

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GARRISON-QUINCY-KY-O-)
HEIGHTS WATER DISTRICT FOR A RATE) CASE NO.
ADJUSTMENT PURSUANT TO THE ALTERNATIVE) 2007-00476
RATE FILING PROCEDURE FOR SMALL UTILITIES)

ORDER

On December 5, 2007, Garrison-Quincy-Ky-O-Heights Water District ("Garrison-Quincy") filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Garrison-Quincy'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 a hearing or an informal conference. If no request for a hearing or informal conference is received within 10 days of the date of this Order, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 15th day of January, 2008.

ATTEST:

By the Commission


Deputy Executive Director

STAFF REPORT
ON
GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
CASE NO. 2007-00476

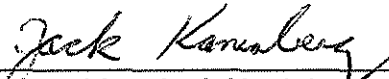
Pursuant to a request by Garrison-Quincy-Ky-O-Heights Water District ("Garrison-Quincy") for assistance with the preparation of a rate application for its water operations, Commission Staff ("Staff") performed a limited financial review of Garrison-Quincy's test year operations for the calendar year ending December 31, 2006. 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 Garrison-Quincy 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 Garrison-Quincy were based on the pro forma income statement as shown in the application. Using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for small water utilities, Garrison-Quincy could have justified a revenue requirement of \$458,925 and a revenue increase of \$102,689. However, Garrison-Quincy is proposing to increase its annual revenue from water rates by \$88,852, an increase of 25% over normalized water sales revenue of \$355,409. This

increase would allow Garrison-Quincy to pay its operating expenses and debt service, and produce a positive cash flow.

On December 5, 2007, Garrison-Quincy filed its rate application with the Commission. Based on the information included in Garrison-Quincy's application, Staff is of the opinion that the rates as shown in Attachment A of this report and the utility's calculation of its revenue requirement as shown in Attachment B are reasonable and should be approved by this Commission. 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.

Signatures



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



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

ATTACHMENT A
STAFF REPORT CASE NO. 2007-00476
STAFF'S RECOMMENDED RATES

Monthly Water Rates

5/8" x 3/4" Meter:

First	2,000 gallons	\$16.53 Minimum Bill
Next	3,000 gallons	6.49 per 1,000 gallons
Next	5,000 gallons	5.43 per 1,000 gallons
Over	10,000 gallons	4.29 per 1,000 gallons

1" Meter:

First	10,000 gallons	\$63.15 Minimum Bill
Over	10,000 gallons	4.29 per 1,000 gallons

2" Meter:

First	50,000 gallons	\$234.75 Minimum Bill
Over	50,000 gallons	4.29 per 1,000 gallons

ATTACHMENT B
STAFF REPORT CASE NO. 2007-00476

Garrison-Quincy Attachment B	2006	Adjustments	Ref.	Adjusted
Water Sales Revenue	\$317,851	(\$5,974)		\$311,877
Other Op. Revenue	\$11,004	\$32,528		\$43,532
Water Sales Revenue	\$328,855	\$26,554	A	\$355,409
Employee Salaries Expense	\$89,332	\$11,623	B	\$100,955
Officer Salaries Expense	\$6,600	0		\$6,600
Pensions/Benefits Expense	\$12,632	\$5,711	C	\$18,343
Purchased Water Expense	\$31,578	(\$4,391)	D	\$27,187
Purchased Power Expense	\$19,409	(\$1,968)	E	\$17,441
Chemicals Expense	\$4,212	(\$427)	F	\$3,785
Materials/Supplies Expense	\$15,996	0		\$15,996
Contract Services-Acct. Expense	\$3,000	\$200	G	\$3,200
Contract Services-Other Expense	\$1,300	0		\$1,300
Transportation Expense	\$4,119	0		\$4,119
Insurance Expense	\$23,069	0		\$23,069
Reg. Com Expense	0	\$561	H	\$561
Bad Debt Expense	\$2,191	(\$1,394)	I	\$797
Miscellaneous Expense	\$33,059	(\$4,481)	J	\$27,672
		(\$533)		
		(373)		
Tot. Water Util. Expense	\$246,497	\$4,528		\$251,025
Depreciation Expense	\$125,070	0		\$125,070
Amortization Expense	0	\$3,320	K	\$3,320
		\$124		\$124
Taxes OT Income Expense	\$7,609	\$619	L	\$8,228
Total Operating Expenses	\$379,176	\$8,591		\$387,767
Total Operating Income	(\$50,321)	\$17,963		(\$32,358)
Interest Income	\$10,849	(\$10,022)	M	\$827
Interest Expense	(\$43,265)	0		(\$43,265)
Net Income	(\$82,737)	\$7,941		(\$74,796)

