

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LEDBETTER WATER	)	CASE NO.
DISTRICT FOR APPROVAL OF INCREASED	)	2008-00501
RATES FOR SEWER SERVICE	)	

ORDER

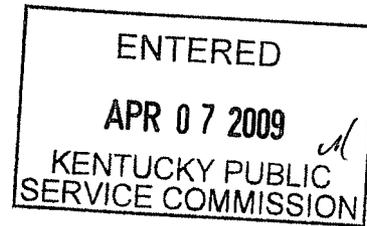
On December 4, 2008, Ledbetter Water District (“Ledbetter”) applied to the Commission for an increase in sewer rates. Commission Staff has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff’s findings and recommendations or requests for a hearing or an informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings set forth in the Staff Report and provide a brief summary of the testimony that it would present at a hearing.
3. A party’s failure to object to a finding or recommendation contained in the Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation.

4. If no request for a formal hearing or informal conference is received within the 14 days, this case shall stand submitted to the Commission for decision.

By the Commission



ATTEST:

*[Handwritten Signature]*  
for: Executive Director

STAFF REPORT  
ON  
LEDBETTER WATER DISTRICT  
(SEWER OPERATIONS)  
CASE NO. 2008-00501

Pursuant to a request by Ledbetter Water District ("Ledbetter") for assistance with the preparation of an application to increase sewer rates, Commission Staff performed a limited financial review of Ledbetter's test period 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 its limited review, Staff assisted Ledbetter in the development and preparation of its rate application, which Ledbetter filed with the Commission on December 4, 2008. Staff hereby adopts the contents of Ledbetter's application as its recommendation in this report as it is fully set out herein. Eddie Beavers 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. Sam Bryant of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Attachment A 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, Attachment A of the application

and attached hereto in Appendix B, shows that Ledbetter's pro forma operations support a revenue requirement from sewer rates of \$470,734, an increase of \$163,267 or 53.26 percent above the normalized revenue from sewer rates of \$306,524.

Although Ledbetter's proposed increase will not generate the annual revenue requirement of \$430,734, based upon review of the application and its supporting documentation, Staff finds that the proposed revenue requirement of \$384,098 will allow Ledbetter to generate sufficient cash flow to pay its adjusted operating expenses and meet its debt service obligations. Staff also finds that Ledbetter's proposed rates, attached hereto as Appendix C, will generate the annual revenue requirement of \$384,098 and are reasonable. Staff recommends that Ledbetter's proposed rate be approved. Should Ledbetter decide to further increase rates to generate the revenue requirement determined by Staff, it should amend its application to reflect those rates and should provide the Commission with confirmation that it has published notice of those rates pursuant to 807 KAR:5011, Section 8.

Signatures



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Prepared by: Sam Bryant, Jr.  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis



