COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HILLRIDGE FACILITIES, INC. FOR AN ADJUSTMENT OF RATES PURSUANT TO THE ALTERNATIVE RATE FILING PROCEDURE FOR SMALL UTILITIES	))))	CASE NO. 2001-062

O R D E R

On March 14, 2001, Hillridge Facilities, Inc. ("Hillridge") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Hillridge'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 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 26th day of November, 2001.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HILLRIDGE FACILITIES,	)	
INC. FOR AN ADJUSTMENT OF RATES	)	CASE NO. 2001-062
PURSUANT TO THE ALTERNATIVE RATE	)	
FILING PROCEDURE FOR SMALL UTILITIES	)	

STAFF REPORT

Prepared by: Jack Kaninberg
Public Utility Financial Analyst
Water & Sewer Revenue
Requirements Branch
Division of Financial Analysis

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

STAFF REPORT

ON

HILLRIDGE FACILITIES, INC.

CASE NO. 2001-062

On March 14, 2001, Hillridge Facilities, Inc, ("Hillridge") filed its application seeking to increase its rates pursuant to 807 KAR 5:076. Hillridge's current rate is a flat monthly fee of $20.38. Hillridge proposes to increase its current rate by 49 percent to $30.38. In order to evaluate the requested increase, Commission Staff ("Staff") performed a limited review of Hillridge's test period operations for the year ending December 31, 2000. Based on its review Staff recommends a monthly flat rate of $24.62. This represents a 20.8 percent increase over the current rate.

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.

Jack Kaninberg and Dennis Jones of the Commission's Water and Sewer Revenue Requirements Branch began the limited review on August 8, 2001. This report summarizes Staff's review and recommendations. Mr. Kaninberg is responsible for the revenue requirement determination and Sam Reid is responsible for the rate design.

Hillridge's proposed operations are shown in Attachment A. Staff's recommended operating statement and explanation of adjustments are shown in Attachment B.

Hillridge calculated its revenue requirement to be $253,419. Staff calculated Hillridge's revenue requirement to be $205,308. Staff's revenue requirement calculation and calculation of the recommended rate is shown in Attachment C.

Signatures

____
Prepared by: Jack Kaninberg
Public Utility Financial Analyst
Water & Sewer Revenue
Requirements Branch
Division of Financial Analysis

____
Prepared by: Sam Reid
Public Utility Rate Analyst
Communications, Water, and
Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2001-062
HILLRIDGE'S REQUESTED OPERATIONS

	Test Year	Adjustments	Pro forma
Operating Revenues			
Flat Rate Revenue	173,435	-	173,435
Total Operating Revenue	173,435	-	173,435
Operating Expenses			
Management Fee	2,400	-	2,400
Sludge Hauling	32,831		32,831
Maintenance-General Plant	44,832	-	44,832
Fuel & Power	31,742	-	31,742
Chemicals	13,361	-	13,361
Routine Maintenance Fee	25,712		25,712
Office Supplies	14,477	-	14,477
Agency Collection Fee	6,195	-	6,195
Outside Services Employed	17,240		17,240
Insurance Expense	3,756		3,756
Transportation Expense			-
Miscellaneous Expense			-
Rent Expense		-	-
Depreciation Expense	19,286		19,286
Amortization Expense			-
Taxes other than Income Tax	5,301	-	5,301
Income Taxes			-
Interest Expense			-
Total Operating Expenses	217,133	-	217,133
Utility Operating Income/(Loss)	(43,698)	-	(43,698)

