

Rolling Meadows Water Corporation 2012 Rate Case

Discussion of 2012 Comparative & Projected Income Statement per Company

The last rate case 08-W-0993 was used as base starting point. Adjustments were forecasted using information from the following three full years 2009 thru 2011. Note that after each year end, the company's expense categories were shuffled a bit by our accounting firm due to method of reporting.

- 1) Metered Sales
Annual metered water charges to all customers. Figures from CUSI billing system Transaction List Reports Jan. 8 thru Jan. 7 each year. Number varies from tax returns due to accountant's method of reporting customer receivables at year end. Water sales revenues need to be increased \$87,307 to meet the projected expenses. Actual sales revenues have averaged \$448,219 or \$13,675 lower than Staff's projections.

- 2) Purchased Water Surcharge
Pass thru charges to Hillside Acres area customers for purchased City of Kingston's water from Ulster Water District. (CUSI Transaction List)

- 3) Misc. Revenue
Figures from CUSI transaction list (Jan. 8 thru Jan. 7) Misc. charges plus interest (late fees) minus adjustments (customer credits). Time no longer permits some of the extra customer services such as service line replacements which provided extra income in the past. Also, customer's pipe locates are now provided without charge. \$3,652 is the past 3 year avg. of late fee interest charges.

- 4) Operator's Salaries
For 2 certified, licensed, and experienced operators who run and maintain the 10 pump stations and distribution systems which supply the six water companies owned by the Rolling Meadows Water Corp. A recent new requirement of the DOH has been satisfied by acquiring two additional degrees of operator certification. The company is seeking additional allowance of \$10,980 based on review of U.S. Dept. of labor statistics and local municipal water systems comparable positions.

- 5) Officer's Salaries
Remuneration for CEO responsibilities to be included with office salaries.
- 6) Office Salaries
Increased \$984 to reflect inflation of 8.2% over past 4 years.
- 7) Materials
This expense category is closely related to, and used for *Repairs & Maintenance*. The combined full allowance of \$40,806 for these two categories was spent each year before using any surcharge monies. This is Staff's # used in the last 2 rate cases, 06-w-0302 and 08-w-0993.
- 8) Office Expense
Adjusted up \$878 to normalize over past 3 years. This account includes items such as office supplies, internet services, banking products and telephone.
- 9) Rents
Office rent at \$500 per month plus shop rent at \$500 per month. The shop garages the trucks, trailer mounted portable generators, air compressors, numerous industry related tools and equipment as well as repair parts and materials.
- 10) Purchased Power
The Company's 12 electric accounts with Central Hudson Gas & Electric Corp. Unchanged, average annual cost is close to Staff's # in last case. Is CHG&E due for or proposing a rate change?
- 11) Purification Chemicals
Increased \$292 to normalize plus \$68 for a recent cost increase of 6 cents per gallon chlorine. Additionally, a new chlorination system needs to be installed at the Hillside Acres reservoir to boost residuals and will use 1 quart per day plus quarterly delivery costing an additional \$329 annually. The total upward adjustment is \$689.
- 12) Transportation
The Company anticipates replacing its 8 year old service truck/snow plow with a new one in the near future. The new lease payments will add approximately \$3,600 expense annually to this category.

- 13) Meter Reading, Billing & Collecting
Staff's determination in last case was 1900 hours for a billing clerk at \$14.79 per hour to be raised to \$16 per hour or \$30,400 annually (this expense appears in other salary categories on the comparative income statement). In regard to the other billing and collecting expenses which include meter reading, postage, forms, envelopes, software licensing and support, etc; the \$5,000. allowance was normalized at \$7,061 (past 3 year average).
- 14) Insurance
Adjusted to reflect 6% current average annual increases thru 2013. The proposed premium increases for MVP Health Care Employee Insurance was 11.69% in 2011 and 13.9% in 2012 and 7.1% for 2013. The insurance line is the sum of various types including general liability, property, vehicle, health, workers compensation and disability.
- 15) Repairs and Maintenance
Number reported in Comparative & Projected Income Statement includes expenses partially paid for by customer surcharge monies. Combined with *Materials*, the full allowance of \$40,806 was spent each year before using any surcharge monies. Overture expenses, each year were \$7,795 in 2009, \$14,177 in 2010 and \$12,436 in 2011. Adjusted up \$11,469 to reflect the 3 year average. The distribution piping of the Hurley and Elmendorf systems contain a large quantity of deteriorated small diameter galvanized iron pipe. During the 2009 thru 2011 period, 51 water main leaks / breaks were found, excavated, repaired and the sites restored using primarily company labor and equipment.
- 16) Regulatory Expenses
Adjusted down to reflect last 3 year average.
- 17) Accounting
Unchanged, Staff's allowance in last case is reasonable and accurate. The accounting firm's billing has become very delayed sometimes by nearly a year causing annual fluctuations.
- 18) Profession Fees & Special Services
Reflects the outside cost from Gemini Group for *Annual Water Quality Report* production. Last year cost plus average annual increase of 10%.

- 19) Water Testing
Unchanged, Staff's determination in last case seems accurate. Frequency of water testing varies greatly. It was normalized to smooth out annual variations.
- 20) Rate Case Expense
Adjusted up to better reflect actual time spent.
- 21) Miscellaneous
Downward adjustment of \$1,331 to \$2,319. Average of past 3 years expense for training, certification, association dues, trade journals, uniforms and work clothing.
- 22) Purchased Water
This expense is passed thru as surcharges to Hillside Acres area customers. The expense should equal the revenue that the surcharge provides.
- 23) Amortization
Unchanged, do not know how to calculate.
- 24) Depreciation
Number reported in Comparative & Projected Income Statement is the amount reported on PSC reports by our accounting firm. Unchanged, do not know how to calculate.
- 25) Property Taxes (General Property Tax)
Numbers represented on Comparative & Projected Income Statement are the actual amount of taxes incurred (whether or not paid) in that calendar year; other reports including income tax returns may include interest and late penalties paid. Adjusted up to reflect current average annual increases of approximately 5.5% to 2013.
- 26) Property Taxes (School Tax)
Numbers represented on Comparative & Projected Income Statement are the actual amount of taxes incurred (whether or not paid) in that calendar year; other reports including income tax returns may include interest and late penalties paid. Adjusted up to reflect current average annual increases of approximately 7% to 2013.

- 27) Gross Revenue Tax
Currently not applicable.
- 28) MTA Tax
Not applicable in Ulster County.
- 29) Payroll Taxes
Increased \$1,010 to reflect adjustment of salaries. As described above, salaries for two Operators were increased \$10,980 to \$103,148 and the Billing Clerk allowance was increased \$2,300 to \$30,400. The Office Staff allowance was increased by \$984 to \$12,984. Accordingly, the total combined salaries would be \$146,532. A factor of 7% was used to estimate payroll taxes.
- 30) Federal Income Taxes
- 31) NYS Franchise Tax
Negative number reported in Comparative & Projected Income Statement represents prior year refund received netted against current year liability. \$312 represents the 3 year average.
- 32) Other Taxes
Adjusted to omit or delete line item, they should fall into named tax categories.
- 33) Rate Base
These figures were developed by our accounting firm, they also prepare our annual PSC reports, ORPS reports and tax returns. Keep in mind IRS depreciation may have different schedules than those used for PSC reporting purposes.