

North Shelby Water Company

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Bagdad, KY 40003

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Jerry Ruble, President

Lloyd Eades, Vice President

Tom Miginnis, Secretary/Treasurer

Kevin Armstrong, Director

James Anglin, Director

Herb McCoun, Director

Bryan Franklin, Director

Jim Smith, Director

November 18, 2014

Jeff R. Derouen

Executive Director

KY Public Service Commission

PO Box 615

Frankfort, KY 40602

RE: PSC Case No. 2014-00394
Formal Application to Increase Rates Pursuant to
Purchased Water Adjustment Regulation 807 KAR 5:068

Dear Mr. Derouen

In association with the above referenced case, the following additional supporting documentation is enclosed for your review:

Exhibit F – Notice to Customers (Revised)

Exhibit H – A signed copy of the minutes from the October 2014 meeting of the North Shelby Water Company Board of Directors. Therein, evidence is provided that the Board of Directors formally authorized the rates being proposed.

The revised Notice to Customers will be published in accordance with Commission regulations and verification of its publication will be provided to the Commission.

Should you have any questions please contact Lee Mudd at (502) 839-1310, as he is handling this matter.

Sincerely,



Jerry Ruble, President

JR/jlm

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PUBLIC SERVICE
COMMISSION

LEGAL NOTICE REGARDING THE NORTH SHELBY WATER COMPANY

Notice is hereby given that because of an increase in the cost of water purchased from the Frankfort Electric and Water Plant Board, the North Shelby Water Company will increase its rates for services effective November 12, 2014. An application requesting the proposed rates was filed with the Kentucky Public Service Commission on November 13, 2014 to increase rates as follows:

	<u>Existing Rates</u>	<u>Proposed Rates</u>	<u>Increase (\$)</u>	<u>Increase (%)</u>
<u>5/8" x 3/4" Meters:</u>				
First 2,000 gallons	\$17.66 Minimum Bill	\$17.96 Minimum Bill	\$0.30	1.70%
Next 3,000 gallons	\$6.64 per 1,000 gallons	\$6.79 per 1,000 gallons	\$0.15	2.26%
Next 5,000 gallons	\$5.26 per 1,000 gallons	\$5.41 per 1,000 gallons	\$0.15	2.85%
Next 40,000 gallons	\$4.57 per 1,000 gallons	\$4.72 per 1,000 gallons	\$0.15	3.28%
Over 50,000 gallons	\$3.89 per 1,000 gallons	\$4.04 per 1,000 gallons	\$0.15	3.86%
<u>1" Meters:</u>				
First 5,000 gallons	\$37.55 Minimum Bill	\$38.30 Minimum Bill	\$0.75	2.00%
Next 5,000 gallons	\$5.26 per 1,000 gallons	\$5.41 per 1,000 gallons	\$0.15	2.85%
Next 40,000 gallons	\$4.57 per 1,000 gallons	\$4.72 per 1,000 gallons	\$0.15	3.28%
Over 50,000 gallons	\$3.89 per 1,000 gallons	\$4.04 per 1,000 gallons	\$0.15	3.86%
<u>1 1/2" Meters:</u>				
First 10,000 gallons	\$63.85 Minimum Bill	\$65.35 Minimum Bill	\$1.50	2.35%
Next 40,000 gallons	\$4.57 per 1,000 gallons	\$4.72 per 1,000 gallons	\$0.15	3.28%
Over 50,000 gallons	\$3.89 per 1,000 gallons	\$4.04 per 1,000 gallons	\$0.15	3.86%
<u>2" Meters:</u>				
First 15,000 gallons	\$86.70 Minimum Bill	\$88.95 Minimum Bill	\$2.25	2.60%
Next 35,000 gallons	\$4.57 per 1,000 gallons	\$4.72 per 1,000 gallons	\$0.15	3.28%
Over 50,000 gallons	\$3.89 per 1,000 gallons	\$4.04 per 1,000 gallons	\$0.15	3.86%
<u>3" Meters:</u>				
First 35,000 gallons	\$178.10 Minimum Bill	\$183.35 Minimum Bill	\$5.25	2.95%
Next 15,000 gallons	\$4.57 per 1,000 gallons	\$4.72 per 1,000 gallons	\$0.15	3.28%
Over 50,000 gallons	\$3.89 per 1,000 gallons	\$4.04 per 1,000 gallons	\$0.15	3.86%