ATTACHMENT B
STAFF REPORT CASE NO. 2001-062
STAFF'S RECOMMENDED OPERATIONS

	Test Year	Adjustments	Ref.	Pro forma
Operating Revenues				
Flat Rate Revenue	173,435	(3,466)	(a)	169,969
Total Operating Revenue	173,435	(3,466)		169,969
Operating Expenses				
Management Fee	2,400	1,200	(b)	3,600
Sludge Hauling	32,831			32,831
Maintenance-General Plant	44,832	(27,670)	(c)	17,162
Fuel & Power	31,742			31,742
Chemicals	13,361			13,361
Routine Maintenance Fee	25,712	(5,009)	(d)	20,703
Office Supplies	14,477	(3,449)	(e)	11,028
Agency Collection Fee	6,195			6,195
Outside Services Employed	17,240	(12,000)	(f)	5,240
Insurance Expense	3,756	82	(g)	3,838
Transportation Expense				
Miscellaneous Expense				-
Rent Expense				-
Depreciation Expense	19,286	1,632	(h)	20,918
Amortization Expense		4,101	(I)	4,101
Taxes other than Income Tax	5,301	(374)	(j)	4,927
Income Taxes			(k)	
Interest Expense				
Total Operating Expenses	217,133	(41,487)		175,646
Utility Operating Income/(Loss)	(43,698)	38,021		(5,677)

ATTACHMENT B
STAFF REPORT CASE NO. 2001-062
STAFF'S RECOMMENDED OPERATIONS

(a) Operating Revenue. Hillridge's 2000 annual report indicates that it had operating revenue of $173, 435 from 695 customers. Based on 695 customers, Staff determined pro forma present rate revenue to be $169,969 (695 customers x $20.38 per month x 12 months) and recommends the test year amount be decreased by $3,466.

(b) Management Fee. The Commission normally allows a $3,600 owner/manager fee, as well as a reasonable profit, to compensate for the responsibilities of owning and managing a sewer utility. Hillridge's 2000 annual report included a management fee of $2,400. As the owner and operator of Hillridge, Mr. Donald Ridge is responsible for overseeing its management and insuring that the treatment plant operates and conforms to the appropriate regulatory guidelines. For this responsibility, Mr. Ridge is entitled to receive a reasonable level of compensation. Staff believes that an owner/manager fee of $3,600 is warranted in this instance, and has therefore increased the test period operating expenses by $1,200.

(c) Maintenance – General Plant. Hillridge's 2000 annual report included $44,832 of expenses for Maintenance of General Plant. According to Hillridge, this account included 7 monthly maintenance charges totaling $4,225 which were paid to Hillridge's certified plant operator; 5 monthly charges of $1,500 each from Hillridge's affiliate company Palmetto Land Company which totaled $7,500; "extra maintenance" expenses totaling $32,112 which were paid to various vendors; and $995 of other charges from Waste Management and Murphy's Excavating. Staff has made several adjustments to these expenses as detailed herein.

The first adjustment is to remove the $7,500 amount paid by Hillridge to its affiliate Palmetto Land Company. This monthly fee of $1,500 was charged for five months, is a less-than-arms length transaction, and was in addition to the monthly fee for routine maintenance provided by Covered Bridge Utilities, Inc. ("Covered Bridge"), the certified plant operator (also known as Jefferson Environmental Services before changing its name during the test period). During its initial field review, Staff asked Hillridge to provide any contracts governing the relationship between Hillridge and Palmetto, and Hillridge subsequently responded by providing a contract dated August 24, 2001. This contract listed several duties of Don Ridge Service Company for Palmetto Land Company, including general plant operations, testing, odor control, plant washings, and various other items. However, Staff has allowed recovery for expenses paid to the certified plant operator, whose contract calls for daily inspections and operation of the plant. In addition, Staff has recommended an owner/manager fee of $3,600, as well as a reasonable profit, to compensate the owner of Hillridge for management of the utility. Moreover, Staff has also recommended recovery for reasonable expenses charged by Palmetto to the routine maintenance account, and recovery of office expenses (i.e., bookkeeping charges and rent) as discussed in other sections of this report.

Relative to the "extra maintenance" expenses totaling $32,112, a majority of these expenses were charged to Hillridge by Covered Bridge. Several of the billings in this account included Covered Bridge's monthly operating and maintenance fee, which was increased from $550 to $675 effective September 1, 2000. After reviewing the charges from Covered Bridge and Jefferson Environmental and consulting with James Rice of the Commission's Engineering Division, Staff recommends that several items should be capitalized rather than expensed because they benefit future periods as well as the test period. In addition, Hillridge apparently double-counted an expenditure of $399.40 in its expenses, and an adjustment should be made to correct this. These expenditures, listed below, have therefore been removed from pro-forma maintenance expenses.

