

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE CONSUMERS)	
WATER DISTRICT FOR APPROVAL OF A)	CASE NO.
PROPOSED INCREASE IN RATES FOR)	2007-00057
WATER SERVICE)	

ORDER

On February 5, 2007, Consumers Water District (“Consumers”) filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Consumers’ 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 13th day of March, 2007.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Executive Director

Case No. 2007-00057

STAFF REPORT
ON
CONSUMERS WATER DISTRICT
CASE NO. 2007-00057

Pursuant to a request by Consumers Water District (“Consumers”) for assistance with the preparation of a rate application for its water operations, Commission Staff (“Staff”) performed a limited financial review of Consumers’ test year operations for the calendar year ending December 31, 2005. 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 Consumers 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 A. The rates proposed by Consumers were based on the pro forma income statement as shown in the application. The application also includes the calculation of Consumers’ revenue requirement using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for water districts. Consumers is proposing to increase its annual revenue from water rates by \$107,978, an increase of 36.49 percent over normalized revenues from water sales of \$295,924. This would increase the average bill for 5,000 gallons of usage from \$15.28 to \$20.86, an increase of 36.5 percent.

On February 5, 2007, Consumers filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of Consumers' application as its recommendation in this report as if fully set out herein. Jess Thompson 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 Consumers' application, Staff is of the opinion that the rates as shown in Attachment B 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
Division of Financial Analysis

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

ATTACHMENT A
STAFF REPORT CASE NO. 2007-00057

Consumers WD Attachment A	2005	Adjustments	Ref.	Adjusted
Water Sales Revenue	\$294,073	\$1,851		\$295,924
Other Operating Revenue	\$16,424	0		\$16,424
Water Sales Revenue	\$310,497	\$1,851	A	\$312,348
Employee Salaries	0	0		0
Officer Salaries	\$12,595	(\$900) (\$895)	B	\$10,800
Purchased Water	\$116,195	\$12,046	C	\$128,241
Purchased Power	\$5,548	0		\$5,548
Chemicals (Testing)	\$2,891	0		\$2,891
Materials/Supplies	\$7,380	\$4,542	D	\$11,922
Contract Services-Mgmt. Fees	\$113,377	(\$700) \$800	E	\$113,477
Transportation Expense	0	0		0
Insurance Expense	\$7,227	0		\$7,227
Regulatory Commission Expense		\$514	F	\$514
Miscellaneous Expense	\$6,672	(\$1,400) (\$514)	G	\$4,758
Tot. Water Utility Expense	\$271,885	\$13,493		\$285,378
Depreciation Expense	\$91,358	0		\$91,358
Amortization Expense	0	\$467	H	\$467
Taxes OT Income	0	\$826	I	\$826
Total Operating Expenses	\$363,243	\$14,786		\$378,029
<i>Total Operating Income</i>	<i>(\$52,746)</i>	<i>\$12,935</i>		<i>(\$65,681)</i>
Interest Income	\$2,063	(\$212)	J	\$1,851
Interest Expense	\$10,510	(\$2,585)	K	\$7,925
<i>Net Income</i>	<i>(\$61,193)</i>	<i>(\$10,562)</i>		<i>(\$71,755)</i>

Revenue Requirement

\$ 378,029- Adjusted Operating Expenses

\$ 44,148 – Debt Service (see below)

\$ 422,177 - Revenue Requirement

(\$312,348) - Less Normalized Revenues

(\$ 1,851) - Less Interest Income

\$ 107,978 - Recommended Increase (36.49% increase over \$295,924 in normalized sales)

Debt Service	2007	2008	2009	
1 st Ky. Bank				
-Principal	\$27,480	\$29,841	\$17,936	
-Interest	\$4,629	\$2,268	\$901	
Total	\$32,109	\$32,109	\$18,837	
Fifth Third Lease				
-Principal	\$10,000	\$15,000	\$15,000	
-Interest	\$3,296	\$2,868	\$2,226	
Total	\$13,296	\$17,868	\$17,226	
Total of Both	\$45,405	\$50,977	\$36,063	\$132,445
				3 yr. avg =
				\$44,148

Note – PSC records suggest this debt was not approved by PSC, but it was used for utility purposes and appears reasonable, and is therefore included for ratemaking purposes.

Explanatory Notes:

A. Normalized Revenues as determined by PSC Staff’s billing analysis

B. Officer Salaries was adjusted to reflect annual salaries of \$3,600 apiece for 3 Commissioners, and to remove and reclassify FICA taxes.

C. Purchased Water Expense based on PSC Staff’s billing analysis, which determined normalized sales of 94,175,300 gallons. Since 2005 sales were 95.2% of purchases, this translates into normalized gallons purchased of 98,923,634 annually. At the current purchased water rates paid to Mayfield, the resulting normalized purchased water expense is \$128,241

D. Materials and Supplies Expense was low during 2005, and the 2004 level for Materials and Supplies Expense of \$11,922 was more reflective of pro forma purchases, especially with increases in materials prices.

E. Contractual Services Expense was adjusted for two items – the removal of \$700 in Christmas bonuses paid to contractors performing duties on behalf of the water district, and an increase in the annual CPA audit fee from \$3,000 to \$3,800.

F. Regulatory Commission Expense was adjusted by \$514 to remove the PSC assessment from Miscellaneous Expenses and reclassify it.

G. Miscellaneous Expense was adjusted for two items – the removal of a \$1,400 nonrecurring Kentucky Infrastructure Authority (“KIA”) administrative fee, and the reclassification of the PSC assessment of \$514.

H. Amortization Expense was adjusted by \$467 to allow a three-year recovery for the nonrecurring KIA administrative fee associated with a grant.

I. Taxes Other Than Income Expense was adjusted to include FICA taxes of \$826, based on Officer Salaries of \$10,800 taxed at a rate of 7.65%.

J. Interest Income was adjusted to remove the 10.3% of interest income associated with restricted assets.

K. Interest Expense was adjusted to reflect 2007 interest expense.

ATTACHMENT B
STAFF REPORT CASE NO. 2007-00057
STAFF'S RECOMMENDED RATES

Monthly Water Rates

5/8 x 3/4 Inch Meter

First 2,000 Gallons	\$12.01 Minimum Bill
Next 8,000 Gallons	2.95 per 1,000 Gallons
Next 10,000 Gallons	2.73 per 1,000 Gallons
Next 30,000 Gallons	2.53 per 1,000 Gallons
Over 50,000 Gallons	2.12 per 1,000 Gallons

1 Inch Meter

First 10,000 Gallons	\$35.61 Minimum Bill
Next 10,000 Gallons	2.73 per 1,000 Gallons
Next 30,000 Gallons	2.53 per 1,000 Gallons
Over 50,000 Gallons	2.12 per 1,000 Gallons

2 Inch Meter

First 20,000 Gallons	\$62.91 Minimum Bill
Next 30,000 Gallons	2.53 per 1,000 Gallons
Over 50,000 Gallons	2.12 per 1,000 Gallons