As noted above, based on the increased cost of water from the Frankfort Electric and Water Plant Board, all rates will increase \$0.15 per 1,000 gallons. The monthly bill for a customer using an average of 5,000 gallons of water each month will increase from \$37.55 to \$38.30. This is an increase of \$0.75 or 2.00%.

The charges/rates contained in this notice are the charges/rates proposed by the North Shelby Water Company. However, the Public Service Commission may order charges/rates to be charged that differ from these proposed charges/rates. Such action may result in charges/rates for consumers other than the charges/rates detailed in this notice.

Any person may examine this application at the offices of the North Shelby Water Company office located at 4596 Bagdad Road in Bagdad, Kentucky. In addition, any person may also examine the application at the Public Service Commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, 40601, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the Public Service Commission's website at <http://psc.ky.gov>. Any comments regarding the application may be submitted to the Public Service Commission through its website or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602. The Public Service Commission can also be contacted at 502-564-3940.

This notice is published pursuant to 807 KAR 5:068 - Purchased Water Adjustment for Water Districts and Water Associations.

NORTH SHELBY WATER COMPANY
s/ Jerry Ruble, President

EXHIBIT F

NORTH SHELBY WATER COMPANY

Board of Directors' Regular Meeting - October 20, 2014

The regular meeting of the Board of Directors of North Shelby Water Company was held at 6:30 p.m. on October 20, 2014 at the company office. Present were Jerry Ruble, President; Lloyd Eades, Vice President; Jimmy Anglin; Kevin Armstrong; Brian Franklin; Herb McCoun; Jim Smith; Pete Hedges, Manager; Jeremy Carmack, Assistant Manager; David Bowles and Lee Mudd, Engineers; and Donald Prather, Attorney. Tom McGinnis, Secretary/Treasurer, was absent.

The Transaction Detail by Account list of the payroll checks and the operation and maintenance checks, respectively, written during September; September bill to U.S. 60 Water District; Cash Transaction Spreadsheet for September for the various bank accounts, including the water purchase, sales, loss, and certificate of deposit information; September Balance Sheet; September Profit & Loss Statement; and September A/R Balance Sheet showing adjustments were all e-mailed or mailed, respectively, to the directors prior to the meeting. These documents were approved as evidenced by the signed cover sheet attached to these minutes.

Minutes. The minutes from the September 15, 2014 Board meeting were approved.

Treasurer Report. Smith gave the Treasurer's Report.

The Revenue Fund had a beginning balance of \$179,434. There were customer payments of \$244,187, which together with other miscellaneous receipts equaled total receipts of \$250,592 for a receipts ending balance of \$430,026. Total expenses were paid out of this account in the amount of \$251,203, including a \$250,000 transfer to the O&M account. This produced an ending balance of \$178,823 in the Revenue Fund account.

The O&M account had a beginning balance of \$1,116,365. There were total receipts of \$277,161, including \$175 in miscellaneous income, \$26,556 in reimbursement from US 60 Water District, \$94 interest income, \$250,000 from the revenue account, and a workers' compensation dividend check of \$336, for a receipts ending balance of \$1,393,525. Total expenses of \$211,209 were paid out of this account, for an ending balance of \$1,182,316.

The Debt Service account had a beginning balance of \$433,867. The \$6,626 transfer from the O&M account and an interest income deposit of \$144 produced a receipts ending balance of \$440,637. There were no payments out of this account, leaving an ending balance of \$440,637.