Invoice Date	Description	Amount
1/28	Installation of 2 diffuser drops	$865.90
2/10	Installed dehumidifier; pump packing; check valves	$627.70
2/17	Installed check valves; new packing, other*	$914.40
3/7	Installed valves	$2,320.82
4/27	Installed hydrant, etc. (Double counted 5/31)	$399.40
8/17	Installed exhaust fan, hydrant, etc.	$785.37
8/16	Grainger – (Blower part-see August 17 invoice)	$100.28
10/12	Installed new motor and replacement valve	$688.32
11/16	Installed new circuit breaker	$1,726.62
11/17	Drag chain; drive chain; etc.	$6,805.20
	Total	$15,234.01

In addition to the above-mentioned capital items, Hillridge incurred expenses from Quality Electric Motor Service, Inc. for two pumps during the test period. After consulting with Mr. Rice of the Commission's Engineering Division, Staff recommends that these amounts, which totaled $2,762, should be capitalized as well. Therefore, expenses of $17,996 have been removed from pro-forma maintenance expense, although an adjustment has been made elsewhere in this report to increase depreciation expense for the capitalized items.

Also included in "extra maintenance" expenses were payments to various vendors totaling $4,258. Two of these expenditures were from Hashco, Inc. for work performed in 1999 rather than 2000, and therefore they have been removed from pro-forma operations, resulting in an adjustment of $2,035. In addition, Hillridge was unable to provide documentation for several minor expenditures: one from Jiffy Lube in the amount of $55.80, another from J.T. Hawd in the amount of $67.01, a third from an unnamed vendor in the amount of $16.89, and a miscellaneous amount of $32. Absent supporting documentation showing that these expenditures were incurred for the benefit of Hillridge, as opposed to an affiliated entity or related party, these expenses totaling approximately $172 have been removed from pro-forma operations. Therefore, the total adjustment related to these particular expenses is $2,207.

Relative to other charges of $995, Hillridge supplied invoices to document charges of $695 from Waste Management and $300 from Murphy Excavating. However, Staff's review of these invoices indicated that the charges from Waste Management actually totaled $727.75, an adjustment of $33.

In summary, the total adjustments recommended by Staff relative to the Maintenance-General Plant account reduce Hillridge's pro-forma expenses by $27,670.

(d) Routine Maintenance Fee. For the test period, Hillridge reported Routine Maintenance expense of $25,712.54. Hillridge provided invoices and other documentation to support these expenses, the majority of which were charged to Hillridge by its affiliate Palmetto Land Company. Specifically, Hillridge provided 58 separate invoices from Palmetto totaling $20,154. Staff has reviewed these expenses and recommends several adjustments as detailed herein.

Hillridge was charged a total of $11,300 by Palmetto Land Company for quarterly cleaning of diffusers. Because of the less-than-arms-length nature of these transactions, the material nature of this expense, and because Palmetto's invoices did not detail the time spent on this work, Staff requested additional information to evaluate the reasonableness of the charges. Staff also consulted with Larry Updike of the Commission's Engineering Division relative to the need for quarterly cleanings. Based upon an evaluation of the information supplied by Hillridge, as well as discussion with Mr. Updike, Staff has concluded that these expenses are not unreasonable, and they should be allowed in pro-forma operations. However, in future rate proceedings, Hillridge should better document the time spent by Palmetto on this activity, and it should consider less frequent cleanings or other alternatives that might result in less cost to the utility.

Other routine maintenance expenses charged to Hillridge by Palmetto Land Company are more problematic. For instance, Palmetto charged Hillridge a flat rate of $85 per run to respond to customer inquiries, and it had 14 of these charges in the test period, resulting in charges of $1,190. In addition, on March 6, 2000, Hillridge was billed $170 for a two-hour service call, and on March 10 Hillridge was billed $255 for a three-hour service call, charges of $85 per hour rather than $85 per run. Responding to customer inquiries is a normal expectation for a utility operator, and therefore Staff does not believe that these charges are reasonable. Consequently, Staff has made an adjustment of $1,615 to remove these expenses from pro-forma operations.

