M E M O R A N D U M

DATE:May 15, 1998

TO:Terri Carlock

George Fink

Stephanie Miller

Scott Woodbury

Working File

FROM:Bob Smith

SUBJECT:McGuire Estates Rate Case No. MCG-W-98-1

I have completed my review of the Company’s application and on May 4, 1998 visited with the owners to review their financial records for the Company.  Attached is an exhibit showing the revenue requirement I believe is just and reasonable for the Company.

The Company’s last rate increase was in 1990. The exhibit attached, using 1997 as the test year, produces a revenue requirement of $16,085 representing a 20.83% increase of $2,773 over the 1997 revenues of $13,312. Appendix “D” to the Company’s application calculates a need for gross revenues of $17,129 yet Appendix “E” indicates total revenues of $18,551 would be produced by the Company’s proposed rates. The rates proposed by the Company would produce an increase in revenues of $5,239 or 39.3%.  Although Staff’s proposed 20.83% increase looks large, the average monthly effect on customers would be an increase of $3.67 from $17.61 to $21.28 and represents an annualized increase of 2.4% over the eight year period since the Company’s rates were last adjusted..

I discussed my calculations  with the Lundy’s, owners of the Company, and they indicated the result was acceptable. The primary differences between the calculated revenue requirement shown on the attachment to this memo and the revenue requirement calculated by the Company are a double count of depreciation expense and the elimination of water tests for which the Company has recently received an exemption.

The Lundy’s did express a desire to recover a larger portion of the total revenue requirement from the base rate and less through the commodity portion of rates. George Fink is looking at the rate design question and will making his own comments.