

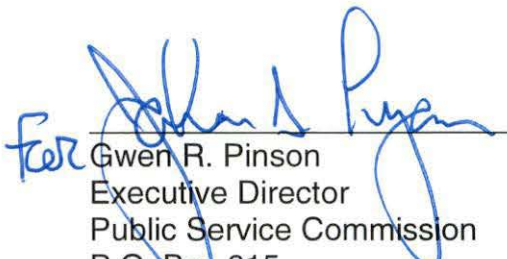
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NIXUTIL SANITATION)	
ASSOCIATION, INC. FOR AN ALTERNATIVE)	CASE NO.
RATE ADJUSTMENT)	2019-00024

NOTICE OF FILING OF STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of April 1, 2019, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's April 1, 2019 Order, Nixutil Sanitation Association, Inc., is required to file written comments regarding the findings of Staff no later than 14 days from the date of entry of this Staff Report.

For 
Gwen R. Pinson
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JUL 29 2019

cc: Parties of Record

STAFF REPORT
ON
NIXUTIL SANITATION ASSOCIATION, INC.
CASE NO. 2019-00024

Nixutil Sanitation Association, Inc. (Nixutil Association), a sewer association that provides sewer service to approximately 34 customers,¹ residing in Kenton County, Kentucky.² On January 14, 2019, Nixutil Association tendered an application requesting to adjust its monthly sewage service rates, pursuant to the procedures set forth in 807 KAR 5:076, and to place its proposed rates in effect immediately. Nixutil Association's application was marked as deficient by a letter dated January 30, 2019, because it did not contain a depreciation schedule of all the utility plant in service or a detailed analysis of its customers' bills. On February 4, 2019, Nixutil Association requested that it be excused from those filing requirements. The Commission granted Nixutil Association's request based on its size and plant in service. Nixutil Association's application was accepted as filed on February 4, 2019. Pursuant to 807 KAR 5:076, Section 7, Nixutil Association's proposed rates were suspended until August 3, 2019, and an emergency interim monthly rate of \$61.73 was placed into effect.

To comply with the requirements of 807 KAR 5:076, Section 9,³ Nixutil Association based its requested rates on a historic test period that coincides with the reporting period

¹ Application at 16.

² *Annual Report of Nixutil Sanitation Association, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2017* (2017 Sewer Annual Report) at 9.

³ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes that coincides with the reporting period of the applicant's annual report for the immediate past year.

shown in its most recent Annual Report on file with the Commission, the calendar year ended December 31, 2017.

Using its pro forma test-year operations, Nixutil Association determined that it could justify a revenue increase of \$9,617, or 52.05 percent, as shown in the table below.⁴

	Nixutil Association
Operating Expenses	\$ 27,564
Divided by: Operating Ratio	<u>88%</u>
Overall Revenue Requirement	31,323
Add: Interest Expense	0
Less: Other Operating Revenue	<u>3,228</u>
Revenue Requirement - Wastewater	28,095
Less: Normalized Revenue from Wastewater Service	<u>(18,477)</u>
Required Revenue Increase	<u>\$ 9,617</u>
Percentage Increase	<u><u>52.05%</u></u>

To determine the reasonableness of the rates requested by Nixutil Association, Staff performed a limited financial review of Nixutil Association's test-year operations. The scope of Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable changes to test-year operations were identified, and adjustments were made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

⁴ Application, Revenue Requirement Calculation-Operating Ratio Method.

Staff's findings are summarized in this report. Travis Leach reviewed the calculation of Nixutil Association's Overall Revenue Requirement. Liz Stefanski and Sam Reid reviewed Nixutil Association's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Operating Ratio Method, as generally accepted by the Commission, Staff found Nixutil Association's Overall Revenue Requirement to be \$28,250. A revenue increase of \$8,170, or 40.68 percent, is necessary to generate the Overall Revenue Requirement.

