

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|   |   |          |
|---|---|----------|
| APPLICATION OF NORTHLAND SEWER          | ) |          |
| COMPANY FOR AN ADJUSTMENT OF RATES      | ) | CASE NO. |
| PURSUANT TO THE ALTERNATIVE RATE FILING | ) | 2000-546 |
| FILING PROCEDURE FOR SMALL UTILITIES    | ) |          |

O R D E R

On December 19, 2000, Northland Sewer Company and the Laurel County Fiscal Court (“Applicants”) filed with the Commission an application to increase sewer rates. Many of the Applicants’ customers, as well as the Attorney General, have intervened in this case.

Commission Staff, having performed a preliminary financial review of Northland’s operations, has prepared the attached Staff Report containing Staff’s findings and recommendations regarding the proposed rates.

IT IS THEREFORE ORDERED that:

1. The report of Commission Staff, attached hereto, is made a part of the record of this proceeding.
2. All parties shall have no more than 14 days from the date of this Order to provide written comments regarding the attached Staff Report and submit to the Commission their written comments on the report.
3. Within 14 days of the date of this Order, any party may request a hearing or an informal conference. If any party requests a hearing, this matter shall be heard on

March 29, 2001 at 9:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

4. Unless written objections to the Commission Staff Report or written requests for informal conference or hearing are received within 14 days of the date of this Order, this case will stand submitted for decision.

Done at Frankfort, Kentucky, this 9<sup>th</sup> day of March, 2001.

By the Commission

ATTEST:

  
Executive Director

STAFF REPORT  
ON  
NORTHLAND SEWER COMPANY  
CASE NO. 2000-546

On December 19, 2000, Northland Sewer Company ("Northland") filed an application with the Public Service Commission ("Commission") to increase its rates for sewer service. The proposed rates are as follows:

|                     |                        |
|---------------------|------------------------|
| First 1,000 gallons | \$6.20 Minimum Bill    |
| Next 4,000 gallons  | 2.60 per 1,000 gallons |
| Next 5,000 gallons  | 2.40 per 1,000 gallons |
| Over 10,000 gallons | 2.20 per 1,000 gallons |

Northland currently charges a monthly flat rate of \$14.85 per customer. A customer using 5,000 gallons of water per month would experience a \$1.75 or 11.79 percent increase under the proposed rates.

In order to review the requested rates, Commission Staff ("Staff") issued an information request on January 12, 2001. From responses to Staff's requests, Staff compiled the following pro forma operating income statement for Northland:

|                                       |                  |
|---------------------------------------|------------------|
| Operating Revenue (\$14.85 x 39 x 12) | <u>\$6,950</u>   |
| Operating Expenses                    |                  |
| Routine Maintenance                   | \$9,456          |
| Chemicals                             | 1,017            |
| Water                                 | 62               |
| Electricity                           | <u>629</u>       |
| Total Operating Expenses              | <u>\$11,164</u>  |
| Net Operating Income                  | <u>\$(4,214)</u> |

To calculate Northland's revenue requirement, Staff utilized the 88 percent operating ratio method that is generally applied by the Commission when calculating rates for small investor owned utilities. The following demonstrates the calculation:

|                                  |                 |
|----------------------------------|-----------------|
| Operating Expenses               | \$11,164        |
| Divide by: 88 percent            | <u>88%</u>      |
| Revenues to meet operating ratio | \$12,686        |
| Plus: Provision for income taxes | <u>363</u>      |
| Revenue Requirement              | <u>\$13,049</u> |

Based on the above information, Staff recommends that Northland's current operating revenues be increased by \$6,099 (\$13,049 - \$6,950). To generate the additional revenue, Staff recommends that Northland's current monthly flat rate of \$14.85 be increased by \$13.04 to \$27.89 (\$13,049 / 39 / 12). This will result in an 87.81 percent increase.

A flat rate design for Northland is recommended in this case as it appropriately assigns the cost of reserved plant capacity to each customer regardless of the amount of water used.

Renee Curry is responsible for all revenue adjustments, the calculation of the recommended rates, and rate design. Karen Harrod is responsible for the determination of the revenue requirement.

#### Signatures

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Prepared by: Karen Harrod, CPA  
Financial Analyst  
Division of Financial Analysis

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Prepared by: Renee Curry  
Rate Analyst  
Division of Financial Analysis