The Construction Extension account had a beginning balance of \$10,050. There was no activity in this account leaving an ending balance of \$10,050.

The Construction Rural Development Fund account had a beginning balance of \$21,205. There was no activity, leaving an ending balance of \$21,205.

The Depreciation account had a beginning balance of \$203,314. The receipts of \$2,200 from the O&M account and \$67 in interest income were deposited into the account for a receipts ending balance of \$205,581. No expenses were paid out of this account, leaving an ending balance of \$205,581.

The Water Consumption Report for September was as follows:

Bought:	42,154,000	gallons
Sold:	33,342,900	gallons
Leaks:	1,875,850	gallons
Flushing:	1,644,500	gallons
Fire Departments:	66,500	gallons
Tank Overflow:	-0-	gallons
Unaccounted-for Water Loss		12%

Smith commented in comparison of September 2014 to September 2013, North Shelby purchased less water from Frankfort and more water from LUC, paying more for both, and purchased less water for less money from Shelbyville.

Smith then discussed the profit and loss statement. Residential and commercial customer income was up significantly from September a year ago. Total income for the month was \$254,163, which, after deducting the \$90,866 cost of water purchased, produced a gross profit of \$163,297 for the month. Total expenses for the month were \$117,052, leaving a net income for September of \$46,245, up from \$39,134 a year ago.

After discussion concluded, upon motion duly seconded, the Treasurer's Report was approved.

Old Office Building. Hedges reported Chip Perry now has all of his financing in place for the purchase of the old office building. The total purchase price has been calculated to be \$60,349.13. His lender wants him to have a written contract with North Shelby before it will schedule a closing. Prather is to review the purchase contract for any necessary changes after which it will be signed by President Ruble and a closing will be set.

Medical Insurance. Hedges reported North Shelby's medical insurance coverage is up for renewal effective December 1, 2014. If renewed, the cost of the current plan will increase by 8.3%. North Shelby has the option of switching to an Affordable Care Act compliant plan at a similar cost, but the deductibles would increase for the employees. Upon motion, duly seconded, the Board voted to renew the current medical insurance plan.

New Bagdad Water Tank. Hedges reported the additional survey work has now been performed for the new water main easement route over the Ruritan property to the new tank site. Prather is to finalize the deeds and easements using this new information.

East-West Connector. Bowles reported he is very pleased with the progress made by the contractor. There will be approximately \$610,000 in Rural Development loan funds remaining after construction is completed. He has spoken with the contractor, who has agreed to honor the current contract price to install an additional 16,000 feet of 12-inch water main on Kentucky 1005 towards Bagdad. The contractor would return to perform this additional work in March of 2015. After discussion, upon motion duly seconded, President Ruble was authorized to sign a change order for this additional construction work.

Fox Run Road, Steve Wood Road, and Mount Zion Road Improvements. Bowles advised the Board he would like to advertise for bids for these projects to be opened at the November 5 construction progress meeting. It was the consensus of the Board for him to proceed accordingly.

Todds Point Water Tank. Bowles advised the Directors he had received the report from the consultant who had conducted a thorough examination of the inside and outside of North Shelby's Todds Point water tank, which is of the same type construction as the tank owned by US 60 Water District which collapsed in Waddy. Bowles showed the Directors numerous photographs showing extensive rusting inside the tank along the bolted steel plate seams. There is not any indication the tank is in any danger of failing anywhere in the near future. The consultant recommended replacing some of the panels in the tank and sandblasting and coating other areas; however, the manufacturer has indicated this procedure will not work. Bowles recommended the Board completely replace the tank either now or at some time in the future. It will cost approximately \$1,100,000 to replace the tank with a new elevated 300,000 gallon storage tank. The owner of the farm where the existing tank is located has indicated he will sell North Shelby additional land on which to build the new tank. Prather advised the Board liability insurance would protect the company under the circumstances. Several Board members expressed concern that this tank, unlike the US 60 Water District tank, is located immediately adjacent to a residence. Prather stated that with interest rates at historic low levels, it was his opinion that if North Shelby knows it will need to replace the tank in the foreseeable future, it is probably prudent to go ahead and replace it now while interest rates are low and before

construction prices increase as the economy improves.

