

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF POWELL'S VALLEY WATER	)	
DISTRICT - SEWER DIVISION - FOR AN	)	
ADJUSTMENT IN RATES PURSUANT TO THE	)	CASE NO.
ALTERNATIVE RATE FILING PROCEDURE	)	2008-00506
FOR SMALL UTILITIES	)	

ORDER

On December 8, 2008, Powell's Valley Water District – Sewer Division (“Powell’s Valley Sewer”) applied to the Commission for an adjustment in its 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 about 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 testimony that it would present at hearing.

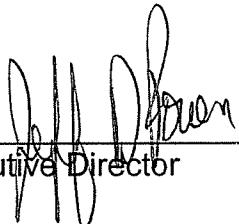
3. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation.

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

Done at Frankfort, Kentucky, this 3rd day of February, 2009.

By the Commission

ATTEST:

  
\_\_\_\_\_  
Executive Director

STAFF REPORT  
ON  
POWELL'S VALLEY WATER DISTRICT - SEWER DIVISION  
CASE NO. 2008-00506

Powell's Valley Water District – Sewer Division (“Powell's Valley Sewer”) requested Commission Staff assistance with the preparation of a rate application. In requesting Staff's assistance, Powell's Valley Sewer stated that time is of the essence because it is having significant cash flow problems that could cause it to default on the 2009 debt service payments.

Staff attempted to perform a limited financial review of Powell's Valley Sewers' test period operations for the calendar year ending December 31, 2007. To expedite the process, Powell's Valley Sewer delivered to the Commission's offices the test period General Ledger, Accounts Payable Journal, and invoices. However, Staff was unable to perform a limited review because there was no clear audit trail linking the individual invoices to the entries reported in the test-period General Ledger.

Staff is only proposing to adjust the operating revenues and expenses reported in the 2007 Annual Report to reflect depreciation on utility plant that was in service as of December 31, 2007. In 2007, Powell's Valley Sewer completed a wastewater improvement project<sup>1</sup> and placed \$504,475 of utility plant into service. Staff recommends that test period depreciation expense of \$8,326 be increased by \$10,090<sup>2</sup>

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<sup>1</sup> Case No. 2006-00404, The Application of Powells Valley Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023 (Ky. PSC Oct. 5, 2006).

<sup>2</sup> \$504,475 (Utility Plant Placed into Service in 2007) ÷ 50 Years = 10,090.

to reflect the on-going level of depreciation for the utility plant placed into service in 2007.

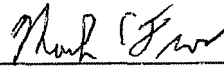
Powell's Valley Sewer accepted Staff's recommendation and included the adjustment in its rate application filed with the Commission on December 8, 2008. Staff hereby adopts the contents of Powell's Valley Sewer's application as its recommendation in this report as if fully set out herein. Jason Green of the Commission's Division of Financial Analysis is responsible for the development of the recommended rate, and Mark Frost of the same division is responsible for the pro forma depreciation expense adjustment and the revenue requirement determination.

At page 2 of the Application, attached hereto as Appendix A, is the adjusted pro forma operating income statement. The revenue requirement determination, Exhibit A of the Application and Appendix B of Staff's Report, shows that Powell's Valley Sewer's pro forma operations support a revenue requirement from sewer operations of \$66,486, an increase of \$25,460 or 62.058 percent above the normalized revenue from sewer operations of \$41,026. The rates proposed by Powell's Valley Sewer will increase the average residential bill from \$41.25 to \$58.16, an increase of \$16.91 or 40.994 percent.

Upon its review of the Application and supporting documents, Staff finds that the proposed revenue requirement of \$66,486 will allow Powell's Valley Sewer to pay its adjusted operating expenses, meet its debt service obligations, and provide for future equity growth. Staff further finds that Powell's Valley Sewer's proposed rate, as shown in Appendix B, will generate the annual revenue requirement of \$66,486 and is reasonable. Staff recommends that Powell's Valley Sewer's proposed rate be approved.

Given its inability to complete its limited review of Powell's Valley Sewer's test-period operating revenues and expenses, Staff recommends the Commission require Powell's Valley Sewer to implement an accounting system that would have a clear and distinct audit trail directly linking the general ledger to the individual invoices. Staff also recommends that, 12 months after the accounting system is implemented, a limited review be completed by Staff to ensure that the rates recommended herein are adequate and that there is no cross-subsidization between the water and sewer divisions.

Signatures



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Prepared by: Mark C. Frost  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis



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

APPENDIX A  
 STAFF REPORT CASE NO. 2008-00506  
 POWELL'S VALLEY SEWER'S  
 PRO FORMA OPERATIONS

	<u>2007</u> <u>Operations</u>	<u>Pro Forma</u> <u>Adjustments</u>	<u>Pro Forma</u> <u>Operations</u>
Operating Revenues:			
Measured Revenues	\$ 41,026	\$ 0	\$ 41,026
Other Operating Revenues	9,218	0	9,218
Total Operating Revenues	<u>\$ 50,244</u>	<u>\$ 0</u>	<u>\$ 50,244</u>
Operating Expenses:			
Operation & Maintenance:			
Meter Reading & Flat Rate Inspections	\$ 7,400	\$ 0	\$ 7,400
Office Supplies & Other Expenses	20,327	0	20,327
Miscellaneous General	876	0	876
Total Operation & Maintenance	<u>\$ 28,603</u>	<u>\$ 0</u>	<u>\$ 28,603</u>
Depreciation	8,326	10,090	18,416
Amortization	0	0	0
Taxes Other Than Income	51	0	51
Utility Operating Expenses	<u>\$ 36,980</u>	<u>\$ 10,090</u>	<u>\$ 47,070</u>
Net Utility Operating Income	<u>\$ 13,264</u>	<u>\$ (10,090)</u>	<u>\$ 3,174</u>

APPENDIX B  
STAFF REPORT CASE NO. 2008-00506  
REVENUE REQUIREMENT DETERMINATION

	Revenue Requirement
Debt Service Coverage - Existing Bonds	\$ 23,862
Multiplied by: Required Coverage	0.2
	\$ 4,772
Debt Service Coverage - Existing Bonds	23,862
Debt Service - Existing Bonds	28,603
Add: Pro Forma Operating Expenses	18,416
Depreciation	51
Taxes Other Than Income	\$ 75,704
Total Revenue Requirement	0
Less: Other Income & Deductions	\$ 75,704
Revenue Requirement from Operations	9,218
Less: Other Operating Revenues	\$ 66,486
Revenue Requirement - Sewer Service	41,026
Less: Pro Forma Revenue - Sewer Service	\$ 25,460
<b>Recommended Revenue Increase - Sewer Service</b>	<b>\$ 25,460</b>
<b>Percentage Increase</b>	<b>62.058%</b>

APPENDIX C  
STAFF REPORT CASE NO. 2008-00506  
RECOMMENDED SEWER RATES

Customer Class	Rates
First 2,000 Gallons (Min. Bill)	\$ 25.12 Min. Bill
All Over 2,000 Gallons	\$ 12.56 Per 1,000 Gallons
Flat Rate Customers	\$ 25.12 Flat Rate



Ronald Everman  
Chairman  
Powell's Valley Water District  
31 Adams Ridge Road  
P. O. Box 550  
Clay City, KY 40312

Honorable David Edward Spenard  
Assistant Attorney General  
Office of the Attorney General Utility & Rate  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601-8204