\$ 387,767 - Adjusted Operating Expenses
\$ 71,158 - 1.2 Debt Service Coverage
 \$ 458,925 - Revenue Requirement
 (\$355,409) - Normalized Revenues
(\$ 827) - Interest Income
\$ 102,689 - Justified Increase
\$ 88,852 - Requested Increase (25% over Normalized Revenues)

Pro Forma Debt Service:

\$14,600 – 2008 principal
 \$16,200 – 2009 principal
 \$17,300 – 2010 principal
 \$48,100 – Total

\$16,033 – 3 yr. avg.
\$43,265 – 2006 Interest
 \$59,298 – Debt Service x 1.2 = \$71,158

Reference Notes:

A. Water Sales Revenue was normalized based on the results of commission staff's billing analysis

B. Employee Salaries Expense was adjusted to reflect the 2007 salaries of five workers, as follows:

Title	2007 Salary
Manager	\$29,806.40
Operator	\$23,732.80
Operator	\$18,220.80
Office Worker	\$16,078.40
Office Worker	\$13,117.00
Total	\$100,955.40

C. Pensions and Benefits Expense was adjusted to reflect a retirement system contribution rate of 16.17% on pro forma salaries of \$100,955 for 2007, and a contribution rate of 2% into a 401k fund.

D. Normalized Purchased Water Expense was calculated as follows, including an adjustment for excess line loss (Garrison-Quincy's line loss was 22.87% for 2006, and the Commission normally allows no more than 15% line loss for ratemaking purposes) :

	2006	Proforma	Purchased	Produced
Purchased (23.87%)	17,503			
Produced (76.13%)	55,833			
Tot. (100%)	73,336			
Water sold (72.67%)	53,292	53,781,472		
Water used by GQ (4.46%)	3,274	3,300		
Subtotal (77.13%)		53,784,772		
Unacct for loss (22.87%)	16,770	16,925,583		
Total (100%)	73,336	74,007,805		
Hold to 15% line loss		9,491,430		
Add Sales and Use		53,784,772		
Total if 15% line loss		63,276,202	15,104,029	48,172,173
Actual at 22.87%		16,925,583		
15% line loss		9,491,430		
Excess line loss		7,434,153	1,774,532	5,659,621
			\$1.80/th.	
Line loss Adjustment			\$3,194	

-2006 Purchased Water Expense \$31,578 divided by Purchases of 17,503 = \$1.80 average rate.

-Proforma purchases of 15,104,029 (including 15% line loss) x \$1.80 = **\$27,187 allowed purchased water expense.**

E. Purchased Power Expense was adjusted for excess line loss as follows:

2006 Purchased Power Expense - \$19,409 Divided by 2006 thousand gallons produced and purchased of 73,336 = \$.2647 purchased power cost per thousand x total excess line loss of 7,434,153 gallons = **\$1,968 adjustment**

F. Chemicals Expense was adjusted for excess line loss as follows:

2006 Chemicals Expense \$4,212 Divided by 2006 thousand gallons produced of 55,833 = \$.0754 chemicals cost per thousand x Excess proforma production of 5,659,621 gallons = **\$427 adjustment**

G. Contractual Services – Accounting Expense was adjusted to reflect a pro forma expense of \$3,200, up from \$3,000 in 2006.

H. Regulatory Commission Expense of \$561 was reclassified from Miscellaneous Expenses.

I. Bad Debt Expense was higher than normal in 2006, so a three-year average was taken, resulting in an adjustment of \$1,394.

J. Miscellaneous Expenses were adjusted to remove or reclassify five items. The first was the reclassification of the above-mentioned Regulatory Commission Expense of \$561. The second was the removal of \$1,000 of Christmas bonuses. The remaining three adjustments were to remove charges totaling \$2,920 which are not expected to recur, an expenditure of \$533 for one-time chemical tests, and another testing expenditure of \$373 which occurs every three years. The latter expense has been included in Amortization Expenses based upon a three-year recovery period.

K. Amortization Expense was adjusted to include the \$3,320 amortization expense allowed in Garrison-Quincy's most recent rate case in 2006, and to allow a three-year recovery of \$124 for the chemical test of \$373 removed from Miscellaneous Expenses.

L. Taxes Other Than Income Expense was adjusted to reflect FICA taxes of \$8,228 based on pro forma Salaries Expense of \$107,555 for the employees and officers times the FICA rate of 7.65%.

M. Interest Income was adjusted to remove the \$10,022 of interest associated with restricted cash, which was 92.374% of total cash investments.