

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF POWELL'S VALLEY WATER)	
DISTRICT FOR THE APPROVAL OF THE)	CASE NO.
PROPOSED INCREASE IN RATES FOR)	2008-00512
WATER SERVICE)	

ORDER

On December 11, 2008, Powell's Valley Water District ("Powell's Valley") applied to the Commission for an adjustment in its water rates. Having reviewed the filing, the Commission finds that, since Powell's Valley failed to provide the notice that KRS 278.180(1) requires and has not submitted tariff sheets stating a valid effective date as 807 KAR 5:011, Section 6, requires,¹ no action is necessary to suspend or postpone the operation of the proposed rate revision. The proposed rate revision will not become effective until the Commission expressly grants its approval or 10 months elapses from the proposed revision's filing. KRS 278.190.²

Having considered the proposed rate revision and being otherwise sufficiently advised, the Commission finds that, pursuant to KRS 278.190, further proceedings are necessary to determine the reasonableness of the proposed rate revision. Commission Staff has prepared the attached report containing its findings and recommendations

¹ KRS 278.180(1) states that "no change shall be made by any utility in any rate except upon thirty (30) days' notice to the Commission." The proposed effective date of December 31, 2008 did not provide the Commission with 30 days' notice.

² The Commission recognizes the directive of KRS 278.190 to give "preference" to rate cases over other questions pending before it. We will process this case in an expedited manner.

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. This proceeding is established to investigate the reasonableness of Powell's Valley's proposed water service rate.

2. 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.

3. 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.

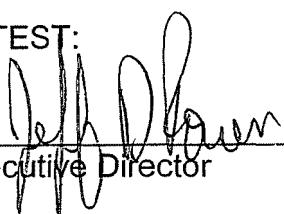
4. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation.

5. 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
CASE NO. 2008-00512

Powell's Valley Water District ("Powell's Valley") requested Commission Staff assistance with the preparation of a rate application. In requesting Staff's assistance, Powell's Valley 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 Valleys' test period operations for the calendar year ending December 31, 2007. To expedite the process, Powell's Valley delivered to the Commission's offices the test period General Ledger, Accounts Payable Journal, and invoices. However, Staff was unable to complete its review in a timely manner 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. Using the end-of-period utility plant balance of \$7,837,347, Staff calculated a *pro forma* depreciation expense of \$169,092.³ To reflect the on-going level of depreciation for the utility plant that was in service at the end of 2007, Staff recommends that test period depreciation expense of \$167,092 be increased by \$1,334.

³ Utility Plant	\$ 7,745,779 ÷ 50 Years =	\$ 154,916
Furniture & Fixtures	\$ 41,378 ÷ 10 Years =	4,138
Equipment	\$ 50,190 ÷ 5 Years =	+ 10,138
Pro Forma Depreciation Expense		<u>\$ 169,092</u>

Powell's Valley accepted Staff's recommendation and included the adjustment in its rate application filed with the Commission on December 11, 2008. Staff hereby adopts the contents of Powell's Valley'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 rates and Mark Frost of the same division is responsible for the pro forma depreciation expense adjustment and the revenue requirement determination.

Exhibit 3 of the Application, attached hereto as Appendix A, contains Powell's Valley's adjusted pro forma operating income statement. The revenue requirement determination, Exhibit 6 of the Application and Appendix B of Staff's Report, shows that Powell's Valley's pro forma operations support a revenue requirement from water rates of \$1,034,766, an increase of \$176,777 or 20.604 percent above the normalized revenue from water service of \$857,989. The rates proposed by Powell's Valley will increase the average residential bill from \$34.69 to \$41.84, an increase of \$7.15 or 20.611 percent.⁴

Upon its review of the application and supporting documents, Staff finds that the proposed revenue requirement of \$1,034,766 will allow Powell's Valley to pay its adjusted operating expenses, meet its debt service obligations, and provide for future equity growth. Staff further finds that Powell's Valley's proposed rates, as shown in Appendix B, will generate the annual revenue requirement of \$1,034,766 and is reasonable. Staff recommends that Powell's Valley's proposed rate be approved.

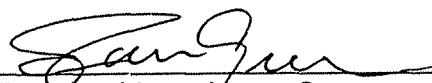
⁴ Exhibit 6 of the Application.

Given its inability to complete its limited review of Powell's Valley's test-period operating revenues and expenses, Staff recommends the Commission require Powell's Valley 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



Prepared by: Mark C. Frost
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

APPENDIX A
 STAFF REPORT CASE NO. 2008-00512
 POWELL'S VALLEY'S
 PRO FORMA OPERATIONS

	2007 Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Revenues - Metered Water Sales	\$ 857,989	\$ 0	\$ 857,989
Other Operating Revenues	38,740	0	38,740
Total Operating Revenues	<u>\$ 896,729</u>	<u>\$ 0</u>	<u>\$ 896,729</u>
Operating Expenses:			
Operation & Maintenance:			
Salaries & Wages - Employees	\$ 160,546	\$ 0	\$ 160,546
Salaries & Wages - Commissioners	10,800	0	10,800
Employee Pension & Benefits	94,915	0	94,915
Purchased Water	279,007	0	279,007
Purchased Power	48,924	0	48,924
Materials & Supplies	40,421	0	40,421
Contractual Services - Accounting	3,000	0	3,000
Contractual Services - Other	32,845	0	32,845
Insurance - Vehicle	5,800	0	5,800
Insurance - Gen. Liability	15,100	0	15,100
Insurance - Worker's Compensation	3,519	0	3,519
Insurance - Other	6,109	0	6,109
Bad Debt	2,633	0	2,633
Miscellaneous	27,612	0	27,612
Total Operation & Maintenance	<u>\$ 731,231</u>	<u>\$ 0</u>	<u>\$ 731,231</u>
Depreciation	167,758	1,334	169,092
Payroll Taxes	16,688	0	16,688
Utility Operating Expenses	<u>\$ 915,677</u>	<u>\$ 1,334</u>	<u>\$ 917,011</u>
Net Utility Operating Income	<u>\$ (18,948)</u>	<u>\$ (1,334)</u>	<u>\$ (20,282)</u>

APPENDIX B
 STAFF REPORT CASE NO. 2008-00512
 REVENUE REQUIREMENT DETERMINATION

	Revenue Requirement
Debt Service Coverage - Existing Bonds	\$ 136,712
Multiplied by: Required Coverage	0.2
Debt Service Coverage - Existing Bonds	\$ 27,342
Debt Service - Existing Bonds	136,712
Add: Pro Forma Operating Expenses	731,231
Depreciation	169,092
Payroll Taxes	16,688
Total Revenue Requirement	\$ 1,081,065
Less: Other Income & Deductions	7,559
Revenue Requirement from Operations	\$ 1,073,506
Less: Other Operating Revenues	38,740
Revenue Requirement from Water Sales	\$ 1,034,766
Less: Pro Forma Revenue - Water Sales	857,989
Recommended Increase	\$ 176,777
 Percentage Increase	 20.604%

APPENDIX C
STAFF REPORT CASE NO. 2008-00512
RECOMMENDED WATER RATES

Customer Class	Rates	
First 2,000 Gallons (Min. Bill)	\$ 19.00	Min. Bill
Next 2,000 Gallons	\$ 8.09	Per 1,000 Gallons
Next 2,000 Gallons	\$ 7.19	Per 1,000 Gallons
All Over 6,000 Gallons	\$ 6.66	Per 1,000 Gallons

Mr. Robert King
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