During the test period, Palmetto also charged Hillridge for labor (at $35 per hour) and mileage (sometimes at rates as high as $1.05 per mile, based on an invoice dated May 6, 2000) for at least 20 trips to the post office and nearby stores. Many of these trips involved picking up routine materials and supplies, such as locks, hoses, paint, rags, and a notebook. The labor time and mileage rates appear to be excessive because they are based upon trips from Palmetto Land Company's office in Fisherville, Kentucky, rather than from the location of the sewer plant in Jeffersontown, Kentucky. In addition, it is reasonable to expect this work to be performed as a part of routine operations. Therefore, staff recommends an adjustment to remove the labor and mileage charges associated with the following invoices:

Invoice Date	Description	Amount
1/18	Pick up lock	$48.60
2/23	East End Plumbing	$79.00
3/20	Picked up gate valves	$115.00
4/4	Pick up tar at Jefferson Hardware	$114.00
5/1	Went to Home Depot to pick up water hose	$79.00
5/6	Picked up HTH at H&S Pool City	$91.00
5/9	Picked up HTH at Home Depot	$77.50
6/6	Went to Meijers to pick up HTH and paint	$77.50
6/21	Sent certified letter to Waste Management	$79.00
7/17	Went to Home Depot	$79.00
8/19	Went to Meijers for note book	$41.00
9/13	Went to Home Depot-hose and shut-off valves	$79.00
9/19	Went to Meijers to get marble for diffuser	$111.00
10/7	Went to Hikes Point Paint, picked up paint/rags	$79.00
10/21	Went to K&I Lumber to pick up flight boards	$155.00
10/25	Picked up distilled water	$76.00
11/15	Went to Lowes to buy heater/related equipment	$115.15
12/12	Went to Home Depot for equipment	$79.00
12/20	Went to Home Depot to get electric card (sic)	$79.00
12/26	Went to Home Depot to get electric cord	$79.00
	Total	$1,732.75

The materials charges related to these invoices have been included in pro-forma operations.

Relative to mileage charges, Staff notes that 36 of the 58 invoices provided by Palmetto included such charges. In the preceding paragraph, Staff has recommended mileage disallowances related to 20 invoices. In addition, as a general rule it is unclear why Hillridge's ratepayers should pay mileage charges for routine maintenance by Hillridge's Palmetto affiliate. Therefore, Staff recommends disallowance of the mileage charges that were included in 16 additional invoices, an adjustment of $203.

Other expenditures in this account are of questionable benefit to the ratepayers. For example, one charge of $210 dated June 1, 2000 was for six hours of labor to conference with attorneys about the sale of the sewer plant. This expenditure is nonrecurring in nature and appears to benefit Hillridge's owner rather than its ratepayers, and therefore Staff recommends that it be removed from pro-forma expenses. A charge of $77.50 dated September 16, 2000 was for mileage and two hours of labor to take "pictures of MSD's trespassing." Absent evidence of benefit to the ratepayers, Staff recommends that this expense should also be removed from pro-forma operations. Yet another invoice dated January 20 charged Hillridge $146 for labor and mileage to clean leaves and dirt from the filter footer around the plant. This type of work should be a routine responsibility rather than an extra charge to ratepayers, and therefore Staff recommends that it be removed from pro-forma operations. These three adjustments total $433.

An invoice dated June 12 charged Hillridge for two hours of labor at $135 per hour, not $35 per hour as is the case for other invoices; another invoice dated March 28 charged work at $52.50 per hour for 8 hours of work. These hourly rates appear to be excessive, or in error, when compared to the other labor rates routinely charged by Palmetto Land Company. Reducing these rates to $35 per hour results in an adjustment of $340.

In summary, Staff recommends an adjustment of $1,615 to remove Palmetto Land Company charges for routine service calls; an adjustment of $1,732.75 to remove charges related to store visits and routine pick-ups; an adjustment of $203 related to other mileage charges by Palmetto; an adjustment of $433 related to routine cleaning, the potential sale of the plant, etc.; and an adjustment of $340 related to excessive labor rates. Palmetto Land Company is an affiliate which shares common ownership with Hillridge, and the above-mentioned transactions are less-than-arms-length. In addition, this account also included an invoice of $685 from Murphy's Excavating which was dated February 23, 1999, indicating that the expense was actually incurred prior to the test period. Therefore, Staff recommends an adjustment to remove this amount from pro-forma expenses. Totaling all of these disallowances results in an adjustment to Routine Maintenance Expense of $5,009.

