

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BLACK MOUNTAIN )  
UTILITY DISTRICT FOR APPROVAL OF AN )  
ADJUSTMENT OF RATES PURSUANT TO ) CASE NO. 2004-00038  
THE ALTERNATIVE RATE FILING )  
PROCEDURE FOR SMALL UTILITIES )

O R D E R

On February 23, 2004, Black Mountain Utility District ("Black Mountain") filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Black Mountain'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 23<sup>rd</sup> day of March, 2004.

By the Commission

ATTEST:

  
Executive Director

STAFF REPORT  
ON  
BLACK MOUNTAIN UTILITY DISTRICT  
CASE NO. 2004-00038

Pursuant to a request by Black Mountain Utility District ("Black Mountain") for assistance with the preparation of a rate application for its water operations, Commission Staff ("Staff") performed a limited financial review of Black Mountain'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 Black Mountain 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 Black Mountain were based on the pro forma income statement as shown in the application. The application also includes the calculation of Black Mountain's revenue requirement using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for small water utilities. Black Mountain is proposing to increase its annual revenue from water rates by \$108,122, an increase of 20 percent over normalized revenues of \$540,610. This would increase the average bill for 5,000 gallons of usage from \$35.10 to \$42.15 for Black Mountain's Water Rate A customers, and it would increase the

average bill for Water Rate B customers from \$26.25 to \$31.54. Black Mountain's requested increase does not include full recovery of pro forma depreciation expense of \$157,944. If full recovery of depreciation expense had been requested, Black Mountain could justify a revenue requirement of \$761,407 and a revenue increase of \$220,797.

On February 6, 2004, the Commission received Black Mountain's rate application; however, it was not considered filed until February 23, 2004, when Black Mountain provided information to cure deficiencies in its original filing . Staff is hereby adopting the contents of Black Mountain's application as its recommendation in this report as if fully set out herein. Jess Helton 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 Black Mountain's 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

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

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

ATTACHMENT A  
STAFF REPORT CASE NO. 2004-00038  
STAFF'S RECOMMENDED RATES

**Water Rate A**

For the following systems served under PWS# 0480265 – Coxton/Kitts; PWS# 0480277  
– Dayhoit; PWS# 0480461 – Sukey Ridge; PWS# 0480650 - Rosspoint

First 2,000 gallons	\$20.46 Minimum Bill
Over 2,000 gallons	7.23 Per 1,000 gallons

**Wholesale Rate**                                  \$3.91 Per 1,000 gallons

**Water Rate B**

For the following systems served under PWS# 0480498 and PWS# 0480603

First 2,000 gallons	\$16.21 Minimum Bill
Over 2,000 gallons	5.11 Per 1,000 gallons