

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE NORTH)	
MARSHALL WATER DISTRICT FOR)	CASE NO.
APPROVAL OF A PROPOSED INCREASE)	2004-00028
IN RATES FOR WATER SERVICE)	

O R D E R

On January 27, 2004, North Marshall Water District ("North Marshall") filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of North Marshall's 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 1st day of April, 2004.

ATTEST:

By the Commission


Executive Director

STAFF REPORT
ON
NORTH MARSHALL WATER DISTRICT
CASE NO. 2004-00028

Pursuant to a request by North Marshall Water District (“North Marshall”) for assistance with the preparation of a rate application for its water operations, Commission Staff (“Staff”) performed a limited financial review of North Marshall’s test year operations for the calendar year ending December 31, 2002. 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 North Marshall 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 North Marshall were based on the pro forma income statement as shown in the application. The application also includes the calculation of North Marshall’s revenue requirement using a 1.2 debt service coverage for its 1966 Series B Bonds, and a 1.1 debt service coverage for its Kentucky Infrastructure Authority Notes. These coverages are frequently used by the Commission to determine revenue requirements for water utilities. North Marshall is proposing to increase its annual revenue from water rates by \$146,051, an increase of 15.24 percent over normalized revenues from water sales of \$958,456. This would

increase the average bill for 5,000 gallons of usage from \$19.01 to \$21.89, an increase of 15.1 percent. North Marshall's requested increase includes full recovery of pro forma depreciation expense of \$201,888.

North Marshall's current rates have been effective since June 1994, or nearly ten years ago. In the Order approving those rates in Case No. 94-003, the Commission noted that "Twenty-four years have passed since North Marshall last requested an increase in its rates. As North Marshall's witness stated, it is a grave mistake to let rates go years and years without an adjustment." Therefore, North Marshall's current application to increase its water rates represents only the second such request in 34 years. Throughout this period, water utilities have been impacted not only by inflationary trends in the overall economy, but also by increasingly stringent federal water quality standards.

On January 27, 2004, North Marshall filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of North Marshall's application as its recommendation in this report as if fully set out herein, with two exceptions. The first exception relates to North Marshall's provision of family health insurance benefits to its employees. When Staff prepared North Marshall's application, it included 75 percent of the cost of family health insurance coverage for North Marshall's employees, because North Marshall requires its employees to bear the remaining 25 percent of these costs. However, the Commission normally disallows 100 percent of the cost of family health insurance coverage unless a water utility can prove that it was provided in lieu of additional wages and salaries. Therefore, an adjustment of \$5,018 should be made to disallow the 75 percent portion of these costs paid for by North Marshall.

The second exception relates to certain credit card payments made by North Marshall. Responding to concerns expressed by Bessie Elliott, who intervened in this case, Staff has reviewed the expenses that were charged by North Marshall employees to the District's credit card. One expenditure of \$511.49 was for the annual employees' Christmas dinner. This type of expense is not unusual, but Staff recommends that it be removed from expenses for ratemaking purposes, consistent with the Commission's standard practice for such expenses.

The credit card expenses also included charges of approximately \$1,793 for employee training, including costs for food and lodging while traveling for training purposes. Staff has reviewed these charges and believes that they are appropriate expenses for ratemaking purposes. The Commission encourages increased training for the employees of water utilities, and the amounts are not unreasonable for a utility of North Marshall's size.

In addition, the credit card expenses also included various payments made to provide meals for prison inmates, who were used by North Marshall to repair water lines and set meters in 2002. This labor was free of charge, but North Marshall chose to pay for meals while the inmates worked for the District. North Marshall has indicated that the inmates were only used in 2002, but that the work they performed in 2002 recurs on an annual basis, and that contractors are now hired to perform these tasks. Therefore, Staff recommends that these expenses be included in North Marshall's revenue requirement because equal or greater expenses will be incurred on an ongoing basis.

The two adjustments recommended herein reduce the required increase to \$140,522, an increase of 14.66 percent over normalized revenues from water sales of \$958,456.

Jason Green of the Staff 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 North Marshall's application and adjusting for the above-mentioned exception, 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. 2004-00028
STAFF'S RECOMMENDED RATES

Monthly Water Rates

Customer Charge:

5/8" X 3/4" Meter	\$10.78
1" Meter	17.03
1 1/2" Meter	27.46
2" Meter	39.99
3" Meter	69.19
4" Meter	110.93
6" Meter	215.25

All Water Usage:

\$2.20 per 1,000 gallons