

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MILBURN WATER )  
DISTRICT FOR AN ADJUSTMENT OF )  
RATES PURSUANT TO THE ALTERNATIVE ) CASE NO. 2004-00485  
RATE FILING PROCEDURE FOR SMALL )  
UTILITIES )

O R D E R

On December 1, 2004, Milburn Water District ("Milburn") filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Milburn'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 25<sup>th</sup> day of January, 2005.

By the Commission

ATTEST:

  
Executive Director

STAFF REPORT  
ON  
MILBURN WATER DISTRICT  
CASE NO. 2004-00485

Pursuant to a request by Milburn Water District (“Milburn”) for assistance with the preparation of a rate application for its water operations, Commission Staff (“Staff”) performed a limited financial review of Milburn’s test year operations for the calendar year ending December 31, 2003. 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 Milburn 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 Milburn were based on the pro forma income statement as shown in the application. The application also includes the calculation of Milburn’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. To generate the revenue requirement of \$58,435, Milburn is proposing to increase its annual revenue from water rates by \$8,368, an increase of 16.75% over normalized revenue including interest income of \$50,067.

On December 1, 2004, Milburn filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of Milburn's application as its recommendation in this report as if fully set out herein. Eddie Beavers 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 Milburn'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: Eddie Beavers  
Rate Analyst, Communications, Water,  
and Sewer Rate Design Branch  
Division of Financial Analysis

ATTACHMENT A  
STAFF REPORT CASE NO. 2004-00485  
STAFF'S RECOMMENDED RATES

Monthly Water Rates

First	2,000	gallons	\$15.11 minimum bill
Next	3,000	gallons	\$ 6.27 per 1,000 gallons
Next	5,000	gallons	\$ 5.74 per 1,000 gallons
Next	10,000	gallons	\$ 5.20 per 1,000 gallons
Over	20,000	gallons	\$ 4.73 per 1,000 gallons

Attachment A - Milburn WD Proforma	2003	Adjustments	Ref.	Adjusted
Water Sales	\$47,729	(\$14)		\$47,715
Other Rev. - Penalties	\$2,231			\$2,231
Total Operating Rev.	\$49,960	(\$14)	(A)	\$49,946
Employee Salaries	\$8,700	(\$300)	(B)	\$8,400
Purchased Water	\$18,493	\$1,802	(C)	\$20,295
<i>Materials/Supplies</i>	\$1,716	(\$350)	(D)	\$1,366
Contract Services	\$7,406	(\$1,350)	(E)	\$6,056
Testing	\$330	0		\$330
Transportation	\$742	0		\$742
Insurance	\$977	\$361	(F)	\$1,338
Misc.	\$2,198	0		\$2,198
<b>Total Op. Expenses</b>	<b>\$40,561</b>	<b>\$164</b>		<b>\$40,725</b>
Depreciation Exp.	\$8,827	(\$193)	(G)	\$8,634
Amortization Exp.	0	\$340	(H)	\$340
Taxes OTI	\$296	0		\$296
<b>Total Util. Op. Exp.</b>	<b>\$49,684</b>	<b>\$311</b>		<b>\$49,995</b>
<i>Util. Op. Income</i>	<i>\$276</i>	<i>(\$325)</i>		<i>(\$49)</i>
Interest Income	\$121	0		\$121
Interest Expense	(\$975)	(\$275)	(I)	(\$700)
Net Income	(\$578)	(\$50)		(\$628)

Debt Service:

2004 - \$6,000

2005 - \$6,000

2006 - \$7,000

**Avg. \$6,333 (Principal)**

Int. \$ 700

Total \$7,033

Revenue requirement:

\$49,995 Proforma Operating Expenses

\$ 8,440 (1.2 x DSC of \$7,033)

\$58,435 Revenue Requirement

\$49,946 Normalized Revenues

\$ 8,489

\$ (121) Interest Income

\$ 8,368 Revenue Increase Needed (16.75% increase)

Explanatory Notes:

A. Normalized Revenues – Based upon Commission Staff’s billing analysis.

B. Employee Salaries – Normalized salaries are \$700 per month, consisting of \$375 per month paid to the Secretary/Treasurer and \$325 per month paid to the operator.

C. Purchased Water Expense – Milburn purchases water from the Fancy Farm Water District at a rate of \$2.17 per thousand gallons. During 2003, Milburn’s water line loss was 16.19%, but Commission policy is to allow only 15% line loss for ratemaking purposes. Therefore, Staff calculated normalized purchased water expense as follows:

Item	2003	Normalized	Allowing 15% Line Loss
Purchases (Gallons)	9,242,000	9,485,290	9,352,490
%	100%	100%	100%
Sales	7,745,000	7,949,620	7,949,620
%	83.81%	83.81%	85%
Line Loss	1,497,000	1,535,670	1,402,870
%	16.19%	16.19%	15%
9,352.49 thousand gallons x \$2.17 = \$20,295 purchased water expense			

D. Materials and Supplies Expense – Adjustment to remove a nonrecurring expenditure of \$350 for a used computer purchased in 2003. Recovery of this expenditure over 5 years has been included in amortization expense.

E. Contractual Services Expense – Adjustment to remove a nonrecurring expenditure of \$1,350 paid for replacement of the roof on a small building owned by Milburn. Recovery of this expenditure over 5 years has been included in amortization expense.

F. Insurance Expense – Proforma Insurance Expense includes \$875 for commercial insurance and \$463 for automobile insurance.

G. Depreciation Expense – Normalized Depreciation Expense includes adjustments for items that will be fully depreciated on a proforma basis.

H. Amortization Expense – Increased by \$340 to allow a 5 year recovery of the above-mentioned expenditures totaling \$1,700.

I. Interest Expense – Proforma Interest Expense based upon reduced debt.