

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH MANCHESTER)
WATER ASSOCIATION FOR APPROVAL OF) CASE NO. 2008-00025
INCREASED RATES FOR WATER SERVICE)

ORDER

On January 17, 2008, North Manchester Water Association (“North Manchester”) filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of North Manchester’s operations, has prepared the attached report containing its 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 an informal conference within 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 submit written comments regarding the attached Staff Report or to request a hearing or an informal conference. If no request for a hearing or an informal conference is received by that date, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 22nd day of February, 2008.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
NORTH MANCHESTER WATER ASSOCIATION
CASE NO. 2008-00025

Pursuant to a request by North Manchester Water Association (“North Manchester”) for assistance with the preparation of a rate application for its water operations, Commission Staff (“Staff”) performed a limited financial review of North Manchester’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 North Manchester 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 North Manchester were based on the pro forma income statement shown in the application. Using a 1.1 debt service coverage to determine its revenue requirements, North Manchester justified a revenue requirement of \$819,033 and a revenue increase of \$131,990.

On January 17, 2008, North Manchester filed its rate application with the Commission. Based on the information included in North Manchester'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. Jason Green 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: Jason Green
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2008-00025
STAFF'S RECOMMENDED RATES

Monthly Water Rates

5/8" x 3/4" Meter

First	2,000 gallons	\$ 15.80 minimum bill
Over	2,000 gallons	4.93 per 1,000 gallons

1" Meter

First	5,000 gallons	\$ 30.59 minimum bill
Over	5,000 gallons	4.93 per 1,000 gallons

2" Meter

First	15,000 gallons	\$ 79.89 minimum bill
Over	15,000 gallons	4.93 per 1,000 gallons

3" Meter

First	30,000 gallons	\$153.84 minimum bill
Over	30,000 gallons	4.93 per 1,000 gallons

ATTACHMENT B
STAFF REPORT CASE NO. 2008-00025

N. Manchester WA	2006	Adjustments	Ref.	Adjusted
Water Sales Revenue	\$626,084	\$58,989		\$685,073
Other Operating Revenue	\$360	0		\$360
Total Operating Revenue	\$626,444	\$58,989	A	\$685,433
Employee Salaries	\$100,292	\$29,975	B	\$130,267
Officer Salaries	\$27,656	\$1,383	C	\$29,039
Pensions/Benefits	0	\$30,433	D	\$30,433
Purchased Water	\$261,357	(\$42,947)	E	\$218,410
Purchased Power	\$26,326	0		\$26,326
Chemicals	\$837	0		\$837
Materials/Supplies	\$42,736	(\$8,753)	F	\$33,983
Contract Serv.-Accounting	\$23,797	0		\$23,797
Contractual Services-Other	\$4,085	(\$1,342)	G	\$2,743
Rental-Equipment	\$3,527	0		\$3,527
Transportation Expense	\$12,346	0		\$12,346
Insurance Expense	\$25,750	(\$25,750)	H	0
Insurance-Workers' Comp	\$7,350	0		\$7,350
Insurance-Other	\$17,174	0		\$17,174
Regulatory Comm. Fee	\$1,110	0		\$1,110
Miscellaneous Expense	\$13,387	(\$727)	I	\$12,660
<i>Operating Expense</i>	<i>\$567,730</i>	<i>(\$17,728)</i>		<i>\$550,002</i>
Depreciation Expense	\$106,338	\$1,026	J	\$107,364
Amortization Expense	0	0		0
Taxes OT Income	\$9,996	\$2,191	K	\$12,187
Total Operating Expenses	\$684,064	(\$14,511)		\$669,553
<i>Total Operating Income</i>	<i>(\$57,620)</i>	<i>\$73,500</i>		<i>\$15,880</i>
Interest Income	\$1,610	0		\$1,610
Interest Expense	(\$73,954)	0		(\$73,954)
Net Income	(\$129,963)	\$73,500		(\$56,464)

Revenue Requirement

\$ 669,553 - Adjusted Operating Expenses
 \$ 149,480 - Debt Service
 \$ 819,033 - Revenue Requirement
 (\$685,433) - Less Normalized Revenues
 (\$ 1,610) - Less Interest Income
 \$ 131,990 - Justified Increase (19.256% increase)

Debt Service:

Pymt. Date	P&I	Servicing Fee	Total
12/1/07	\$66,129	\$1,913	\$68,042
6/1/08	\$66,129	\$1,875	\$68,004
12/1/08	\$66,129	\$1,837	\$67,966
6/1/09	\$66,129	\$1,798	\$67,927
12/1/09	\$66,129	\$1,758	\$67,887
6/1/10	\$66,129	\$1,718	\$67,847
			\$497,673
		3-yr. avg.	\$135,891
		Times 1.1 DSC	\$149,480

Reference Notes:

A. Normalized Revenues as determined by Commission Staff's billing analysis.

B. Employee Salaries and Wages Expense was adjusted by a total of \$29,975 to reflect two items - an increase of \$5,015 to include a 5% Cost of Living Increase granted to all employees in January 2007, and a salary of \$24,960 for a new employee hired in April 2007.

C. Officers' Salaries Expense was adjusted by \$1,383 to include a 5% COLA for the Vice-President of the Water Association.

D. Employee Pensions and Benefits Expense was adjusted to reclassify the health insurance benefits of \$25,750 that had been accounted for as Insurance Expense, and to increase this expense to reflect the current monthly health insurance charges totaling \$2,536.08.

E. Purchased Water Expense was adjusted to \$218,410 to reflect normalized purchases of 145,606,764 gallons times the contract rate of \$1.50 per thousand.

F. Materials and Supplies Expense was adjusted to remove two expenditures totaling \$8,753 for a telemetry system and a pump that are capital in nature, and to allow their recovery in Depreciation Expense.

G. Contractual Services – Other Expense was adjusted to remove \$1,342 of contractual payments incurred in 2006 that will not recur.

H. Insurance Expense was adjusted to reclassify employee health insurance from this account to Pensions and Benefits Expense.

I. Miscellaneous Expense was adjusted to remove Christmas bonuses totaling \$600 and to remove a charge of \$127 paid to Hoskins Florist.

J. Depreciation Expense was adjusted to allow recovery of the telemetry system and the pump removed from Materials and Supplies Expense over a multi-year period, as follows:

Date	Item	Cost	Life (yrs.)	Adjustment
8/17/06	Microcomm Telemetry System	\$7,680.16	10	\$768
11/15/06	Straeffer Pump	\$1,072.87	3	\$358
		\$8,753.03	Total	\$1,026

K. Taxes Other Than Income Expense was adjusted to include a pro forma FICA tax of \$12,187 based upon pro forma employee and officer salaries at a rate of 7.65%.