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

APPENDIX A  
STAFF REPORT, CASE NO. 2008-00501  
PRO FORMA INCOME STATEMENT

<b>Pro forma Statement</b>	<b>2006 Revised</b>	<b>Adjustments</b>	<b>Ref.</b>	<b>Adjusted</b>
Sewer Rate Revenue	\$276,320	\$28,204		\$304,524
Other Operating Revenue	\$5,778	(\$3,778)		\$2,000
<b>Total Operating Revenue</b>	<b>\$282,098</b>	<b>\$24,426</b>	<b>A</b>	<b>\$306,524</b>
<b>Salaries</b>				
Pumping Syst. Expense (per AR)	\$34,450			
Trtmt. Syst. Labor/Expense (per AR)	\$9,332			
A&G Salaries (per AR)	\$16,763			
<b>Total Salaries</b>	<b>\$60,545</b>	<b>\$24,324</b>	<b>B</b>	<b>\$84,869</b>
Commissioner Fees	0	\$2,040	C	\$2,040
Fuel/Power-Pumping	\$23,898	0		\$23,898
Chemicals	\$9,454	0		\$9,454
Collection Syst. Exp.	0	0		0
Misc. Exp. Pumping System	\$8,333	(\$2,402)	D	\$5,931
Misc. Exp. Trtmt. & Disposal	\$5,513	0		\$5,513
Mt. of Trtmt. & Disposal Plant	\$5,920	0		\$5,920
Mt. of Other Plant Facilities	\$14,604	(\$13,777)	E	\$827
Meter Reading Expenses	\$5,419	(\$5,419)	F	0
Office Supplies and Other Exp.	\$8,808	(\$5,081)	G	\$3,727
Outside Services	\$10,119	(\$2,671)	H	\$7,448
Insurance Expense	\$7,281	0		\$7,281
Employee Pensions/Benefits	\$1,908	\$28,625	I	\$30,533
Transportation Expense	\$5,308	0		\$5,308
Misc. Gen. Expense	\$262	0		\$262
Mt. of General Plant	\$5,068	0		\$5,068
<i>Total O&amp;M Exp.</i>	<i>\$172,440</i>	<i>\$25,639</i>		<i>\$198,079</i>
Depreciation Expense	\$110,111	\$1,759	J	\$111,870
Taxes OTI	\$19,431	(\$12,782)	K	\$6,649
<b>Total Sewer Operating Exp.</b>	<b>\$301,982</b>	<b>\$14,616</b>		<b>\$316,598</b>
<i>Net Operating Income</i>	<i>(\$19,884)</i>	<i>\$9,810</i>		<i>(\$10,074)</i>
Interest Income	\$943	0		\$943
Interest on LT Debt	\$93,975	(\$60,473)	L	\$33,502
Net Income	(\$112,916)			

**Explanatory Notes:**

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

**B. Salaries and Wages Expense** was adjusted to reflect pro forma salaries allocated 60% to water operations and 40% to sewer operations, calculated as follows:

Employee	Total 2006	½ of 2008	Annualized 2008 (2x)	Pro forma
<b>Field</b>				
Field Tech		\$19,028.37	\$38,056.74	\$38,056.74
Assistant Distrib. Mgr.		\$18,316.97	\$36,633.94	\$36,633.94
Field Tech (gone)		\$3,729.08	0	0
Field Tech (hired 4/08)		\$5,493.00		\$30,160.00
Distribution Manager		\$21,725.46	\$43,450.92	\$43,450.92
<i>Total Field</i>	<i>\$150,995.30</i>	<i>\$68,292.88</i>		<i>\$148,301.60</i>
<b>Office</b>				
Office Manager		\$17,283.40		
Office Clerk		\$14,653.06		
<i>Total Office</i>	<i>\$54,932.46</i>	<i>\$31,936.46</i>	<i>\$63,872.92</i>	<i>\$63,872.92</i>
<b>Total</b>	<b>\$205,927.76</b>	<b>\$100,229.34</b>	<b>\$200,458.68</b>	<b>\$212,174.52</b>
			Water at 60%	\$127,305
			<b>Sewer at 40%</b>	<b>\$84,869</b>

**C. Commissioner Fees** totaling \$5,100 were allocated 40% to sewer operations, an adjustment of \$2,040.

**D. Miscellaneous Supplies and Expense – Pumping System** was adjusted to remove a capital expenditure of \$2,401.90, and its recovery has been allowed over a multi-year period in depreciation expense.

**E. Maintenance of Other Plant Facilities** was adjusted to remove three capital expenditures totaling \$2,323, and a capital expenditure of \$11,453.79 for the removal and replacement of three pumps. Recovery of these items has been allowed over a multi-year period in depreciation expense.

**F. Meter Reading Expenses** was adjusted to remove contract labor charges of \$5,419, as the District now reads meters with in-house employees.

**G. Office Supplies and Other Expenses** were adjusted to remove a capital expenditure of \$5,081, and its recovery has been allowed over a multi-year period in depreciation expense.

