COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SPEARS WATER COMPANY, INC. FOR APPROVAL OF CONSTRUCTION, FINANCING, AND AN ADJUSTMENT OF RATES	)))	CASE NO. 98-214

O R D E R

On April 24, 1998, Spears Water Company, Inc. ("Spears") submitted its application seeking Commission approval of its proposed construction, financing, and an adjustment of rates. The application was considered filed on June 25, 1998, when all deficiencies were cured. The proposed rates would generate additional annual revenues of $108,945. Commission Staff, having performed a limited financial review of Spears 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 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 28th day of January, 1999.

ATTEST:

By the Commission

Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SPEARS WATER COMPANY,	)	
INC. FOR APPROVAL OF CONSTRUCTION,	)	CASE NO. 98-214
FINANCING, AND AN ADJUSTMENT OF RATES	)	

STAFF REPORT

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

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

<u>STAFF REPORT</u>

<u>ON</u>

<u>SPEARS WATER COMPANY, INC.</u>

<u>CASE NO. 98-214</u>

On April 24, 1998, Spears Water Company, Inc. (Spears) filed its application seeking Commission approval of its proposed construction, financing, and water rate increase. The application was considered filed on June 25, 1998, when all deficiencies were cured. The proposed rates would generate approximately $108,945 in additional annual revenues. This represents an increase of 14 percent over reported test year revenues from water sales of $778,071.

In order to evaluate the requested increase, Commission Staff (Staff) performed a limited financial review of Spear s test period operations, the year ending December 31, 1997. The scope of Staff s 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.

Karen Harrod of the Commission s Water and Sewer Revenue Requirements Branch began the limited review on August 20, 1998. Ms. Harrod is responsible for the preparation of this Staff Report except for the determination of normalized operating revenue, Attachment D and Attachment E, which were prepared by Brent Kirtley of the Commission s Communications, Water, and Sewer Rate Design Branch.

A comparison of Spears actual and pro forma operations is shown in Attachment A. Based on Staff s recommendations, Spears operating statement would appear as set forth in Attachment B. It should be noted that if the construction proposed in this filing is denied for any reason, related recommendations made by Staff in this report would be adjusted accordingly.

Attachment C of this report reflects Staff s calculation of Spears revenue requirement. As shown in Attachment C, Staff recommends a revenue increase of $83,967, to a level of $860,608 which results in an increase of 10.8 percent over reported test year revenues.

Staff performed a cost of service study on Spears in order to design rates that properly allocate the utility s costs among its customers in a fair, just, and reasonable manner.

The study analyzed the utility s costs of providing water service, then allocated those costs among three types of classifications: Commodity, Demand, and Customer. Commodity costs are those directly associated with the cost of water. Demand costs are those associated with providing the facilities to meet the demands placed on the system. Customer costs are those associated with serving the customers without regard for varying usage.

Currently, Spears has a three-step declining-block rate design: the monthly minimum bill including 2,000 gallons of water, monthly usage between 2,000 and 12,000 gallons, and monthly usage over 12,000 gallons. The monthly minimum bill is made up of two different components, the monthly customer charge and monthly water costs. The monthly customer charge should include only those expenses associated with handling the customer s account. For example, billing and postage are two of the many costs attributable to customers incurred by the utility each month even when a customer does not use the system. The other component of the minimum monthly bill is the actual cost of water. Since Spears has a minimum bill that includes 2,000 gallons, its minimum monthly bill should be the monthly customer charge plus the cost of 2,000 gallons of water.

The results of the cost of service study showed that Spears current monthly minimum bill does not fully recover the monthly customer charge and cost of water. If the results of the cost of service study were fully implemented, the monthly minimum bill would see a significant increase, while the other two rate steps would incur a decrease. Therefore, by keeping the other two rates constant, the increase in the minimum step was lessened. Out of consideration of Spears customers, Staff agrees to recommend an increase only to the minimum bill and leave the remaining two rate steps at current levels. Spears proposed to increase the minimum bill by 38.82%; Staff recommends an increase in the minimum bill of 29.61%.

Staff also recommends that any future adjustment continue the process of moving Spears rates towards the results of the cost of service study. The complete cost of service study is included as Attachment D.