(e) Office Supplies. During the test period, Hillridge reported expenses of $14,476.62 for Office Supplies. This account included payments to Palmetto Land

Company of $6,000 for secretarial and office work; payments to Palmetto of $5,542.52 for rent; payments totaling $1,942.53 to four separate telecommunications providers; and other miscellaneous charges of approximately $991. Staff recommends several adjustments to these expenses.

First, Staff recommends an adjustment to the rent expense of $5,542.52 paid by Hillridge to its Palmetto affiliate. Bills submitted by Hillridge indicate that it incurred monthly rental charges of $445 until December 1, when the monthly charge was increased to $647.52. This payment is for the use of rental space at Mr. Ridge's home address in Fisherville. In the 1989-1990 rate case which established Hillridge's current rates (see Case No. 89-347, Order dated September 17, 1990), the Commission Staff Report in that case reflected annual rent of $3,575, which was included in Office Supplies and Other expense of $14,895. Because the Commission's final Order in that case approved Office Supplies and Other expense of $14,248, it appears that the rent expense included therein was determined to be reasonable. Commission Staff recommends that the same amount of rent expense should be allowed in this case. This recommendation is based on the fact that the facility in question is the home of Hillridge's owner. This means that the transaction is less-than-arms-length, that the rental space is not subject to normal supply and demand conditions for commercial rental property, and that cost increases are unlikely to have occurred to justify increased rental charges. Under these conditions, Staff believes it is reasonable to allow the previously-allowed rent of $3,375, an adjustment of $1,967.52.

Staff also recommends that adjustments be made to reduce the expenses related to telecommunications services. Hillridge's expenses for such services included $856.69 from BellSouth, $596.68 from Verizon Wireless, $283.12 from BellSouth Mobility, and $206.04 from AT&T. Relative to BellSouth Mobility, Hillridge's documentation suggests that service was cancelled in July 2000 and is therefore nonrecurring. Relative to the AT&T charges, invoices suggest that Don Ridge Realty Company (rather than Hillridge) was billed a quarterly charge of $17.17 for a leased trimline rotary telephone. It appears that Hillridge mistakenly annualized that amount in summarizing its expenses despite the indication that the charge was quarterly rather than monthly. Moreover, it is unclear why Hillridge should pay for this expense, which was billed to its affiliate rather than Hillridge, and it is also unclear why the ratepayers should pay for a leased telephone when a more economical purchased telephone should suffice. Relative to service from Verizon Wireless, it is questionable whether ratepayers should be required to absorb the expense for wireless service. This expense was billed to Palmetto Land Company, and because Hillridge has various affiliates engaged in nonutility activities, it is unclear whether the ratepayers actually benefit from this service. Given the circumstances of this case, Staff believes that it is reasonable for Hillridge to recover the expenses associated with local service from BellSouth, and that the other charges should be removed, an adjustment of $1,085.84.

Another adjustment should be made to remove several charges incurred outside of the test period in this case. These include several charges from Executive Suites of Kentucky which totaled $84, two charges from Kinko's totaling $29.15, four charges from Home Depot totaling $176.04, and one charge from Meijer of $7.25. This adjustment totals $296.44.

Staff recommends another adjustment to remove certain minor expenses which appear to have been paid by Hillridge affiliates. The basis for this conclusion is that the checks written to pay for these items (i.e., #2814 to ABC Printing; #2947 to the U.S. Postal Service; #2825 and #2734 to Executive Suites of Kentucky) were far outside of the sequence of check numbers of Hillridge during the test period (i.e. the Hillridge check sequence was in the #1100 to slightly above the #1300 range), suggesting that the expenses relate to nonregulated activities. Absent evidence that these expenditures benefited the sewer utility, Staff recommends an adjustment of $99.20 to remove them from pro-forma operations.

To summarize, Staff recommends adjustments of $1,967.52 relative to rent expense, $1,085.84 relative to telecommunications services; $296.44 for charges outside the test period; and $99.20 for apparent charges by affiliates. The total adjustment related to Office Services is therefore $3,449.