2. Wastewater Service Rates. In the application, Nixutil Association proposed to change its rate design from a rate based on the number of bathrooms to a flat rate based on a residential equivalent representing a maximum of 12,000 gallons per month. The Commission has previously found that a rate design based on residential equivalents is an appropriate and equitable method of cost allocation for wastewater systems.⁵ Staff followed the method proposed by Nixutil Association and allocated the \$28,250 revenue requirement based on the residential customer using one residential equivalent unit each and the one commercial customer using 2.5 residential equivalent units.⁶ Shown in the Appendix to this report are the monthly wastewater service rates as calculated by Staff.

⁵ See Case No. 2018-00339, *Application of P. R. Wastewater Management, Inc. For an Alternative Rate Adjustment* (Ky. PSC Apr. 12, 2019).

⁶ Based on usage information provided by Nixutil Association's water supplier, the association's single commercial customer uses approximately 2.5 residential equivalents of 12,000 gallons per month.

Residential Customers	33
Commercial Residential Equivalent Units	<u>2.5</u>
Total Residential Equivalent Units	<u><u>35.5</u></u>
Revenue Requirement	\$ 28,250
Divide by: Total Residential Equivalent Units	35.5
Divide by: 12 Months	<u>12</u>
Sewer Service Rate	<u><u>\$ 66.31</u></u>

Staff notes that Nixutil Association should reevaluate the residential equivalent usage by commercial customers at the end of each calendar year, and adjust commercial customer's bill accordingly.

3. Late Fee. In its application, Nixutil Association proposed a late fee of \$5. It has been prior Commission practice to allow utilities to collect late fees of 10 percent of the current rate. Given the rates set forth in the Appendix to this report, the \$5 late fee does not exceed 10 percent of the rate, and therefore should be granted.

PRO FORMA OPERATING STATEMENT

Nixutil Association's Pro Forma Operating Statement for the test year ended December 31, 2017, as determined by Staff, appears below:

Staff's Pro Forma Income Statement

	2017 Annual Report	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Metered Water Sales:Sewage Service Revenues	\$ 18,477	1,603	(A)	\$ 20,080
Miscellaneous Sewage Revenues	3,228	(3,228)	(B)	0
Total Operating Revenues	21,705	(1,625)		20,080
Operating Expenses:				
Operation & Maintenance:				
Sludge Hauling	3,000			3,000
Labor, Materials and Expenses	3,403			3,403
Plant Water Bill	369	(79)	(C)	290
Purchased Power	3,384	(35)	(D)	3,349
Chemicals	3,750			3,750
Maintenance Expense	5,147			5,147
Miscellaneous General Expense	3,398	(3,200)	(E)	168
		(30)	(F)	
Total Operation & Maintenance	22,451	(3,344)		19,107
Depreciation	3,657	640	(E)	4,297
Taxes Other Than Income	1,456			1,456
Utility Operating Expenses	27,564	(2,704)		24,860
Net Utility Operating Income	\$ (5,859)	\$ 1,079		\$ (4,780)

(A) Sewage Service Revenues. Upon Staff's review of Nixutil Association's financial records, it was found that Nixutil Association had mistakenly recorded revenue associated with its single commercial customer under miscellaneous sewage revenues. Accordingly, Staff has increased pro forma sewage service revenues by \$1,600.

Based on rates currently charged by Nixutil Association, Staff finds that the sewer service revenue for a 12-month test year of \$20,080 is an accurate representation of normalized test-year revenue from sewer service; therefore, Staff has increased sewer service revenue by \$3.

(B) Miscellaneous Sewage Revenues. In discussion with Nixutil Association’s financial officer, Staff was informed that Nixutil Association only collects sewage service revenues and non-recurring charges. The amount classified under miscellaneous sewage revenues either represents non-recurring charges or revenue from another accounting period that is accounted for here because of timing issues with the deposit of cash. Accordingly, Staff has reduced miscellaneous sewage revenues by \$3,228.⁷

(C) Plant Water Bill. In the test year, the treasurer mistakenly paid one personal water bill in the amount of \$72 with Nixutil Association’s funds. Accordingly, Staff has reduced pro forma Plant Water Bill expense by \$72.⁸ In addition, upon examination of Nixutil Association’s records, that test-year Plant Water Bill was overstated by \$7. Accordingly, Staff has further reduced Plant Water Bill expense by \$7 for a total reduction of \$79.

