

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|                                    |            |
|------------------------------------|------------|
| APPLICATION OF SOUTHEAST DAVIESS ) |            |
| COUNTY WATER DISTRICT FOR )        | CASE NO.   |
| APPROVAL OF A PROPOSED INCREASE )  | 2006-00160 |
| IN RATES FOR WATER SERVICE )       |            |

ORDER

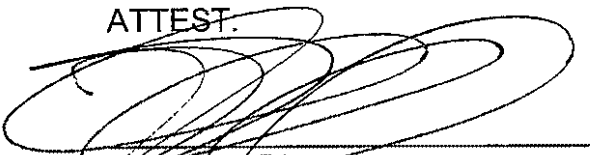
On May 22, 2006, the Commission received an application from Southeast Daviess County Water District ("Southeast Daviess") requesting approval of its proposed water rates. Commission Staff, having performed a limited financial review of Southeast Daviess's operations, has prepared the attached Staff 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 7th day of July, 2006.

ATTEST.

By the Commission

  
Executive Director

STAFF REPORT  
ON  
SOUTHEAST DAVIESS COUNTY WATER DISTRICT  
CASE NO. 2006-00160

Pursuant to a request by Southeast Daviess County Water District ("Southeast Daviess") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited financial review of Southeast Daviess's test-year operations for 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.

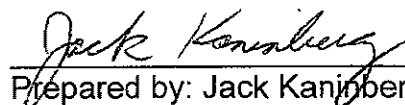
Upon completion of the review, Staff assisted Southeast Daviess in the development and preparation of a rate application. The application included an adjusted pro forma operating income statement wherein adjustments were made to test-year operating revenues and expenses that were known and measurable and deemed to be reasonable, as shown in Attachment B to this report. The rates proposed by Southeast Daviess were based on the pro forma income statement as shown in the application. Using an 88 percent operating ratio, which is frequently used by the Commission to determine revenue requirements for small water utilities, Southeast Daviess requested a revenue increase of \$176,151, an increase of 12.2% over normalized revenue from water sales of \$1,443,854.

Southeast Daviess requested during Staff's review process that Staff consider a revised rate design. During discussions with Southeast Daviess concerning this

change, Southeast Daviess indicated that as they and West Daviess County Water District ("West Daviess") are managed by the same office staff similar rate structures would be administratively beneficial. West Daviess currently has the same rate design structure proposed by Southeast Daviess in the application. Southeast Daviess's current rate design is a 5 step declining block rate design containing a minimum bill, which has a minimum usage allowance in the first step. The rate design is applied to all customers. The proposed rate design is made up of a customer charge, based on the customer's meter size, with no usage, and a two step declining block volumetric charge. Staff has reviewed the proposed rate design and finds that the impact of the change in rate design will be minimal to the customers while more appropriately differentiating customers by meter size. Staff recommends the Commission accept the revised rate design.

On May 22, 2006, the Commission received Southeast Daviess's application. Staff is hereby adopting the contents of Southeast Daviess'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 in Southeast Daviess' 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

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

A handwritten signature in black ink that reads "Eddie Beavers". The signature is written in a cursive style with a large, stylized "E" and "B".

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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. 2006-00160  
STAFF'S RECOMMENDED RATES

Monthly Water Rates

**Retail Customers**  
**Customer Charge**

|                    |                  |
|--------------------|------------------|
| 5/8" x 3/4" Meters | \$2.36 per month |
| 1" Meters          | 3.30 per month   |
| 1 1/2" Meters      | 4.25 per month   |
| 2" Meters          | 6.84 per month   |

**Usage Charge**

|                      |                          |
|----------------------|--------------------------|
| First 20,000 gallons | \$3.06 per 1,000 gallons |
| Over 20,000 gallons  | 2.37 per 1,000 gallons   |

**Wholesale Customer**

|                     |                          |
|---------------------|--------------------------|
| City of Whitesville | \$1.84 per 1,000 gallons |
|---------------------|--------------------------|

