

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE PEAKS MILL WATER )  
DISTRICT FOR (1) A CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY TO )  
CONSTRUCT THE PROPOSED WATERWORKS )  
IMPROVEMENT PROJECT; (2) THE APPROVAL )  
OF THE PROPOSED PLAN TO FINANCE THE )  
WATERWORKS IMPROVEMENT PROJECT; AND )  
(3) THE APPROVAL OF THE PROPOSED )  
INCREASE IN RATES FOR WATER SERVICE )

CASE NO.  
2006-00142

ORDER

On March 31, 2006, Peaks Mill Water District ("Peaks Mill") tendered its application requesting the Commission to issue a Certificate of Public Convenience and Necessity ("Certificate") to construct improvements to its water facilities, for authority to obtain a \$971,179 loan from the Kentucky Infrastructure Authority, and for authority to increase its water rates. Commission Staff, having performed a limited financial review of Peaks Mill's operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 10 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or informal conference.

2. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing.

3. If no request for a formal hearing or informal conference is received by this date, this case shall stand submitted to the Commission for a decision on all issues raised by the application.

Done at Frankfort, Kentucky, this 31<sup>st</sup> day of May, 2006.

By the Commission

ATTEST:



Executive Director

STAFF REPORT  
ON  
PEAKS MILL WATER DISTRICT  
CASE NO. 2006-00142

Pursuant to a request by Peaks Mill Water District (“Peaks Mill”) for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Peaks Mill’s test period operations, the calendar year ending December 31, 2004. 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 its limited review, Staff assisted Peaks Mill in the development and preparation of its rate application, which Peaks Mill filed with the Commission on March 31, 2006. Staff hereby adopts the contents of Peaks Mill’s application as its recommendation in this report as if fully set out herein. Jessamyn Thompson of the Commission’s Division of Financial Analysis is responsible for the pro forma revenue adjustment, the billing analysis, and the cost-of-service study. Mark Frost of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

In Exhibits 3 and 4 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, Exhibit 7 of the application

and Appendix B of Staff's Report, shows that Peaks Mill's pro forma operations support a revenue requirement from water rates of \$481,779, an increase of \$136,962 or 39.7 percent above the normalized revenue from water rates of \$344,817. The rates proposed by Peaks Mill will increase the average residential bill from \$28.83 to \$37.88, an increase of \$9.05 or 31.4 percent.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$481,779 will allow Peaks Mill to pay its adjusted operating expenses, meet the 1.2x debt service coverage requirements of Peaks Mill's bond ordinances and provide for future equity growth. Staff further finds that Peaks Mill's proposed rates, attached hereto as Appendix C, will generate the annual revenue requirement of \$481,779 and are reasonable. Staff recommends that Peaks Mill's proposed rates be approved.

Signatures

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Prepared by: Mark C. Frost  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis

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

APPENDIX A  
STAFF REPORT CASE NO. 2006-00142  
PRO FORMA INCOME STATEMENT

	Test-Period Operations	Pro Forma Adjustments	Adj. Ref	Pro Forma Operations
<b>Operating Revenues:</b>				
Metered Water Sales	\$ 315,715	\$ 29,102	(a)	\$ 344,817
<b>Other Water Revenue:</b>				
Misc. Service Revenues	10,196	0		10,196
Revenue - Water Sales	<u>\$ 325,911</u>	<u>\$ 29,102</u>		<u>\$ 355,013</u>
<b>Operating Expenses:</b>				
<b>Operation &amp; Maintenance:</b>				
Salaries & Wages – Emp.	\$ 18,277	\$ (637)	(b)	\$ 17,640
Salaries & Wages – Com.	10,800	0		10,800
Emp. Pension & Benefits	2,632	(2,632)	(c)	0
Purchased Water	117,773	2,978	(d)	120,751
Purchased Power	5,363	(801)	(d)	4,562
Chemicals	1,260	0		1,260
Contractual Services – Acct.	4,500	0		4,500
Contractual Services - Legal	3,484	(3,334)	(e)	150
<b>Contractual Services - Other:</b>				
Routine Maintenance	35,596	0		35,596
Maint. - Supplies & Labor	45,769	(24,519)	(f)	21,250
Insurance - Gen. Liability	5,085	0		5,085
Advertising	605	0		605
Bad Debt Expense	1,206	0		1,206
Miscellaneous	13,964	1,868	(g)	15,832
Total Operation & Maint.	<u>\$ 266,314</u>	<u>\$ (27,077)</u>		<u>\$ 239,237</u>
Depreciation	67,682	42,728	(h)	110,410
Amortization	0	1,621	(i)	1,621
<b>Taxes Other Than Income:</b>				
PSC Assessment	551	0		551
Payroll Taxes	0	2,824	(c)	2,824
Other Tax & License	0	0		0
Utility Operating Expenses	<u>\$ 334,547</u>	<u>\$ 20,096</u>		<u>\$ 354,643</u>
Net Utility Operating Income	<u>\$ (8,636)</u>	<u>\$ 9,006</u>		<u>\$ 370</u>
<b>Other Income &amp; Deductions:</b>				
Interest Income	3,410	0		3,410
Net Inc. Available for Debt Service	<u><u>\$ (5,226)</u></u>	<u><u>\$ 9,006</u></u>		<u><u>\$ 3,780</u></u>