Test Year Plant Water Bill	\$ 369
Less: Misclassified Personal Bill	(72)
Less: Overstated Water Bill	(7)
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Pro Forma Plant Water Bill	290
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Pro Forma Adjustment	\$ 79
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(D) Purchased Power. In the test year, Nixutil Association mistakenly included one power bill from 2016 in its calculation of purchased power that totaled \$282. Nixutil Association was able to produce the correct bill, which totaled \$247 dollars. Accordingly, Staff has reduced pro forma purchased power by \$35.

⁷ \$1,600 (Commercial Sewer Service Revenues from A above) + \$1,628 (Non-recurring charges & revenue from different period) = \$3,228.

⁸ Nixutil Association does not have a formal office, and the utilities’ bills are delivered to the secretary/treasurer’s personal address.

Test Year Purchased Power	\$3,384
Less: Errant Bill	(282)
Add: Correct Test-Year Bill	<u>247</u>
Pro Forma Purchased Water	<u><u>3,349</u></u>

(E) Division of Water Permit. In the test year, Nixutil Association recorded as an expense the renewal cost of its five-year Division of Water wastewater permit, which totals \$3,200. As shown below, Staff has reduced the Miscellaneous Expense by \$3,200 and increased Depreciation by \$640 to allow recovery of the cost over the five-year life of the permit.

DOW Wastewater Permit	\$ 3,200
Divided by: 5 Years	<u>5</u>
Pro Forma Adjustment	640
Add: Test Year Depreciation	<u>3,657</u>
Pro Forma Depreciation	<u><u>4,297</u></u>

(F) Miscellaneous Expense. Upon examination of Nixutil Association's records, Staff found that test-year miscellaneous expenses were overstated by \$30. Accordingly, Staff has reduced pro forma miscellaneous expense by \$30.

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

By applying the Operating Ratio Method, as generally accepted by the Commission, Staff found Nixutil Association's Overall Revenue Requirement to be \$28,250. A revenue increase of \$8,170, or 40.70 percent, is necessary to generate the Overall Revenue Requirement.


The operating ratio methodology⁹ is used when there is no basis for a rate of return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Staff is of the opinion that an operating ratio of 88 percent will allow Nixutil Association sufficient revenues to cover its reasonable operating expenses and provide for reasonable equity growth. Therefore, Staff finds the Operating Ratio Method is more appropriate as Nixutil Association has no outstanding debt.

	Staff	Nixutil Association
Operating Expenses	\$ 24,860	\$ 27,564
Divided by: Operating Ratio	<u>88%</u>	<u>88%</u>
Overall Revenue Requirement	28,250	31,323
Add: Interest Expense	0	0
Less: Other Operating Revenue	<u>0</u>	<u>3,228</u>
Revenue Requirement - Wastewater	28,250	28,095
Less: Normalized Revenue from Wastewater Service	<u>(20,080)</u>	<u>(18,477)</u>
Required Revenue Increase	<u>\$ 8,170</u>	<u>\$ 9,617</u>
Percentage Increase	<u>40.68%</u>	<u>52.05%</u>

⁹ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$


Signatures:



Prepared by: Travis Leach
Financial Analyst
Revenue Requirements Branch
Division of Financial Analysis



Prepared by: Liz Stefanski
Rate Analyst
Revenue Requirements Branch
Division of Financial Analysis



Prepared by: Sam Reid
Rate Analyst
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2019-00024 DATED **JUL 29 2019**

Monthly Wastewater Rates

Residential Monthly Service Charge	\$66.31
Commercial Monthly Service Charge	\$66.31 Per Residential Equivalent
Late Fee	\$5

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Independence, KY 41051

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