Staff s recommended rates in Attachment E will generate the required operating revenue from rates of $860,608.

Staff anticipates that the rates recommended herein will generate, at a minimum, sufficient revenues to allow the utility to meet all its cash operating expense and annual debt service requirements for a period of three years. Should the revenues generated by these rates become inadequate to meet these requirements at any time during the three-year period, the utility should take whatever steps are necessary to remedy the situation. At the end of the three-year period, staff will perform a limited review of the utility s operations to ensure that the rates remain adequate. As part of that review the utility may be required to file additional information.

Signatures

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

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

ATTACHMENT A
STAFF REPORT CASE NO. 98-214
SPEARS REQUESTED OPERATIONS

	Actual Test Year	Proposed Adjustments	Pro Forma Test Year
OPERATING REVENUES			
Sale of Water	795,236	80,653	875,889
Other Water Revenues	-	-	-
Total Operating Revenues	795,236	80,653	875,889
OPERATING EXPENSES			
Salaries - Operations	170,068		170,068
Employee Benefits	15,890		15,890
Purchased Water	371,295	(13,212)	358,083
Materials & Supplies	53,236		53,236
Contract Services - Engineering	1,850		1,850
Contract Services - Accounting	5,650		5,650
Contract Services - Legal	20,933		20,933
Contract Services - Mgmt. Fees	1,800		1,800
Contract Services - Other	21,342		21,342
Contract Services - Maintenance	48,510	8,570	57,080
Rental of Building & Equipment	23,682		23,682
Transportation Expenses	13,076		13,076
Insurance - Workmen's Comp	5,068		5,068
Advertising	770		770
Bad Debt Expense	2,774		2,774
Miscellaneous Expenses	18,796		18,796
Total Operating Expenses	774,740	(4,642)	770,098
Depreciation Expense	30,306	8,030	38,336
Taxes Other than Income	23,734		23,734
	(33,544)	77,265	43,721

ATTACHMENT B
STAFF REPORT CASE NO. 98-214
STAFF S RECOMMENDED OPERATIONS

	Test Year per Application	Test Year per Annual Report	Staff Recommended Adjustments	Ref	Staff Recommended Test Year
OPERATING REVENUES					
Sale of Water	795,236	778,071	(1,430)	A	776,641
Other Water Revenues	-	17,165	-		17,165
Total Operating Revenues	795,236	795,236	(1,430)		793,806
OPERATING EXPENSES					
Salaries - Employees	170,068	170,068	(6,568)	B	163,500
Employee Benefits	15,890	-	-		-
Purchased Water	371,295	370,916	(13,212)	C	357,704
Purchased Power	-	379	-		379
Materials & Supplies	53,236	53,235	(19,346)	D	33,889
Contract Services - Engineering	1,850	1,850	-		1,850
Contract Services - Accounting	5,650	5,650	770	E	6,420
Contract Services - Legal	20,933	20,933	(11,133)	F	9,800
Contract Services - Mgmt. Fees	1,800	1,800	(1,800)	G	-
Contract Services - Other	21,342	69,852	(42,856)	H	26,996
Contract Services - Maintenance	48,510	-	-		-
Rental of Office & Storage Space	23,682	23,500	(12,040)	I	11,460
Rental of Equipment	-	185	-		185
Transportation Expenses	13,076	10,298	-		10,298
Insurance - Vehicle	-	2,778	-		2,778
Insurance - Workmen's Comp	5,068	5,068	-		5,068
Insurance - Other	-	15,889	(3,035)	J	12,854
Advertising	770	770	(61)	K	709
Bad Debt Expense	2,774	2,774	-		2,774
Miscellaneous Expenses	18,796	18,795	(7,343)	L	11,452
Amortization Expense	-	-	3,711	M	3,711
Depreciation Expense	30,306	30,306	14,045	N	44,351
Taxes Other than Income	23,734	23,734	(227)	O	23,507
Total Operating Expenses	828,780	828,780	(99,095)		729,685
Utility Operating Income	(33,544)	(33,544)	97,665		64,121

ATTACHMENT B
STAFF REPORT CASE NO. 98-214
STAFF S RECOMMENDED OPERATIONS

(A) Sale of Water. Spears reported water revenues of $778,071 in its 1997 Annual Report. At the request of Staff, Spears prepared a billing analysis using billing and usage information for the 2,436 customers served by the utility on December 31, 1997. The information showed annual billings of $782,215. Staff reviewed the analysis, verified it to within 0.1920%, and therefore accepted Spears amount of annual billings. The difference between Spears Annual Report and billing analysis resulted in a $4,144 increase to normalized water revenues.