| SE Daviess WD<br>Attachment B          | 2004               | Adjustments          | Ref.     | Adjusted<br>Proforma |
|--|--------------------|----------------------|----------|----------------------|
| Water Sales                            | \$1,226,028        | \$65,810<br>\$73,980 |          | \$1,365,818          |
| Other Revenues                         | \$71,679           | \$6,357              |          | \$78,036             |
| <b>Tot. Op. Revenues</b>               | <b>\$1,297,707</b> | <b>\$72,167</b>      | <b>A</b> | <b>\$1,443,854</b>   |
| Employee Salaries                      | \$192,599          | \$4,669              | B        | \$197,268            |
| Officer Salaries                       | \$41,895           | (\$45)               | C        | \$41,850             |
| Pensions/Benefits                      | \$66,597           | \$3,455              | D        | \$70,052             |
| Purchased Water                        | \$694,599          | \$72,167<br>\$73,980 | E        | \$840,746            |
| Purchased Power                        | \$26,211           | 0                    |          | \$26,211             |
| Materials/Supplies                     | \$65,632           | 0                    |          | \$65,632             |
| Contract Serv. -Eng.                   | \$893              | 0                    |          | \$893                |
| Contract. Serv.-Acct.                  | \$3,950            | \$250                | F        | \$4,200              |
| Contract. Serv.-Legal                  | 0                  | 0                    |          | 0                    |
| Contract. Serv.-Other                  | \$3,750            | 0                    |          | \$3,750              |
| Rental of Bldg.                        | \$4,832            | 0                    |          | \$4,832              |
| Transportation Exp.                    | \$21,325           | (\$1,234)            | G        | \$20,091             |
| Insurance-Vehicles                     | 0                  | 0                    |          | 0                    |
| Ins.-Gen. Liability                    | \$13,437           | 0                    |          | \$13,437             |
| Ins.-Workers Comp                      | \$4,401            | 0                    |          | \$4,401              |
| Ins. - Other                           | \$204              | 0                    |          | \$204                |
| Advertising Expense                    | \$142              | 0                    |          | \$142                |
| Bad Debt Expense                       | \$3,593            | 0                    |          | \$3,593              |
| Misc. Exp.                             | \$14,078           | (\$2,000)            | H        | \$12,078             |
| <b>Tot. Water Util. Exp.</b>           | <b>\$1,158,138</b> | <b>\$151,242</b>     |          | <b>1,309,380</b>     |
| Depreciation Expense                   | \$126,892          | (\$720)              | I        | \$126,172            |
| Amortization Expense                   | 0                  | \$411                | J        | \$411                |
| Taxes OT Income                        | \$19,765           | \$676                | K        | \$20,441             |
| <b>Total Op. Expenses</b>              | <b>\$1,304,795</b> | <b>\$151,609</b>     |          | <b>\$1,456,404</b>   |
| <b>Total Op. Income</b>                | <b>(\$7,088)</b>   | <b>(\$5,462)</b>     |          | <b>(\$12,550)</b>    |
| Gain from Utility<br>Property Disposal | \$1,053            | (\$1,053)            | L        | 0                    |
| Interest Income                        | \$17,430           | \$17,570             | M        | \$35,000             |
| Interest Expense                       | (\$2,105)          | \$2,105              | N        | 0                    |
| <b>Net Income</b>                      | <b>\$9,290</b>     | <b>\$13,160</b>      |          | <b>\$22,450</b>      |

Revenue Requirement:

\$1,456,404 – Total Operating Expenses

\$1,655,005 – Divided by 88% Operating Ratio

(1,443,854) – Normalized Revenues

(35,000) – Interest Income

\$ 176,151 – Justified Increase (12.2% increase over proforma sales revenue)

## **Explanatory Notes**

A. Operating Revenues – Normalized revenues based upon the results of Commission Staff's billing analysis.

B. Employee Salaries – Adjusted to reflect 2005 employee salaries of \$195,121.53, plus an adjustment of \$2,146.64 to double the wages earned by a part-time worker hired halfway through 2005.

C. Officer Salaries – Adjusted to reflect the District manager's current salary of \$2,625 x 24 checks = \$63,000. Of that amount, 55% is allocated to Southeast Daviess, or \$34,650 (45% goes to West Daviess). Adding \$7,200 in Board Fees results in total pro forma Pensions and Benefits expense of \$41,850.

D. Pensions/Benefits Expense – Adjusted to reflect increased health care premiums effective in 2006. The new annualized total premium is \$46,346, an increase of \$3,455 over test year expense of \$42,891.

E. Purchased Water Expense – Normalized to reflect normalized sales and the purchased water rates currently in effect after increases in 2005 and 2006.

F. Contract Services – Accounting Expense – Adjusted to reflect current annual accounting fees of \$4,200.

G. Transportation Expense – Adjusted to remove a \$1,234 nonrecurring charge for transmission repairs to a vehicle.

H. Miscellaneous Expense – Adjusted to remove a \$2,000 nonrecurring payment.

I. Depreciation Expense – Adjusted based upon utility plant at the end of 2005.

J. Amortization Expense – Adjusted to allow a three-year recovery for the transmission repair removed from transportation expense.

K. Taxes Other Than Income Expense – Adjusted to reflect FICA tax at a rate of 7.65% x \$239,118 in Total Salaries, for a pro forma FICA expense of \$18,293. Adding the PSC Assessment fee of \$2,148 results in a total pro forma expense of \$20,441.

L. Gain from Property Disposal – Removed from the calculation of revenue requirements because of its nonrecurring nature.

M. Interest Income – Adjusted to increase interest income because of higher interest rates earned on invested money.

N. Interest Expense - Removed from the calculation of revenue requirements because it represents interest expense on customer deposits.