

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CENTER RIDGE WATER )  
DISTRICT, INC. FOR AN ADJUSTMENT OF )  
RATES PURSUANT TO THE ALTERNATIVE ) CASE NO. 2010-00397  
RATE FILING PROCEDURE FOR SMALL )  
UTILITIES )

O R D E R

On October 11, 2010, Center Ridge Water District, Inc. ("Center Ridge") applied pursuant to 807 KAR 5:076 for an adjustment to its rates for water service. Commission Staff, having performed a limited financial review of Center Ridge's operations, has prepared a report of its findings and recommendations regarding the proposed rates. A copy of the report is attached to this Order.

Having received the report and being otherwise sufficiently advised, the Commission, on its own motion, HEREBY ORDERS that:

1. Within 14 days of the date of this Order, the parties shall file with the Commission their written comments on and objections to the findings and recommendations contained in the Staff Report. Center Ridge may file with such submission any additional evidence for the Commission's consideration.

2. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of the date of this Order shall be deemed as agreement with that finding or recommendation.

3. No later than 14 days from the date of this Order, each party shall notify the Commission in writing whether this matter may be submitted for decision based upon the existing record and without hearing.

4. No later than 14 days from the date of this Order, a party may request an informal conference with Commission Staff.

5. Unless all parties request that this matter be submitted for decision upon the existing record, a formal hearing in this matter shall be held on July 15, 2011 at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, and shall continue until completed.

6. Center Ridge shall publish notice of the scheduled hearing in this matter in accordance with 807 KAR 5:011, Section 8(5), and shall file proof of publication with the Commission no later than July 14, 2011.

7. Each party shall be represented by an attorney who is licensed to practice law in the Commonwealth of Kentucky.

8. At the hearing in this matter, each party shall be limited in its opening statement to five minutes or less.

9. No later than July 11, 2011, each party shall file with the Commission a list of the persons it intends to call as witnesses at the scheduled hearing and a summary of each witness's expected testimony.

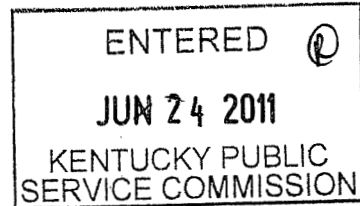
10. Any exhibits that a party wishes to introduce at hearing shall be marked with the party's name and a sequential number (e.g., Center Ridge Exhibit 1). References to a witness or type of examination are not necessary.

11. Unless the Commission directs otherwise, all parties shall file with the Commission responses to requests for information made at hearing no later than July 22, 2011.

12. Pursuant to KRS 278.360, the record of the formal hearing in this matter shall be by videotape.

13. Commission Staff shall make a written exhibit list and shall file it with the Commission, along with all exhibits and a copy of the video transcript of the hearing.

By the Commission



ATTEST:

*Jason D. Greenwell for*  
Executive Director

STAFF REPORT  
ON  
CENTER RIDGE WATER DISTRICT, INC.  
CASE 2010-00397

On October 11, 2010, Center Ridge Water District, Inc. ("Center Ridge") filed its application seeking to increase its rates for water service pursuant to 807 KAR 5:076. Center Ridge's current flat monthly rate is \$18.66 to each customer receiving water service. Center Ridge proposes to increase this rate to \$26.05. According to the information provided in Center Ridge's application, the rate increase will produce a total increase in revenues of \$30,607. The test year upon which the application was based was the calendar year ending December 31, 2009.

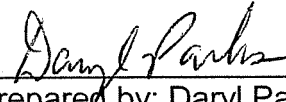
Commission Staff performed a limited financial review of Center Ridge's operations for the 12 months ending December 31, 2009 to determine the reasonableness of Center Ridge's requested rate increase. The scope of this review was limited to obtaining information as to whether the test-year operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Daryl Parks and Eddie Beavers of the Commission's Financial Analysis Division performed the limited review. This report summarizes Commission Staff's findings and recommendations resulting from its review. Mr. Parks is responsible for all areas of this report concerning revenue requirements and Mr. Beavers is responsible for normalized revenues and rate design.

The details of Center Ridge's reported test-year operations and Commission Staff's adjustments for known and measurable changes are set forth at Appendix A. Commission Staff's calculation of Center Ridge's revenue requirement is set forth at Appendix B.