Adj. Ref.	Adjustment Description
(a)	<b><u>Revenue from Water Sales:</u></b> Operating revenues have been adjusted to reflect the results of Commission Staff's billing analysis and the current tariffed rate.
(b)	<b><u>Salaries &amp; Wages - Employees:</u></b> Staff has adjusted salaries and wages – employees expense to reflect the annual salary paid to the office personnel.
(c)	<b><u>Payroll Taxes:</u></b> This adjustment decreases pensions and benefits expense and increases taxes other than income tax expense to correct the miss-classification of the payroll taxes.
(d)	<b><u>Purchased Water and Power:</u></b> Staff has adjusted this expense to: (1) remove the misclassified office electricity; (2) include the impact to purchased water and power for providing service to the 50 new customers; (3) recognize the increased cost of water occurring in 2005; and (4) eliminate purchased water line-loss that exceeds 15 percent.
(e)	<b><u>Contractual Services Legal:</u></b> Legal fees that are considered capital costs have been removed from expenses and depreciated.
(f)	<b><u>Materials &amp; Supplies:</u></b> Capital expenditures that were incorrectly expensed in the test-period have been removed and depreciated.
(g)	<b><u>KIA Service Fee:</u></b> This adjustment reflects the 3-year average of the KIA service fee for the new loan.
(h)	<b><u>Depreciation:</u></b> This adjustment: (1) includes a full year depreciation on test-period plant additions; (2) depreciates test-period capital expenditures that were originally expensed; and (3) depreciates Phase I and II of the proposed construction project.
(i)	<b><u>Amortization:</u></b> This adjustment reflects the amortizing the nonrecurring expenditures.

APPENDIX B  
STAFF REPORT CASE NO. 2006-00142  
REVENUE REQUIREMENT DETERMINATION

3-Year Average Debt Service	\$ 117,285
Multiplied by: Debt Service Coverage	<u>1.2</u>
Income From Operations	\$ 140,742
Add: Operating Expenses	239,237
Depreciation	110,410
Amortization	1,621
Taxes Other Than Income	<u>3,375</u>
Total Revenue Requirement	\$ 495,385
Less: Other Income & Deductions	<u>3,410</u>
Revenue Requirement from Operations	\$ 491,975
Less: Other Operating Revenues	<u>10,196</u>
Revenue Requirement from Water Sales	\$ 481,779
Less: Pro Forma Revenue - Water Sales	<u>344,817</u>
<b>Requested/Recommended Increase</b>	<b><u><u>\$ 136,962</u></u></b>
<b>Percentage Increase</b>	<b><u><u>39.720%</u></u></b>

APPENDIX C  
STAFF REPORT CASE NO. 2006-00142  
STAFF'S RECOMMENDED WATER RATES

**RATES AND CHARGES**

All Customers

First	2,000	gallons	\$	19.25	Minimum bill
Next	3,000	gallons		6.21	per 1,000 gallons
Next	5,000	gallons		4.99	per 1,000 gallons
Over	10,000	gallons		4.38	per 1,000 gallons