Thru Jul 1997)			\$1,083
Cellular	\$45 (Avg Dec Thru May 1997 Fee) x	12 (Months) =		540
AT&T	\$5 (Current Monthly Fee) x	12 (Months) =		60
Requested Pro Forma Adjustment				<u>\$1,683</u>

H. Contractual Services:

The CPA is charging North Logan a fee of \$125 per month for bookkeeping services, which is the basis for this proposed adjustment.

	\$125 (Monthly Accounting Fee) x	12 (Months) =		\$1,500
Add: Annual Audit Fee				2,250
Pro Forma Contractual Services Expense				<u>\$3,750</u>
Less: Reported Contractual Services Expense				4,625
Requested Pro Forma Adjustment				<u>(\$875)</u>

I. Depreciation Expense:

During the next year North Logan will replace 300 Residential Meters and a 2" meter. This proposed adjustment reflects depreciating the cost to replace those meters over a 10 year period.

	Cost	Depreciation Period	Depreciation Expense
Total Cost of Meter Replacement Program	13,550	10	<u>\$1,355</u>

I. Taxes Other Than Income Tax:

North Logan reported the collection of the utility/school tax in test-period operating revenues and the payment of the taxes as taxes other than income tax expense in 1996. Since North Logan is a collection agency the receipt of utility/school taxes from the customer or payment of the taxes to the taxing authority should not be reflected in test-period operations. The pro forma taxes other than income tax expense does reflect the 1996 property taxes and the FICA taxes using the pro forma payroll.

Pro Forma Salaries & Wages - Emp	\$23,424
Multiplied by: Current FICA Rate	7.65%
Pro Forma FICA Expense	<u>\$1,792</u>
Add: Property Taxes	589
Pro Forma Taxes Other Than Income Tax Expense	<u>\$2,381</u>
Less: Reported Taxes Other Than Income Tax Expense	5,646
Requested Pro Forma Adjustment	<u>(\$3,854)</u>

NORTH LOGAN
WATER DISTRICT

ATTACHMENT
B

STAFF'S
REVENUE REQUIREMENT
DETERMINATION

REVENUE REQUIREMENT DETERMINATION

Pro Forma Operating Expenses	\$157,767
Divided by: 88 Percent Operating Ratio	88%
Total Revenue Requirement	<u>\$179,280</u>
Less: Non-Operating Income	965
Revenue Requirement from Operations	<u>\$178,315</u>
Less: Other Operating Revenues	120
Revenue Requirement from Water Rates	<u>\$178,195</u>
Less: Normalized Operating Revenue from Water Rates	<u>140,356</u>
Requested Increase in Revenues from Water Rates	<u><u>\$37,839</u></u>

Meter Replacement Surcharge

Cost of a 5/8 x 3/4 meter	\$40.00
Add: Meter Test Cost	3.50
Replacement Cost Per Meter	<u>\$43.50</u>
Multiplied by: No. of Meters to be Replaced	300
5/8 x 3/4 Meter Replacement	<u>\$13,050.00</u>
Add: 2" Meter Cost with Labor	500.00
Total Cost of Meter Replacement Program	<u><u>\$13,550.00</u></u>

**NORTH LOGAN
WATER DISTRICT**

**ATTACHMENT
C**

**STAFF'S BILLING
ANALYSIS &
RECOMMENDED RATES**

Class Usage	Bills	Gallons	First 2,000 Gallons	Next 2,000 Gallons	Next 6,000 Gallons	Next 15,000 Gallons	Over 25,000 Gallons
First	1,229	1,510,620					
Next	1,809	5,504,840	1,886,840				
Next	2,527	15,247,900	5,054,000	5,139,900			
Next	403	5,596,615	806,000	2,418,000	1,566,615		
Over	84	11,742,470	168,000	504,000	1,260,000	9,642,470	
	6,052	39,602,445	7,914,840	8,061,900	2,826,615	9,642,470	

Requested Revenue Requirement from Water Rates

Class Usage	Bills	Gallons	Current Rate per 1,000 Gal.	Revenue at Present Rates	Percentage	Proposed Rates per 1,000 Gal.	Revenue at Proposed Rates
First	6,052	11,156,620	\$9.54	\$57,736	41.1350%	\$12.10	\$73,229
Next		7,914,840	\$4.27	33,796	24.0790%	\$5.45	43,136
Next		8,061,900	\$2.57	20,719	14.7620%	\$3.25	26,201
Next		2,826,615	\$2.37	6,699	4.7730%	\$3.00	8,480
Over		9,642,470	\$2.22	21,406	15.2510%	\$2.85	27,481
		39,602,445		\$140,356	100.0000%		\$178,527

Total Cost of Meter Replacement Program

Divided by: 2-Years	\$13,550.00
Annual Meter Replacement Collections	\$6,775.00
Divided by: Annual No. of Customer Bills	6,052
Monthly Meter Replacement Surcharge	\$1.12
Purchased Water Cost in Excess of 15 % Limitation	\$12,082
Divided by: Annual No. of Customer Bills	6,052
Monthly Line-Loss Surcharge	\$2.00

NORTH LOGAN
WATER DISTRICT

ATTACHMENT
D

STAFF'S RECOMMENDED
NON-RECURRING
CHARGES

NONRECURRING CHARGES

Connection Fee	\$514.35
Meter Test	32.00
Return Check Fee	20.00
Reconnect Fee	37.00