(f) Outside Services Employed. Hillridge reported test year expenses for outside services employed of $17,240, which consisted of $13,170 of attorney fees and $4,080 of accounting fees. The latter consisted of four payments to Hillridge's CPA, one of which was in the amount of $880 for a valuation study related to the possible sale of Hillridge. Because this expenditure was undertaken for the benefit of Hillridge's stockholder rather than its ratepayers, Staff recommends an adjustment of $880 to remove this expenditure from pro forma operations. Another payment of $1,450 was actually billed to Palmetto Land Company for preparation of its financial statements and tax returns, and therefore Staff recommends that it be removed from Hillridge's operations. Combining these two adjustments results in a reduction of $2,330 related to accounting fees.

Relative to attorney fees, Hillridge made 8 payments to its attorneys during the year 2000. Hillridge has indicated that one payment of $1,125 should be removed because only a small portion was for Hillridge. Two payments totaling $1,546 related to the possible sale of the Hillridge plant, and Staff believes that ratepayers should not bear these costs. Therefore, Staff recommends an adjustment to remove $2,671 related to those items.

Of the remaining five legal payments totaling $10,498.33, four invoices totaling $9,325.33 related to a dispute with the Metropolitan Sewer District ("MSD"), while the other invoice of $1,173 was for "general matters." However, details of the latter invoice indicate that some of that work also related to the MSD dispute. Hillridge provided extensive documentation relative to the history of this matter, which dates back to 1999. The information indicates that the dispute involves MSD's powers of entry relative to Hillridge's sewer facilities, for the purposes of regulating drainage systems and conducting examinations and surveys. Hillridge alleges that an MSD contractor altered, without permission, a twelve inch overflow hole and attached a six inch line in violation of Hillridge's property rights. Hillridge further alleges that this action increased the risk of damage to neighboring homes in the event of a backup, and exposed Hillridge's owner to the risk of significant claims for liability. Because this dispute involves the operation of the sewer plant, Staff believes that these are legitimate expenses to be recovered through rates. However, because of the unusual and nonrecurring nature of this work, it is appropriate to amortize these expenses over a reasonable timeframe. Staff notes that Hillridge's payments for outside services of $1,700 in 1998 and $4,195 in 1999 were considerably less than the $17,240 incurred in the test period. Therefore, Staff recommends that the five payments for legal fees in the amount of $10,498 should be amortized over three years, resulting in an adjustment of $6,999. Staff has also made a corresponding adjustment to increase amortization expense by $3,499 to allow for a three-year recovery of these nonrecurring legal fees.

In summary, Staff recommends an adjustment of $2,330 related to accounting fees; an adjustment of $2,671 for legal fees that should not be borne by Hillridge ratepayers, and an adjustment of $6,999 related to the removal and amortization of nonrecurring legal fees. This results in a total reduction of $12,000 to Outside Services Employed.

(g) Insurance Expense. Hillridge listed insurance expenses of $3,756 in its Annual Report, but it has provided documentation to support a pro forma insurance expense of $3,838. Therefore, Staff recommends an adjustment to increase this expense by $82.

(h) Depreciation Expense. Hillridge reported test year depreciation expense of $19,286. Because Staff has recommended the capitalization of several Maintenance of General Plant expenditures made during the test period, it is appropriate to recognize the increased depreciation expense associated with those items. Based upon the recommendations of Mr. Rice of the Commission's Engineering Division, the following useful lives and depreciation adjustments have been determined to be appropriate:

Description	Amount	Useful Life(Yrs.)	Adjustment
Installation of 2 diffuser drops	$865.90	10	$87
Installed valves	$2,320.82	10	$232
Grainger – (Blower part)	$100.28	10	$10
Installed new motor, repl. valve	$688.32	5	$138
Installed new circuit breaker	$1,726.62	20	$86
Drag chain; drive chain; etc.	$6,805.20	20	$340
Quality Electric-hydromatic pump	$1,985.30	5	$397
Quality Electric-hydromatic pump	$777.14	5	$194
		Total	$1,484

In addition, other invoices for capitalized items contained a single charge for several tasks performed, with no breakdown of the labor for the capital items versus that which was appropriately expensed. Because of this problem, Staff recommends that the following expenditures be split equally – that is, that 50% of the labor charge be assigned to the capitalized activities and 50% to the expensed activities:

Description	Amount	Useful Life(Yrs.)	Adjstmt.
Installed dehumidifier; etc.	$628 / 2 = $314	5	$63
Installed check valves; etc.	$914 / 2 = $457	10	$46
Installed exhaust fan, hydrant, etc.	$785 / 2 = $393	10	$39
		Total	$148

Adding the above-mentioned depreciation amounts results in an increase to depreciation expense of $1,632.