After discussion concluded, upon motion duly seconded, the Board voted to replace the existing tank with a new 300,000 gallon elevated storage tank.

Frankfort Rate Increase. Prather advised the Board that Frankfort has accepted the proposal by the wholesale customers for wholesale rates to increase from \$2.01 to \$2.25 per thousand gallons beginning November 1, 2014 then increasing to \$2.35 per thousand gallons beginning November 1, 2015, then increasing to \$ 2.45 per thousand gallons beginning November 1, 2016, and finally increasing to \$2.55 per thousand gallons beginning November 1, 2017 and continuing through October 31, 2018. No additional rate increase would be permitted during these four years. The Attorney General has signed off on the proposed settlement and it has been filed with the Public Service Commission awaiting approval. Prather believes it will be accepted by PSC.

Prather advised the Board a new issue has come up regarding the amount charged by Frankfort to the wholesale customers for the Kentucky River Authority ("KRA") water withdrawal fee. KRA charges Frankfort 15.2¢ per thousand gallons withdrawn from the Kentucky River. Frankfort has been passing this on for the last year to the wholesale customers at a charge of 20¢ per thousand gallons. Prather believes this charge is excessive. Frankfort needs to charge more than 15.2¢ per thousand gallons to compensate for its system water loss and for water used in its water production process. However, as reported by Connie Allen, the 20¢ per thousand gallons charge indicates a 33% water loss, while Frankfort's information produced during the rate case shows it has around a 16.5% combined water loss and water production use for the last two fiscal years. It therefore appears that Frankfort should have been charging the wholesale customers around 17.7¢ per thousand gallons. Prather has contacted Frankfort's in-house attorney, Hance Price, and requested that Frankfort voluntarily reduce the rate to that level. In Prather's opinion, North Shelby has been overcharged approximately \$4,500 over the past year for the KRA withdrawal fee. US 60 Water District and two of the other wholesale customers would show similar overcharges. He is hopeful Frankfort will voluntarily reduce the rate.

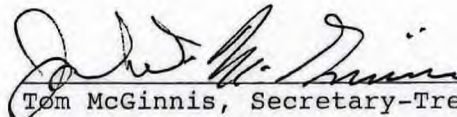
Pass-through Rate Increase. Mudd advised the Board he had performed the calculations required to pass through to North Shelby's customers the first step of the Frankfort rate increase from \$2.01 per thousand gallons to \$2.25 per thousand gallons. It will require an increase in North Shelby's rates of 15¢ per thousand gallons. Upon motion, duly seconded, the Board authorized this pass-through rate increase contingent upon PSC approval of the Frankfort rate increase.

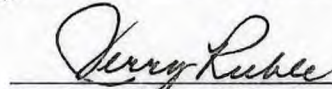
Shelbyville Contract. Prather reported he has drafted a contract which had been presented to Shelbyville. Shelbyville's attorney sent Prather several proposed revisions. The main change extended from 10 years to 20 years when the contract would shift from a fixed minimum purchase amount to a floating minimum purchase amount based on the average of North Shelby's past three years' water purchase from Shelbyville. Prather believes this is because Shelbyville plans to finance the conversion from a Chlorine to a Chloramine disinfectant process by a 20-year bond. Prather stated he is also working to clarify the language to ensure that North Shelby's future rate increases cannot be greater than the percentage increase for Shelbyville's residential customers.

After discussion concluded, it was the consensus of the Directors that the terms of the new contract are acceptable.

There being no further business, the meeting was adjourned.

The next regular meeting will be Monday, November 17, 2014, at 6:30 p.m.


Tom McGinnis, Secretary-Treasurer


Jerry Ruble, President