Spears also provided billing information for 13 customers that are no longer receiving water from the system. The loss in revenue from those customers resulted in a $10,072 decrease to normalized water revenues. In addition, project plans provide for 17 new customers to the system, with estimated annual revenues of $4,498. Therefore, for the purposes of this report, total normalized revenue from rates will be $776,641.

(B) Salaries - Employees. Spears reported $170,068 for employee salary expense during 1997. Based on current salary levels, Staff has calculated total annual salary expense for employees to be $199,900. This includes salary expense of $36,400 for William Arvin who serves as president, legal advisor, and part owner of Spears. Mr. Arvin is not an actual employee of Spears and he is compensated for the provision of legal services through a monthly retainer and additional billings to the company. Accordingly, Staff has included an adjustment to decrease salary expense by $36,400, to a recommended level of $163,500. This results in a decrease to test-year expense of $6,568.

(C) Purchased Water. During the test year Spears incurred purchased water expenses of $370,916. In its application Spears proposed to decrease this amount by

ATTACHMENT B
STAFF REPORT CASE NO. 98-214
STAFF S RECOMMENDED OPERATIONS

$13,212, based on changes in customer base and reduced water sales due to the loss of customers to the Kentucky-American Water Company. Staff concurs with this adjustment and has included it for rate-making purposes.

(D) Materials and Supplies. Spears reported materials & supplies expense of $53,236 for the test period. Included in that amount were $18,523.82 in expenses that should be capitalized and depreciated for ratemaking purposes, according to Commission Engineering Staff. These expenses are summarized as follows:

Check/Ref No.	Amount	Description	Est. Serv. Life	Annual Dep. Exp.
1008	$ 1,500.00	Casings, Meter valves	40 yrs.	$ 37.50
4744/5082/5137	1,020.00	Pressure Recorder	10 yrs.	102.00
4802/5037	4,480.00	Casing Pipe, Steel	40 yrs.	112.00
5233	5,356.80	PVC Pipe	40 yrs.	133.90
4975/5035/AJE 1	6,167.02	Master Meter & Vault	10 yrs.	616.70
Total	$18,523.82			$1,002.10

In addition to the aforementioned expenses, other expenses were charged to this account which should be excluded for rate-making purposes. Those expenses include the following:

Check No.	Amount	Description
4728	$ 69.49	Staff Lunch
4720	150.23	To annualize quarterly postage meter expense. (Test year included 5 quarters.)
5362	602.00	Eye glasses
Total	$821.72	

Based on these adjustments, Staff has decreased test year Materials and Supplies Expense by $19,346, to a level of $33,889. In addition, an adjustment was made to increase test year depreciation expense by $1,002.

(E) Contract Services Accounting. For the test period, Spears reported accounting expenses of $5,650. Staff has made an adjustment to increase this expense by $770, based on the cost of accounting services rendered during the test year. Accordingly, Staff recommends accounting expenses of $6,420 be included for rate-making purposes.

(F) Contract Services Legal. Spears incurred legal fees of $20,933 during the test year. Based on information provided by Spears, these expenses included a monthly retainer fee of $150, or $1,800 annually; expenses incurred for PSC-related proceedings totaling $11,133; and expenses for title research and easements of $8,000. Staff has made an adjustment to amortize case-related expenses of $11,133 over a period of 3 years. This results in a net decrease to test year legal expense of $11,133 and an increase to amortization expense of $3,711.

(G) Contract Services Management Fees. During the test year Spears incurred management fees of $1,800 for payment of $150 per month to Mr. Lowry for a supervisor fee. Although the Commission generally allows a maximum of $3,600 per year for owner-manager fees for small, privately-owned companies, Spears does not meet the criteria of being a small company. Mr. Lowry is compensated for the management of Spears through a weekly salary. Accordingly, Staff recommends that contract services-management fees expense be disallowed for rate-making purposes.

