

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JOANN ESTATES)	
UTILITIES, INC. FOR AN ADJUSTMENT)	
OF RATES PURSUANT TO THE)	CASE NO. 2007-00308
THE ALTERNATIVE RATE FILING)	
PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On August 2, 2007, Joann Estates Utilities, Inc. ("Joann Estates") filed its application for Commission approval of its proposed sewer rates. Commission Staff, having performed a limited financial review of Joann Estates' operations, has prepared the attached Staff Report containing its 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 within 10 days of the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 10 days from the date of this Order to submit written comments regarding the attached Staff Report or to request a hearing or informal conference in this matter. If no request for a hearing or informal conference is received by that date, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 13th day of September, 2007.

By the Commission

ATTEST:


Executive Director

Case No. 2007-00374

STAFF REPORT
JOANN ESTATES UTILITIES INC.
CASE NO. 2007-00308

Pursuant to a request by Joann Estates Utilities Inc. ("Joann Estates") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited review of Joann Estates' test year operations for the calendar year ended December 31, 2005. 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.

Upon completion of the review, Staff assisted Joann Estates 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, as shown in Attachment A. The rate proposed by Joann Estates was based on the pro forma income statement as shown in the application. The application also includes the calculation of Joann Estates' revenue requirement using an 88 percent operating ratio, which is frequently used by the Commission to determine revenue requirements for small sewer utilities. To generate the revenue requirement of \$63,450, Joann Estates is proposing to increase its annual revenues from sewer rates by \$8,413, an increase of 15.29 percent over normalized sewer revenues of \$55,037.

On August 2, 2007, Joann Estates Utilities Inc. ("Joann Estates") filed its rate application with the Commission for its consideration. Staff is hereby adopting the contents of that application as its recommendation in this report as if fully set out herein. Joann Estates' current rate is a flat monthly fee of \$17.05. Joann Estates proposes to increase its current rate by 15.3 percent to \$19.66, which would produce increased revenues of \$8,413. Based on its review Staff recommends approval of Joann Estates' requested monthly rate of \$19.66.

Sam Reid is responsible for all revenue adjustments and the calculation of the proposed rate. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the recommendations herein, Staff is of the opinion that the rate as shown in Attachment B of this report is reasonable and should be approved by this Commission.

Signatures

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

Prepared by: Sam Reid
Manager of Rate Analysis
Water and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2007-00308

Joann Estates Attachment A	2004	2005	Adjustment	Ref.	Adjusted
Revenues	\$49,976	\$50,658	\$4,379	A	\$55,037
Owner/Manager – Mgmt. Fee	\$9,750	\$11,875	0	B	\$11,875
Utility Service – Water Cost	\$7,925	\$8,988	0		\$8,988
Lab Fees	\$5,050	\$15,616	(\$400)	C	\$12,624
Chemicals	\$9,788		(\$2,592)		
Rents	\$4,300	\$1,900	\$1,200	D	\$3,100
Maint. of other plant facilities		\$418	(\$374)	E	\$44
Office Supplies & Other	\$265	\$185	0		\$185
Outside Services employed	\$6,591	\$9,237	(\$200)	F	\$11,747
			(\$381)		
			(\$185)		
			\$3,276		
Insurance Expense		0	0		0
Misc. General Exp.	\$3,595	\$1,580	0		\$1,580
Total Sewer O&M	\$47,264	\$49,799	\$344		\$50,143
Taxes OT Income	\$2,696	\$1,236	0		\$1,236
Depreciation Exp.	\$3,003	\$2,987	0		\$2,987
Amortization Expense		0	\$125	G	\$201
			\$76		
Total Operating Exp.	\$52,963	\$54,022	\$545		\$54,567
<i>Net Operating Income</i>	<i>(\$2,987)</i>	<i>(\$3,364)</i>	<i>\$3,834</i>		<i>\$470</i>

Calculation of Revenue Requirement using Operating Ratio Method:

\$54,567 Proforma Operating Expenses Before Income Taxes
88% Operating Ratio
 \$ 62,008 Revenue Requirement Before Tax
 (\$55,959) Proforma Operating Expenses
 \$ 6,049 After Tax net Income
x 1.23839 Tax Factor
 \$ 7,491 Net Income Before Income Tax (Tax is \$1,442)

\$ 63,450 Revenue Requirement Including Tax
 (\$55,037) Normalized Revenues
 \$ 8,413 Recommended Revenue Increase (15.29% increase)

\$63,450 / 12 = \$5,287.50 divided by 269 customers = \$19.66 per month bill (rounded up from \$19.656)

Explanatory Notes:

A. Revenues were adjusted to reflect Staff's normalized revenues based on 269 customers.

B. Owner/Manager Fee Expense – No adjustment has been made to this expense, but Staff notes that it includes both the owner/manager fee typically allowed by the Commission as well as the routine maintenance expenses associated with operating and maintaining the plant.

C. Chemicals Expense was adjusted for two items. The first was the removal of \$400 in lab fees incurred in 2004 but paid in 2005; the second was the reduced cost associated with changing a chemical supplier.

D. Rent Expense was adjusted to average the 2005 rent expense of \$1,900 and the 2004 rent expense of \$4,300. The owner of Joann Estates rents a tractor to the utility at a charge of \$3,600 annually, but no contract exists for this less-than-arms-length transaction. In addition, the utility occasionally rents a backhoe from Case Equipment to dredge its lagoon, but this was not done in 2005. Under these circumstances, an average of the 2004 and 2005 rent expenses is reasonable.

E. Maintenance of Other Plant Facilities Expense was adjusted to remove a nonrecurring charge for fencing material.

F. Outside Services Employed Expense was adjusted for four items. First, a \$200 expense incurred in 2004 but paid in 2005 was removed. Second, a \$381 nonrecurring charge for an engineer to copy records was removed. Third, a total of \$185 paid to a contract laborer was removed because it will not recur in the future. Fourth, an allowance of \$3,276 (\$63 per week, or \$9 per hour times 7 hours) was made for a contract laborer to perform miscellaneous tasks at the utility.

G. Amortization Expense was adjusted to include a three-year recovery for the fencing material removed above, as well as a five-year recovery for the engineer's copying charges.

ATTACHMENT B
STAFF REPORT CASE NO. 2007-00308
STAFF'S RECOMMENDED RATE

Monthly Sewer Rate

Flat rate per customer

\$19.66 per month