Commission Staff calculates Center Ridge's revenue requirement to be \$66,992 and recommends a decrease of \$10,260, or approximately 13.3 percent, from normalized test-year revenues from rates of \$77,252. Commission Staff recommends that Center Ridge's monthly rate for service be decreased from \$18.66 to \$16.18, or approximately 13.3 percent.

Signatures:



Prepared by: Daryl Parks  
Public Utilities Financial Analyst  
Water Revenue Requirements  
Branch, Division of Financial  
Analysis



Prepared by: Eddie Beavers  
Rate Analyst, Water and  
Sewer Rate Design Branch  
Division of Financial Analysis

APPENDIX A  
STAFF REPORT, CASE NO. 2010-00397  
STAFF'S ADJUSTED OPERATIONS

|  | Test Year         | Adjustment      | Ref. | Pro forma        |
|--|-------------------|-----------------|------|------------------|
| Operating Revenues                       |                   |                 |      |                  |
| Sales of Water                           |                   |                 |      |                  |
| Residential Customers                    | \$ 77,692         | (440)           | A    | \$ 77,252        |
| Total Sales of Water                     | <u>77,692</u>     | <u>(440)</u>    |      | <u>77,252</u>    |
| Operating Expenses                       |                   |                 |      |                  |
| Operation and Maintenance Expenses       |                   |                 |      |                  |
| Salaries and Wages - Employees           | 6,000             | (6,000)         | B    | -                |
| Salaries and Wages - Officers            | -                 | 3,600           | B    | 3,600            |
| Purchased Power                          | 13,175            | 1,146           | C    | 14,321           |
| Chemicals                                | 940               | 853             | D    | 1,793            |
| Materials and Supplies                   | 3,815             | -               |      | 3,815            |
| Contractual Services - Engineering       | 24,100            | -               |      | 24,100           |
| Contractual Services - Water Testing     | 3,729             | -               | E    | 3,729            |
| Rents                                    | -                 | -               | F    | -                |
| Transportation Expenses                  | 26,125            | (26,125)        | G    | -                |
| Miscellaneous Expenses                   | 2,764             | (1,091)         | H    | 1,673            |
| Total Operation and Maintenance Expenses | <u>80,648</u>     | <u>(27,617)</u> |      | <u>53,031</u>    |
| Depreciation                             | 1,618             | (1,618)         | I    | -                |
| Amortization                             | 122               | 2,551           | J    | 2,673            |
| Taxes Other than Income                  | 5,097             | (1,848)         | K    | 3,249            |
| Total Operating Expenses                 | <u>87,485</u>     | <u>(28,532)</u> |      | <u>58,953</u>    |
| Utility Operating Income                 | <u>(9,793)</u>    | <u>28,092</u>   |      | <u>18,299</u>    |
| Income Available to Service Debt         | <u>\$ (9,793)</u> | <u>28,092</u>   |      | <u>\$ 18,299</u> |

A) Normalized Revenue. Center Ridge determined normalized revenue of \$77,252 for the test period by multiplying its monthly fee of \$18.66 by the total number of its customers (345) and by the total number of bills issued to each customer annually (12). This amount is \$440 less than the revenue recorded in the test year. Center Ridge, therefore, proposes to decrease test-period revenue by \$440. Commission Staff concurs with the proposed adjustment.

B) Employee Salaries Expense. Center Ridge proposes to increase Employee Salaries Expense from \$6,000 to \$12,000. This proposed increase involves an increase in the existing owner/manager fee from \$6,000 to \$9,000 and an additional \$3,000 for bookkeeping and office work. Commission Staff recommends that the proposed adjustment be denied. As to the proposed owner/manager fee, Center Ridge has failed to demonstrate that the owner's current duties and responsibilities support the proposed level of \$9,000. Commission Staff recommends that this fee be reduced to \$3,600, a level which the Commission has found reasonable in the absence of exceptional circumstances.<sup>1</sup>

In addition to the increase in the owner/manager fee, Center Ridge proposes to increase Employee Salaries Expense by \$3,000 to provide for payment for bookkeeping and office services. Commission Staff recommends that that this adjustment be denied. Center Ridge currently does not employ anyone to perform bookkeeping services and office work and failed to provide any credible evidence of the cost of such services, such as bids or invoices from non-affiliated persons.