(H) Contract Services Other. Spears reported contract services other expense of $69,852 for the test year. In its application, Spears proposed an increase of $8,570 to allow for the amortization of tank painting and refurbishing expense over a period of five years. Staff has reviewed the proposed bid for this project totaling $42,850, and concurs with the inclusion of an annual increase of $8,570.

Also included in this account were expenses totaling $20,500 for meter reading. Based on the most recent information provided by Spears, the current annual meter reading expense is $1,600 per month or $19,200 per year. This results in a decrease of $1,300 to test year expense.

Adjusting Journal Entry No. 28 debited this account $2,125.89 to reclassify meter repairs to the expense account. Based on Staff s review it appears that the meter repairs expenses were actually incurred for the master meter replacement and therefore, should be capitalized and depreciated over a period of 10 years. Accordingly, an adjustment has been made to decrease the contract services other account by $2,126, and increase depreciation expense by $213.

The contract services other account had numerous charges for meter parts, taps, and new services that do not appear to have been capitalized. In an effort to capitalize new services that were installed during the test year Staff has decreased this account by $48,000[1] and increased depreciation expense by $4,800. These adjustments were calculated as follows:

Ending Residential Customers per 1997 Annual Report	2,400	
Beginning Residential Customers per 1997 Annual Report	2,320	
Increase in Residential Customers for 1997	80	
Times current approved (cost-based) connection fee	x $ 600	
Cost to Install New Connections	$ 48,000	
Estimated Service Life	10	years
Annual Depreciation Expense	$ 4,800	

[1] Please note that although the expenses were taken from this account, a portion of the original costs may have been charged to Materials & Supplies Expenses.

Based on the aforementioned adjustments, contract services other expense has been decreased by a net amount of $42,856, to a level of $26,996.

(I) Rental of Office and Storage Space. Spears incurred expenses of $23,500 for the rental of office and storage space during the test year. This included $750 per month or $9,000 annually, for office space and equipment and $14,500 for a ½-acre lot and storage trailer where supplies for line repair are stored. It is the opinion of staff that $14,500 is an unreasonable amount to pay for storage. Staff recommends that Spears look into other possibilities such as the purchase of this property or the rental of mini storage units. The average cost of renting a mini storage unit measuring 10 x 30 is $102.50 per month or $1,230 per year in the Nicholasville area. The annual rental of two of these units would be $2,460. Accordingly, Staff has made an adjustment to decrease rental of office space and storage by $12,040, decreasing the storage rental expense to a level of $2,460. If additional storage space is required Spears should provide sufficient documentation to verify the necessary expense to be recovered through rates.

(J) Insurance Other. For the test year Spears reported insurance other expense of $15,889 for employee health insurance. After a review of Spears test year records, Staff has determined that this expense includes the premium paid for a family policy for Mr. Arvin. Although he is a part owner of the company, Mr. Arvin is not an employee of Spears, and it is Staff s opinion that ratepayers should not be required to pay the cost of his health insurance policy. Therefore, the portion of health insurance premiums reported on behalf of Mr. Arvin has been excluded for rate-making purposes.

Based on the most current invoice reviewed by Staff, the current monthly premium for health insurance for Spears employees is $1,371.16, which results in a yearly cost of $16,453.92. Two employees reimburse the company a combined total of $300 per month for a portion of their premium. This results in a decrease of $3,600 to the annual health insurance expense. As a result, Staff has calculated the annual insurance other expense to be $12,854, a decrease of $3,035 from the test year level.

(K) Advertising Expense. Spears reported advertising expense of $770 for the test period. The Commission generally disallows advertising expenses that are not required by law or do not educate the public in some manner, such as water safety or conservation. Therefore, for rate-making purposes, Staff has included only those advertising expenses incurred for legal advertisements and the safety program. This results in a decrease to test year expenses of $61, to a level of $709.

