

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GREEN HILLS WATER)
DISTRICT FOR A RATE ADJUSTMENT PURSUANT) CASE NO.
TO THE ALTERNATIVE RATE FILING PROCEDURE) 2003-00049
FOR SMALL UTILITIES)

ORDER

On February 10, 2003, Green Hills Water District (Green Hills) filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Green Hills operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 25th day of March, 2003.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
GREEN HILLS WATER DISTRICT
CASE NO. 2003-00049

Pursuant to a request by Green Hills Water District (Green Hills) for assistance with the preparation of a rate application for its water operations, Commission Staff (Staff) performed a limited financial review of Green Hills test year operations for the calendar year ending December 31, 2001. The scope of Staff s review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of the review, Staff assisted Green Hills in the development and preparation of a rate application. The application included an adjusted pro forma operating income statement wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable. The rates proposed by Green Hills were based on the pro forma income statement as shown in the application. The application also includes the calculation of Green Hills revenue requirement using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for small water utilities. Green Hills is proposing to increase its annual revenue from water rates by \$41,144, an increase of 27.25% over normalized revenue of \$150,991. Green Hills requested increase does not include recovery of depreciation expense of \$24,568. If depreciation expense had been included, Green Hills could justify a revenue requirement of

\$217,560 and a revenue increase of \$65,712. However, Green Hills has proposed to exclude depreciation expense because its inclusion in revenue requirements would cause a hardship on its customers, many of whom are low-income.

It should be noted that Green Hills also has an application pending before the Commission in Case Number 2002-00420 relative to the establishment of a wholesale rate for sales to the Hyden-Leslie Water District (Hyden-Leslie). The Commission by Order dated February 25, 2003, proposed to consolidate that case with this rate adjustment case, but Green Hills objected to consolidating the two. The projected revenues from Hyden-Leslie will not materially affect Green Hills financial condition and retail rates.

On February 10, 2003, Green Hills filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of Green Hills application as its recommendation in this report as if fully set out herein. Jason Green is responsible for all revenue adjustments and the calculation of the proposed rates. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the information included in Green Hills application, Staff is of the opinion that the rates as shown in Attachment A of this report are reasonable and should be approved by this Commission.

Signatures

Prepared by: Jack Kaninberg
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Jason Green
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2003-00049
STAFF S RECOMMENDED RATES

Monthly Water Rates

First	2,000 gallons	\$21.56 minimum bill
Next	6,000 gallons	8.04 per 1,000 gallons
All over	8,000 gallons	6.48 per 1,000 gallons