(i) Amortization Expense. As previously mentioned, Staff has adjusted amortization expense to include a three-year recovery of $3,499 for nonrecurring legal fees. In addition, Hillridge proposed no adjustment for rate case expense, although Staff has documented evidence of $1,806 for CPA expenses for preparing information related to this case. Staff recommends amortization of these expenses over a three-year period, an adjustment of $602 per year. The two adjustments result in an increase of $4,101 to amortization expense.

(j) Taxes Other Than Income Taxes. The 2000 Annual Report included Taxes Other Than Income Tax expense of $5,301. In response to a staff data request, Hillridge provided invoices to support expenses totaling $5,426, a difference of $125. However, the 2000 Jefferson County property tax bill was actually paid on March 18, 2001. Because this bill was paid almost three months late, Hillridge was required to pay $2,869.15 instead of $2,370.20, a difference of $498.95. Staff recommends that this penalty amount should not be included in pro forma operations, and this adjustment combined with the $125 adjustment reduces pro forma expenses by $374.

(k) Income Taxes. Hillridge included in its revenue requirement calculation $6,677 for income taxes resulting from the proposed rate increase. Staff included a provision for income taxes in its revenue requirement calculation. Income taxes at Staff's recommended rates are $5,710.

Attachment C
Hillridge Facilities
Test Year Ended 12/31/00
Case No. 2001-062

	Test Year	Proposed Adjustments	Proposed Test Year	Adjustments	Ref.	Pro forma
Operating Revenues						
Flat Rate Revenue	173,435		173,435	(3,466)	(a)	169,969
Total Operating Revenue	173,435		173,435	(3,466)		169,969
Operating Expenses						
Management Fee	2,400	-	2,400	1,200	(b)	3,600
Sludge Hauling	32,831		32,831			32,831
Maint. of Treatment Plant	44,832	-	44,832	(27,670)	(c)	17,162
Fuel & Power	31,742	-	31,742			31,742
Chemicals	13,361	-	13,361			13,361
Routine Maintenance Fee	25,712		25,712	(5,009)	(d)	20,703
Office Supplies and Other	14,477	-	14,477	(3,449)	(e)	11,028
Agency Collection Fee	6,195	-	6,195			6,195
Outside Services Employed	17,240		17,240	(12,000)	(f)	5,240
Insurance Expense	3,756		3,756	82	(g)	3,838
Transportation Expense						
Miscellaneous Expense						-
Rent Expense		-	-			-
Depreciation Expense	19,286		19,286	1,632	(h)	20,918
Amortization Expense				4,101	(i)	4,101
Taxes other than Income Tax	5,301	-	5,301	(374)	(j)	4,927
Income Taxes					(k)	
Interest Expense						
Total Operating Expenses	217,133		217,133	(41,487)		175,646
Utility Operating Income/(Loss)	(43,698)		(43,698)	38,021		(5,677)

	Proposed Test Year	Pro forma
Revenue Requirement Calculation		
Pro forma operating expenses before taxes	217,133	175,646
Divide by: 88 percent	0.88	88%
Revenue required before taxes	246,742	199,598
Less: Pro forma operating expenses before taxes	(217,133)	(175,646)
Net income allowed after taxes	29,609	23,952

Times: Tax gross-up factor	1.23839	123.839%
Net operating income before taxes	36,667	29,662
Add: Pro forma operating expenses before taxes	217,133	175,646
Revenue Requirement	253,800	205,308
Calculation of Tax Gross-Up Factor		
Revenue		100.000%
Less: State tax		-5.000%
Sub-total		95.000%
Less: Federal tax, 15% of sub-total		-14.250%
Percent change in NOI		80.750%
Factor (Revenue of 1 divided by change in NOI)		123.839%
Rate Calculation		
Revenue Requirement		205,308
Divide by: 695 Customers (Per 2000 Annual Report)		695
Divide by: 12 months		12
Monthly Rate		24.62