**H. Outside Services Expense** has been adjusted to remove a nonrecurring charge of \$2,671, and its recovery has been allowed over a multi-year period in depreciation expense.

**I. Employee Pensions and Benefits Expense** were adjusted to reflect a pro forma expense level of \$76,331.64 at September 2008, which when allocated 40% to sewer operations equals \$30,533.

**J. Depreciation Expense** was adjusted by \$1,759 for several items as follows:

Plant Item	In Service	Life	2006 Deprec.	Pro Forma Expense	Adjustment
<b>Subtractions:</b>					
FE Myeres Pump	12/8/00	7.0	\$587.86	0	
Blower Motor	6/27/00	7.0	\$71.43	0	
1/3 of Computer	6/5/01	5.0	\$49.00	0	
Germicidal Lamp	9/18/01	7.0	\$262.16	0	
Generator	12/19/01	7.0	\$171.43	0	
Metal Detector	1/29/01	7.0	\$35.71	0	

2 Used Port. Radios	4/17/01	7.0	\$42.86	0	
½ of Tractor	2/25/02	5.0	\$697.90	0	
			<b>\$1,918.35</b>	<b>0</b>	<b>(\$1,918.35)</b>
<b>Normalized Additions</b>					
Blower - \$2,257.42	6/30/06	7.0	\$161.24	\$322.49	
Trailer 6.5 x 10 - \$460.00	5/8/06	7.0	\$43.81	\$65.71	
			<b>\$205.05</b>	<b>\$388.20</b>	<b>\$183.15</b>
<b>Staff Adjustments</b>					
Environmental S&S-iron pipe	11/9/06	40.0	\$2,401.90		\$60.05
Quality Electric - Motor	9/9/06	5.0	\$698.00		\$139.60
Riddles Plumbing –Boring	9/8/06	40.0	\$725.00		\$18.13
Quality Elec. – Dayton Fan	10/9/06	10.0	\$900.00		\$90.00
Environmental S&S-pumps	12/7/06	7.0	\$11,453.79		\$1,636.29
Computer Source		5.0	\$5,080.54		\$1,016.11
Hughes Building Inc.		5.0	\$2,670.86		\$534.17
<b>Total Adjustment</b>					<b>\$1,759.15</b>

**K. Taxes Other Than Income Expense** was adjusted to reflect FICA tax at 7.65% on pro forma employees' and commissioners' sewer salaries and wages of \$86,909.

**L. Interest Expense** was adjusted to reflect pro forma interest expense of \$33,502.

**Calculation of Debt Service Coverage** on KIA loan of \$2,326,078 (0% interest) and KACo loan of \$1 million (no principal due till 2013):

	<b>Total payment</b>	<b>3-yr. avg.</b>
KIA loan		
2009	\$120,432.69	
2010	\$120,200.08	<b>\$120,200.08</b>
2011	\$119,967.47	
KACo loan		
2009	\$33,502.04	
2010	\$33,502.04	
2011	\$34,803.19	
	\$101,807	<b>\$33,935.66</b>
Total avg. payments		<b>\$154,136</b>

APPENDIX B  
STAFF REPORT, CASE NO. 2008-00501  
REVENUE REQUIREMENT DETERMINATION

Adjusted Operating Expenses	\$	316,598
Add: Debt Service Coverage	+	<u>154,136</u>
Revenue Requirement	\$	470,734
Less Normalized Revenues	-	306,524
Less Interest Income	-	<u>943</u>
Justified Increase (53.26% Increase)	\$	163,267
Requested Increase (25% Increase)	\$	76,631

APPENDIX C  
STAFF REPORT, CASE NO. 2008-00501  
STAFF'S RECOMMENDED SEWER RATES

RATES AND CHARGES

All Customers

First 2,000 gallons

Over 2,000 gallons

\$26.77 Minimum bill

6.05 per 1,000 gallons

Unmetered Customers

\$ 44.92 Monthly Rate

Billy Downs  
Manager  
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