

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF J & W SANITATION)
FOR A RATE ADJUSTMENT PURSUANT TO) CASE NO.
THE ALTERNATIVE RATE FILING PROCEDURE) 99-174
FOR SMALL UTILITIES)

ORDER

On April 28, 1999, J & W Sanitation (J & W) filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of J & W'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 to provide written comments regarding the attached Staff Report or requests for 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 4th day of June, 1999.

ATTEST:

By the Commission

Executive Director

STAFF REPORT
ON
J & W SANITATION
CASE NO. 99-174

On April 30, 1998, the Public Service Commission (Commission) received a letter from J & W Sanitation (J & W) requesting Commission assistance with the preparation of a rate application. Commission Staff (Staff) provided that assistance by performing a limited financial review of J & W s test year operations, the calendar 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 operation. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of the review, Staff assisted J & W in the development and preparation of a rate application. The application included an adjusted pro forma operating income statement wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable. During the test year J & W did not retain independent supporting documentation for operating expenses. Therefore, to calculate pro forma operations post test period invoices and bids were used for determining maintenance expenses and estimates were made by J & W for utility costs and property taxes. Staff is of the opinion that the estimates are conservative and should be accepted in this case.

The rates proposed in the application were based on the pro forma income statement. The pro forma income statement supports a revenue requirement of

\$17,982. The rate proposed to meet that requirement is a flat monthly fee of \$21.41 per customer. The proposed rate is a 33 percent increase over the current monthly fee of \$16.10. The proposed rate was calculated by dividing the revenue requirement of \$17,982 by the total number of pro forma bills of 840 (70 customers x 12 bills per year).

On April 28, 1999, J & W submitted the rate application to the Commission for consideration. The application was considered filed on the date received as no filing deficiencies were noted.

The pro forma income statement and explanation of adjustments have been attached to this report as Attachment A. Attachment B details the calculation of the revenue requirement and the recommended rate. Renee Curry is responsible for all revenue adjustments and the calculation of the recommended rate. Scott Lawless is responsible for the determination of the revenue requirement. Based on the information included in this report, Staff is of the opinion that the rate proposed by J & W in its application is reasonable; however, J & W noticed its customers that the proposed rate was \$21.40. Therefore, Staff recommends that the rate approved by this Commission be \$21.40.

Signatures

Prepared by: Jack Scott Lawless, CPA
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Renee Curry
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 99-174
J & W S REQUESTED AND STAFF S RECOMMENDED OPERATIONS

| | Test Year From 1997 Annual Report | Adjustments | Ref. | Pro forma Present Rates |
|--------------------------------|--|-------------|------|-------------------------------|
| Sewer Service Revenues | 10,900 | 2,624 | A | 13,524 |
| Operating Expenses | | | | |
| Water | 310 | (130) | B | 180 |
| Purchased Power | 1,560 | (360) | C | 1,200 |
| Chemicals | 15 | (15) | D | - |
| Maintenance of Pumping | 857 | (857) | D | - |
| Maintenance of Treatment | 288 | (288) | D | - |
| Materials and Supplies | 468 | (468) | D | - |
| Office Supplies | 5 | (5) | D | - |
| Outside Services Employed | 600 | 11,880 | E | 12,480 |
| Insurance | 878 | 358 | F | 1,236 |
| Transportation Expense | 1,447 | (1,447) | G | - |
| Miscellaneous General Expenses | 206 | (206) | D | - |
| Depreciation | | 488 | H | 488 |
| Taxes Other Than Income | | 240 | I | 240 |
| Total Operating Expenses | 6,634 | 9,190 | | 15,824 |
| Net Operating Income | 4,266 | (6,566) | | (2,300) |

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A) Sewer Service Revenues. J & W reported test year operating revenues of \$10,900. Staff increased test year revenue to \$13,524 so that pro forma operations at present rates would reflect the number of customers hooked onto the system at the end of the test year. The amount was calculated as follows:

| | |
|--|--------------------|
| Current rate monthly fee | \$16.10 |
| Times: Pro forma number of bills (70 customers x 12 bills per year) | <u>840.00</u> |
| Total | <u>\$13,524.00</u> |

B) Purchased Water. Test year purchased water was reported at \$310. That amount was reduced by \$130 to reflect the monthly estimate of \$15 or \$180 annually.

