

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HENDERSON)	
COUNTY WATER DISTRICT FOR APPROVAL)	CASE NO.
OF A PROPOSED INCREASE IN RATES FOR)	2005-00072
WATER SERVICE)	

ORDER

On February 9, 2005, Henderson County Water District (“Henderson”) submitted its application for Commission approval of proposed water rates. Pursuant to Commission Order dated March 10, 2005, the application’s file date was established to be March 9, 2005.

In its application, Henderson presented pro forma financial information demonstrating that its current rates for water service generate a revenue deficiency of \$558,273. To eliminate this deficiency, and to lessen rate shock to its customers, Henderson proposed a 3-phase rate increase where rates would be increased 3 times over a 4-year period.

Through Henderson’s phase-in plan, rates would first be adjusted to produce additional annual revenues of \$357,765. Phase 1 rates would be in service for 2 years, after which time Phase 2 rates would be placed into effect. Phase 2 rates would produce additional annual revenues of \$120,306 and would also be effective for 2 years, after which time Phase 3 rates would be placed into effect. Phase 3 rates would be in effect indefinitely and produce additional annual revenues of \$80,204. At the end

of the 4-year phase-in plan, Henderson will have eliminated the entire revenue deficiency of \$558,273.

Henderson’s proposed phase-in rate plan would increase a monthly bill of a residential customer using 5,000 gallons per month as follows:

	Cost of 5,000 Gallons	Dollar Increase	Percentage Increase
Current Rates	\$ 22.85		
Phase 1	27.28	\$ 4.43	19.39%
Phase 2	28.77	1.49	5.46%
Phase 3	29.78	1.01	3.51%

Upon request, intervention was granted to the Attorney General of the Commonwealth of Kentucky (“Attorney General”) by Order dated March 3, 2005.

To review Henderson’s application and assess the reasonableness of its requested rate phase-in plan, Commission Staff performed a limited financial review of Henderson’s test-year operations. Staff’s findings and recommendations were summarized in its report that was issued by Order dated April 15, 2005. Staff found Henderson’s revenue deficiency to be \$482,477. In keeping with Henderson’s request to minimize rate shock, Staff recommended that the Commission allow Henderson to phase-in rates to gradually eliminate the revenue deficiency. Staff recommended a 2-step phase-in plan.

Pursuant to Staff’s recommended phase-in plan, Phase 1 rates generating additional annual revenues of \$357,765 would be in effect for 2 years, after which time Phase 2 rates would become effective generating an additional \$124,712 in annual

operating revenue. Staff's recommended phase-in plan will eliminate Henderson's revenue deficiency after 2 years.

Staff's recommended rate phase-in plan would increase the monthly bill of a residential customer using 5,000 gallons per month as follows:

	Cost of 5,000 Gallons	Dollar Increase	Percentage Increase
Current Rates	\$ 22.85		
Phase 1	27.21	\$ 4.36	19.08%
Phase 2	28.83	1.62	5.95%

The Order issuing the report granted all parties 10 days to comment or request an informal conference or hearing. On April 21, 2005, the Attorney General filed comments stating that he will not request an informal conference or formal hearing in this matter and that he has no objection to the submission of this case to the Commission for consideration based upon the current record.

On April 22, 2005, Henderson filed comments stating that it accepted the recommendations contained in the Staff Report. In its comments Henderson sought explicit language from this Commission stating that Henderson's acceptance of the Staff Report would not preclude Henderson from submitting to the Commission an additional rate application either prior or subsequent to the effective date of Phase 2 rates. Henderson did not request a hearing or informal conference.

After considering the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The recommendations and findings contained in the Staff Report are supported by the evidence of record, are reasonable, and should be adopted as the findings of the Commission.

2. Phase 1 rates as shown in Appendix A of this Order will produce additional annual revenue from water sales of \$357,765 and shall be made effective for water service provided subsequent to the date of this Order and shall be charged for a period of 2 years.

3. Phase 2 rates as shown in Appendix A of this Order will produce additional annual revenues of \$124,712 and shall be charged for water service provided 2 years after the date of this Order.

4. Nothing contained in this Order or the Staff Report precludes Henderson from filing an application for an additional rate adjustment at any time in the future.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates proposed by Henderson in its application are denied.

3. Phase 1 rates as shown in Appendix A are approved for service rendered by Henderson on and after the date of this Order.

4. Phase 2 rates as shown in Appendix A shall become effective 24 months from the date of this Order.

5. Within 30 days of the date of this Order, Henderson shall file with the Commission its revised tariff setting out Phase 1 rates.

6. Thirty days prior to the effective date of Phase 2 rates, Henderson shall file with the Commission its revised tariff setting out Phase 2 rates. Henderson shall provide its customers with a one-time notice with the implementation of Phase 2 rates.

7. Nothing contained herein shall preclude Henderson from filing an application for rate adjustment at any time in the future.

8. Three years from the effective date of this Order, Henderson shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

Done at Frankfort, Kentucky, this 28th day of April, 2005.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2005-00072 DATED April 28, 2005

The following rates and charges are prescribed for the customers in the area serviced by Henderson County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

		<u>Phase 1</u>	<u>Phase 2</u>
<u>5/8 X 3/4 Inch Connection</u>			
First	2,000 gallons, Minimum Bill	\$13.41	\$14.37
Next	8,000 gallons, per 1,000 gallons	4.60	4.82
Next	20,000 gallons, per 1,000 gallons	4.17	4.35
Over	30,000 gallons, per 1,000 gallons	3.74	3.89
<u>1 Inch Connection</u>			
First	5,000 gallons, Minimum Bill	\$27.21	\$28.83
Next	5,000 gallons, per 1,000 gallons	4.60	4.82
Next	20,000 gallons, per 1,000 gallons	4.17	4.35
Over	30,000 gallons, per 1,000 gallons	3.74	3.89
<u>2 Inch Connection</u>			
First	16,000 gallons, Minimum Bill	\$75.23	\$79.03
Next	14,000 gallons, per 1,000 gallons	4.17	4.35
Over	30,000 gallons, per 1,000 gallons	3.74	3.89
<u>4 Inch Connection</u>			
First	50,000 gallons, Minimum Bill	\$208.41	\$217.73
Over	50,000 gallons, per 1,000 gallons	3.74	3.89
<u>6 Inch Connection</u>			
First	100,000 gallons, Minimum Bill	\$395.41	\$412.23
Next	100,000 gallons, per 1,000 gallons	3.74	3.89
Volunteer Fire Department, Maximum Bill		\$13.41	\$14.37