(L) Miscellaneous Expenses. For the test period Spears reported miscellaneous expenses of $18,796. Staff has made adjustments to decrease this amount by $7,343.29 to a level of $11,452. The adjustments exclude expenses that are not allowable for ratemaking purposes or provide alternative treatment of expenses where necessary. They are broken down as follows:

1997 KRWA Dues (Test Year Expense Included both 1997 & 1998 Dues.)	($ 175.00)
Gifts/Flowers/Donations	(890.31)
Dinners & Christmas Gifts	(783.48)
Retirement Fees paid to Mrs. Underwood (She died in July 1998, so these fees will no longer be paid.)	(4,800.00)
Texas Trip to meet with Mrs. Underwood	(1,041.75)
(Mrs. Underwood was the former owner of Spears. Since this expense is non-recurring, Staff has amortized it over a period of 3 years.)	347.25
Total Proposed Decrease	($7,343.29)

(M) Amortization Expense. Spears did not report any amortization expense for the test year. An adjustment has been made to include the amortization of case-related legal expenses in the amount of $3,711, as discussed in Item (F).

(N) Depreciation Expense. For the test year, Spears reported depreciation expense of $30,306. In its application an adjustment was proposed to increase test year expense by $8,030 to allow for the depreciation of the construction proposed in this filing. Staff concurs that an estimated life of 30 years for the proposed water line is reasonable. The proposed cost estimate is $240,904. Accordingly, Staff has included additional depreciation expense of $8,030 in the determination of Spears revenue requirement.

Other adjustments have been made to increase depreciation expense by $1,002 and $5,013 as discussed in Items (D) and (H), respectively, of this report. The net adjustment to depreciation expense recommended by Staff is an increase of $14,045, to a level of $44,351.

(O) Taxes Other than Income. Spears incurred taxes other than income tax expense in the amount of $23,734 during the test period. Included in this amount were payroll taxes of $14,204. Based on the adjustment to decrease salary expense by $2,968, as discussed in Item (B), Staff has made an adjustment to decrease FICA expense by the appropriate amount, or 7.65 percent of $2,968. Accordingly, test period taxes other than income expense has been decreased by $227, to a level of $23,507.

ATTACHMENT C
STAFF REPORT CASE NO. 98-214
CALCULATION OF OF REVENUE REQUIREMENT
AND PROJECTED INCOME TAX EXPENSE

CALCULATION OF REVENUE REQUIREMENT

Operating Expenses	729,685
.88 Operating Ratio	99,503
Interest Expense	35,224
Income Tax Expense	15,937
Total Revenue Requirement	880,349
Less: Interest Income	2,576
Less: Other Operating Income	17,165
Revenue Required from Rates	860,608
Less: Normalized Test Year Revenue from Rates	776,641
Recommended Increase/(Decrease)	83,967

CALCULATION OF PROJECTED INCOME TAX EXPENSE:

		Ref.
Adjusted Operating Expenses	729,685	
Divide by Operating Ratio	0.88	
Required Operating Revenue before Income Taxes	829,187	
Less: Adjusted Operating Expenses	729,685	
Operating Revenue before Interest & Income Taxes	99,502	
Add: Other Income (Interest)	2,576	
Less: Interest Expense	35,224	P
Revenue Subject to Income Taxes	66,854	
Gross-Up Factor for Income Taxes	1.23839	
Required Net Income before Taxes	82,792	
Less: Revenue Subject to Income Taxes	66,854	
Projected Income Tax Expense	15,937	Q

ATTACHMENT C
STAFF REPORT CASE NO. 98-214
CALCULATION OF OF REVENUE REQUIREMENT
AND PROJECTED INCOME TAX EXPENSE

(P) Interest Expense. In its application Spears proposed an increase based on a 1.2 debt service coverage of its existing and proposed debt. According to documentation reviewed by Staff, Spears debt (both existing and proposed) does not require a debt service coverage. The existing debt consists of an annually renewable 8 percent note with National City Bank carrying a principal balance of $235,500 as of December 31, 1997.

According to management of Spears, this debt was acquired for the purpose of looping existing lines in three places and installing two master meters. It should be noted that Spears did not request Commission approval for this financing or these projects. Nor did the company ask for an opinion as to whether or not a certificate would be required. While the Commission does not require approval of short-term debt provided it is not rolled over beyond a maximum of six years, neither is it required to include the interest expense associated with that debt for rate-making purposes. However, in this instance it appears that the short-term debt has been used to finance capital construction that upgraded service to Spears customers. Therefore, Staff recommends that Spears be allowed to recover through rates, interest related to the existing debt. Staff, however, advises Spears that, in the future, management should either apply for a certificate for proposed construction or, at a minimum, request a Commission opinion. This would mitigate the possibility of the disallowance for rate-making purposes of the associated short-term financing, especially if that financing is later converted to long-term debt.