C) Purchased Power. Test year purchased power was reported at \$1,560. That amount was reduced by \$360 to reflect the monthly estimate of \$100 or \$1,200 annually.

D) Chemicals, Maintenance of Pumping and Treatment Plant, Materials and Supplies, Office Supplies, and Miscellaneous. The following expenses were reported in test year operations but were not supported by independent supporting documentation and could not be reasonably estimated. Therefore, they have been eliminated to calculate pro forma operations.

| | |
|--------------------------------|---------|
| Chemicals | \$15.00 |
| Maintenance of Pumping Plant | 857.00 |
| Maintenance of Treatment Plant | 288.00 |
| Materials and Supplies | 468.00 |
| Office Supplies | 5.00 |
| Miscellaneous | 206.00 |

E) Outside Services Employed. Test year outside services were reported at \$600. This amount has been increased by \$11,880 to reflect a routine maintenance

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contract and a management contract that carry annual fees of \$8,880 and \$3,600, respectively.

The maintenance contract was provided by Danco Engineering, Inc. The contract price was \$740 monthly or \$8,880 annually. It provides for quarterly sampling duties, maintaining the discharge monitoring reports, supplying chlorine, and four inspection and maintenance trips per week. Based on Staff's knowledge of similarly situated wastewater utilities, it is of the opinion that the contract price is reasonable; however, it is approaching the high end of the reasonableness range. Staff recommends that the contract price be included in pro forma operations.

Management Services provided the management contract bid of \$3,600. This contract provides for the processing and mailing of monthly statements, collection of monthly payments, and bookkeeping services. The Commission normally allows small investor owned utilities to include an owner/manager fee of \$3,600 in pro forma operations. This fee is to compensate the owner of a small utility that takes an active role in daily operations. J & W has requested that this management contract be approved in lieu of the typical owner/manager fee. Staff recommends that the contract price be approved.

The adjustment to outside services employed is calculated as follows:

| | |
|----------------------|------------------------|
| Maintenance Contract | \$8,880.00 |
| Management Contract | <u>3,600.00</u> |
| Total Pro forma | 12,480.00 |
| Less: Test year | <u>(600.00)</u> |
| Adjustment | \$(<u>11,880.00</u>) |

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F) Insurance. Test year expenses included \$878 for insurance expense. This amount was increased by \$358 so that pro forma insurance expense equaled the premium of \$1,236 as quoted by Rudd Insurance, Inc. for general liability and property insurance.

G) Transportation Expense. Test year transportation expense was reported to be \$1,447. This amount was eliminated because J & W could not provide supporting documentation for the expense and future transportation expenses to J & W should be minimal after the execution of the Danco Engineering maintenance contract.

H) Depreciation. In the past J & W was not allowed rate recovery of depreciation expense taken on plant assets as plant costs had been recovered through the sale of developed property. Now that the treatment plant has aged many capital improvements will be required. J & W is entitled to recover the cost of any such improvements through rates.

J & W submitted two bids for a major repair to the treatment plant. Both bids were to replace 3 inch channel supports, 3 inch tees, and install new guards. The bid amounts were \$5,460 and \$4,878. Recovery of the low bid was included in pro forma operations by increasing test year expenses by \$488. The amount was calculated by dividing the \$4,878 cost by the assets 10 year estimated depreciable life.

I) Taxes Other Than Income. Test year expenses did not include property taxes. To include a provision for such taxes an adjustment was made to increase test year expenses by \$240, the estimated property tax for J & W.

ATTACHMENT B
STAFF REPORT CASE NO. 99-174
CALCULATION OF REVENUE REQUIREMENT AND RECOMMENDED RATE

CALCULATION OF ANNUAL REVENUE REQUIREMENT

| | |
|------------------------------|--------------------|
| Pro forma operating expenses | \$15,824.00 |
| Divide by: Operating ratio | <u>88.00%</u> |
| Required revenue | <u>\$17,982.00</u> |

CALCULATION OF RECOMMENDED RATE

| | |
|---|----------------|
| Revenue Requirement | \$17,982.00 |
| Divide by: Pro forma number of bills, 70x12 | <u>840.00</u> |
| Calculated Rate | <u>\$21.41</u> |
| Recommended Rate | <u>\$21.40</u> |