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<sup>1</sup> Case No. 2007-00443, South 641 Sewer District (Ky. PSC Dec. 20, 2007); Case No. 2008-00042, Cedarbrook Treatment Plant (Ky. PSC Jul. 29, 2008); Case No. 2008-00355, Thomas Country Estates Wastewater Treatment Plant (Ky. PSC Oct. 24, 2008); Case No. 2008-00482, Purchase Public Service Corporation d/b/a Great Oaks Subdivision (Ky. PSC Mar. 24, 2009); Case No. 2008-00501, Ledbetter Water District (Ky. PSC May 22, 2009); Case No. 2008-00506, Powell's Valley Water District, Sewer Division (Ky. PSC Apr. 14, 2009); Case No. 2009-00075, Longview Land Company (Ky. PSC Jul. 20, 2009); Case No. 2009-00227, Middletown Waste Disposal, Inc. (Ky. PSC Apr. 30, 2010); Case No. 2009-00403, Evergreen Disposal System, Inc. (Ky. PSC Jul. 29, 2010); Case No. 2010-00231, Purchase Public Service Corporation (Ky. PSC Sept. 9, 2010).

In summary, Commission Staff recommends that Salaries and Wages – Employees be reduced to zero and Salaries and Wages – Officers be increased to \$3,600 to include an owner/manager fee of \$3,600.

C) Fuel and Power Expense. Center Ridge proposes to adjust test-period electricity expense by \$1,146 to reflect 12 months of electric service for an adjusted test-period expense of \$14,321. It states that only 11 months of payments for electric service were recorded during the test period. The proposed increase of \$1,146 reflects the payment for electric service received during the twelfth month of the test period but paid after the close of the test period.

Commission Staff reviewed the bills for electric service provided to Center Ridge in calendar year 2010 at the following locations: Whisper Drive, Morris Road, Park Hill Drive, Pineview Drive, Waterway Trail and Lake Shore Drive. These bills totaled \$14,295. Bills for service to a meter at Marguerite Drive were not included in Commission Staff's calculations because this meter serves the home of Center Ridge's owner/manager. In light of the small variance between Commission Staff's calculation of purchased power expense for calendar year 2010 and Center Ridge's adjusted test-period expense, Commission Staff recommends that the proposed adjusted test-period expense be accepted.

D) Chemicals. During the test period, Center Ridge incurred chlorine expense of \$940. It proposes an adjustment of \$853 to reflect higher chlorine costs that were incurred in 2010. It states that the higher level of chlorine expense resulted from increased chlorine usage in the treatment process in 2010 and notes that the volume of chlorine purchased in that year was more than double the test-period level.



Commission Staff finds the proposed adjustment reasonable and recommends increasing the Chemical expense by \$853.

E) Contractual Services – Water Testing. In its application, Center Ridge proposes that \$6,160 in water testing expense be amortized. The amortized expenses are for testing of Synthetic Organic Compounds and lead and copper. The cost of testing for Synthetic Organic Compounds is \$4,620. Center Ridge proposes to amortize this cost over three years for a yearly expense of \$1,540. The lead and copper testing has a cost of \$305, which Center Ridge proposes to amortize over five years for a yearly expense of \$61. The proposed amortization periods are based upon testing schedules furnished by McCoy & McCoy Laboratories. Commission Staff recommends that the proposed adjustment be accepted, but that the adjusted amount be placed in Amortization and that account be increased by \$1,601.

F) Rents. In its application, Center Ridge proposes an adjustment to reflect a monthly rent of \$100. It fails to provide any evidence to support the proposed adjustment. At a minimum, Center Ridge should provide evidence as to the market rental cost of the proposed office space and equipment and should set forth adequate reasons for the need for office space. Mr. Duncan has not provided any evidence as to the duties that Mr. Duncan would perform in this office or the amount of time that management would spend in such office. In the absence of evidence to support the proposed adjustment, Commission Staff recommends that the proposed adjustment be denied and that no rent expense be included in pro forma test-year operations.

G) Transportation Expense. In its Annual Report, Center Ridge reports \$26,125 in transportation expense. It estimated this expense by multiplying Mr.

Duncan's estimated daily driving mileage by 365 days and the IRS reimbursement rate of \$0.55 per mile.