ATTACHMENT C
STAFF REPORT CASE NO. 98-214
CALCULATION OF OF REVENUE REQUIREMENT
AND PROJECTED INCOME TAX EXPENSE

The proposed debt, shown in Appendix J of the petition, is a 10-year, 7.95 percent note with National City Bank, for the principal amount of $600,000. In addition to incorporating the outstanding balance of Spears existing debt, the new debt will be acquired for the purpose of constructing additional lines in the Beaumont area, completion of a loop of the existing system, and to refurbish Spears existing water storage tank on Tates Creek Road. It is the opinion of Staff that the refurbishing of the water tank should be treated as an operating expense of the utility and amortized accordingly. This adjustment was proposed by Spears and is discussed in Appendix B, Item H, of this report. Therefore, the portion of the loan related to the water tank, in the amount of $42,850, has been excluded for the purpose of calculating interest expense on long-term capital debt.

Staff recommends that interest expense be recovered from rates on a dollar-for-dollar basis in the determination of Spears revenue requirement. Interest expense has been included in the amount of 35,224, based on a five-year average of the interest expense for the amortization of a $557,150, 10-year note payable at a rate of 7.95 percent.

(Q) Income Tax Expense. In its application, Spears proposed an adjustment to include income tax expense on new revenues of $1,822. Staff has calculated total projected income tax expense to be $15,937 and therefore, has included this amount in the determination of Spears revenue requirement.

ATTACHMENT D-1
STAFF REPORT 98-214
ALLOCATION OF PLANT VALUE

	Total	Commodity	Demand	Customer
Intangible Plant:				
Organization	63,149		63,149	
Source of Supply & Pumping Plant:				
Land and Land Rights	1,258		1,258	
Structures and Improvement	306		306	
Transmission and Distribution Plant:				
Reservoirs and Standpipes	35,186		35,186	
Water Mains	1,290,072		1,290,072	
Services	65,680			65,680
Meters	227,827			227,827
Hydrants	26,764			26,764
Other Plant and Misc. Equipment	15,110		15,110	
Subtotal	1,725,352		1,405,081	320,271
Allocation Percentages	100.00%		81.44%	18.56%
General Plant:				
Office Furniture and Equipment	47,191		38,431	8,760
Transportation Equipment	15,320		12,476	2,844
Tools, Shop & Garage Equipment	971		791	180
Communications Equipment	1,550		1,262	288
Total	1,790,384		1,458,041	332,343

SOURCE: 1997 Annual Report and pro-forma adjustments

ATTACHMENT D-2
STAFF REPORT 98-214
ALLOCATION OF DEPRECIATION

	Total	Commodity	Demand	Customer
Land and Land Rights	11		11	
Structures and Improvements	0		0	
Reservoirs and Standpipes	3		3	
Water Mains	22,711		22,711	
Services	5,660			5,660
Meters	8,717			8,717
Hydrants	281			281
Subtotal	37,383		22,725	14,658
Allocation Percentages	100.00%		60.79%	39.21%
Organization	254		154	100
Office Furniture & Equipment	3,952		2,402	1,550
Transportation Equipment	2,610		1,587	1,023
Tools, Shop & Garage	18		11	7
Other Plant and Equipment	134		81	53
Communications Equipment	0		0	0
Total	44,351		26,961	17,390

SOURCE: 1997 Annual Report and pro-forma adjustments

ATTACHMENT D-3
STAFF REPORT 98-214
ALLOCATION OF OPERATION AND MAINTENANCE EXPENSES

	Total	Commodity	Demand	Customer
Transmission & Distribution:				
Salaries	89,908		89,908	
Insurance - Workmen's Comp	2,787		2,787	
Payroll Taxes	12,926		12,926	
Customer Accounts:				
Salaries	42,267			42,267
Insurance - Workmen's Comp	1,310			1,310
Payroll Taxes	6,077			6,077
Purchased Water	357,704	357,704		
Purchased Power	379	379		
Materials & Supplies	26,368		22,454	3,914
Contract Services-Engineer	1,850		1,850	
Contract Services-Other	26,154		6,954	19,200
Rental of Office & Storage Space	11,460		2,460	9,000
Rental of Equipment	185		185	
Subtotal	**579,375**	**358,083**	**139,524**	**81,768**
Less Commodity	358,083			
Total	**$221,292**		**$139,524**	**$81,768**
Allocation Percentages	100.00%		63.05%	36.95%
Transportation Expenses	10,298		6,493	3,805
Administrative Expenses:				
Salaries	31,325		19,750	11,575
Insurance-Workmen's Comp	4,504		2,840	1,664
Payroll Taxes	971		612	359
Materials & Supplies	7,521		4,742	2,779
Contract Services	842		531	311
Contract Services-Accounting	6,420		4,048	2,372
Contract Services-Legal	9,800		6,179	3,621
Insurance-Vehicle	2,778		1,752	1,026
Insurance-Other	12,854		8,104	4,750
Advertising	709		447	262
Bad Debt Expense	2,774		1,749	1,025
Miscellaneous Expenses	11,452		7,220	4,232
Subtotal	**$681,623**	**$358,083**	**$203,991**	**$119,549**
Amortization (1)	3,711		2,256	1,455
Depreciation (1)	44,351		26,961	17,390
Total Operating Expenses	**$729,685**	**$358,083**	**$233,208**	**$138,394**
Less Commodity	-358,083			
Total	$371,602		$233,208	$138,394
Allocation Percentages	100%		62.76%	37.24%
.88 Operating Ratio	99,502		62,445	37,057
Interest Expense	35,224		22,106	13,118
Income Tax Expense	15,937		10,002	5,935
Less:				
Interest Income	-2,576		-1,617	-959
Other Operating Income	-17,165		-10,772	-6,393
Revenue Required from Rates	**$860,607**	**358,083**	**315,371**	**187,153**

(1) Based on allocation percentages shown on Attachment D-2.

ATTACHMENT D-4
STAFF REPORT 98-214
CALCULATION OF RATES

	Total	First 2,000	Next 10,000	Over 12,000
Projected Gallons Sold	181,107,200	52,278,500	90,101,600	38,727,100
Percentage	100.00%	28.87%	49.75%	21.38%
Weighted Demand Factor		2.000	1.500	1.000
Weighted Demand Gallons	354,082,700	180,203,200	135,152,400	38,727,100
Percentage	100.00%	50.89%	38.17%	10.94%
Allocation of Volumetric Costs				
Commodity Costs	358,083	103,364	178,148	76,571
Demand Costs	315,371	160,502	120,376	34,493
Customer Costs	187,153	187,153		
Revenue from Rates	860,607	451,019	298,524	111,064
Projected Number of Bills		28,881		

Current	**First 2,000**	**Next 10,000**	**Over 12,000**
Rates	$9.66	$4.13	$3.28

Spears' Requested Rates	$13.41	$4.13	$3.28
% Increase on Current Rates	38.82%	0.00%	0.00%

Cost of Service Calculated Rates	$15.62	$3.31	$2.87
% Increase on Current Rates	61.66%	-19.78%	-12.57%

Staff Recommended Rates	**$12.52**	**$4.13**	**$3.28**
% Increase on Current Rates	29.61%	0.00%	0.00%
% Decrease of Requested Rates	-6.64%	0.00%	0.00%

ATTACHMENT D-5
STAFF REPORT 98-214
VERIFICATION OF RATES

			Bills	Gallons	Rate	Revenue
First	2,000	Gallons	28,881	52,278,500	12.52	361,590.12
Next	10,000	Gallons		90,101,600	4.13	372,119.61
Over	12,000	Gallons		38,727,100	3.28	127,024.89
				181,107,200		860,734.62

ATTACHMENT E
STAFF REPORT 98-214
STAFF RECOMMENDED RATES

First	2,000 Gallons	$ 12.52	Minimum Bill
Next	10,000 Gallons	$ 4.13	Per 1,000 Gallons
Over	12,000 Gallons	$ 3.28	Per 1,000 Gallons