Commission Staff recommends that the proposed adjustment be denied. Center Ridge has not submitted adequate evidence to demonstrate that daily inspection trips actually occurred. Commission Staff has previously advised Center Ridge in writing to maintain a mileage log or other written records to document business travel. Center Ridge has not presented any mileage log or other contemporaneously maintained record of travel. As Center Ridge claimed a deduction for travel mileage expenses on its 2009 Federal Tax return and federal regulations require written evidence of such expense to claim a deduction, it should have such evidence readily available.

Center Ridge has submitted its monthly operation reports for its Center Ridge Water District No. 4 plant for the months of September 2009 through December 2009. These reports indicate daily production readings and are offered as evidence that the owner/manager conducted daily inspections. As the reports cover only one of Center Ridge's four wells and cover only four months of the test period, Commission Staff finds these reports insufficient to support the reported transportation expense.

Center Ridge has also furnished receipts for gasoline purchases in support of its reported transportation expense. These receipts represent only a small portion of the reported expense and fail to indicate the entity that actually incurred the expense. Since Center Ridge's owner/operator operates and manages several different business concerns and owns the vehicles in question, Commission Staff cannot clearly ascertain the purpose or entity for which the gasoline was purchased. Commission Staff finds the receipts are not adequate evidence to support the reported test-period expense.

H) Miscellaneous Expenses. For 2010, Center Ridge accrued \$1,090.92 in cellular phone usage charges that exceeded the monthly minutes allowed on its cell phone plan. Commission Staff recommends disallowance of this amount as the utility had a land line telephone service for office use and reportedly used the cellular phone only when its office was unmanned or when the owner/manger was in the field. Given the limited intended use for the cellular telephone, the additional charges are unreasonable. Therefore, Commission Staff recommends reducing the Miscellaneous Expenses account by \$1,090.92.

I) Depreciation. In its application, Center Ridge proposed to eliminate all depreciation expense because all of the depreciated assets were contributed property and should have been listed in Account 271 – Contributions in Aid of Construction. Commission Staff concurs with the proposed adjustment.

J) Amortization. Center Ridge increased this expense by \$950 to allow for the amortization of rate case expense of \$2,850 related to costs associated with its retention of a rate consultant. Commission Staff agrees with this adjustment. The total amount of amortization, when including the Adjustment F, is \$2,551.<sup>2</sup>

K) Taxes Other Than Income. In its application, Center Ridge proposes to remove the utilities gross receipts tax of three percent from this expense account, which

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<sup>2</sup> Given that Commission Staff previously assisted Center Ridge in preparing its rate applications and offered to assist in the preparation of Center Ridge's present application, the question has been raised as to the appropriateness of placing the costs of the consultant's services in rates. Given the availability of Commission Staff assistance, the only apparent benefit of using a consultant is faster preparation of the application. This benefit accrues only to the utility. As the utility is the only entity benefiting from the expense, it can be argued that it should bear completely the expense. Commission Staff does not agree with this line of argument.

will reduce this expense by \$1,848. Commission Staff concurs with the proposed adjustment. KRS 160.613(1) requires the assessment of the tax on a utility's gross receipts from each customer. As KRS 160.617 allows the utility to assess an additional amount from each customer equal to the assessment and identify that increase as a "rate increase for school tax," inclusion of such tax in this account is inappropriate.

APPENDIX B  
STAFF REPORT, CASE NO. 2010-00397  
CALCULATION OF REVENUE REQUIREMENT AND RECOMMENDED RATE

|  |                        |
|--|------------------------|
| Pro forma operating expenses                     | \$ 58,953              |
| Divide by: Operating ratio                       | <u>88%</u>             |
| Revenue Requirement                              | \$ 66,992              |
| Divide by: Pro forma number of bills, (345 x 12) | <u>4,140</u>           |
| Recommended Rate                                 | <u><u>\$ 16.18</u></u> |

William M Duncan  
Owner & Operator  
Center Ridge Water District No. 2  
69 Marguerite Blvd  
New Concord, KY 42076

Honorable David Edward Spenard  
Assistant Attorney General  
Office of the Attorney General Utility & Rate  
1024 Capital Center Drive  
Suite 200  
Frankfort, KENTUCKY 40601-8204