

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HENDRON WATER) CASE NO.
DISTRICT FOR APPROVAL OF INCREASED) 2009-00148
RATES FOR WATER SERVICE)

ORDER

On April 9, 2009, Hendron Water District ("Hendron") applied to the Commission for an adjustment of 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 HEREBY ORDERED that:

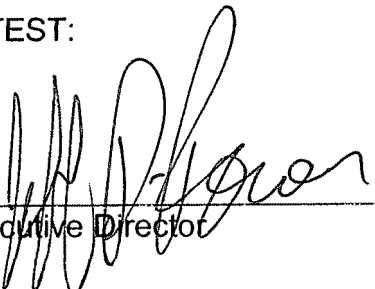
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections 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 14 days, this case shall stand submitted to the Commission for decision.

By the Commission

ENTERED
NOV 16 2009 *sl*
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

STAFF REPORT
ON
HENDRON WATER DISTRICT
CASE NO. 2009-00148

On April 9, 2009, Hendron Water District, ("Hendron"), filed its application with the Public Service Commission ("Commission") for an increase in its water rates. Hendron proposed to increase its revenues by \$85,518 over 2007 normalized revenues of \$792,988. Hendron used the 12-month period ending December 31, 2007, as its test period.

On May 21, 2009, the Commission Staff ("Staff") performed a review of Hendron's operations and the proposals in this case. This report contains the findings and recommendations of that review. Jason Green of the Commission's Division of Financial Analysis is responsible for the revenue adjustment, and Sam Bryant of the same Division is responsible for all pro forma expense adjustments and the revenue requirement determination, found in Appendix B to this report.

Exhibit 4 of the application and Appendix A to this report contain Hendron's pro forma operating statement.

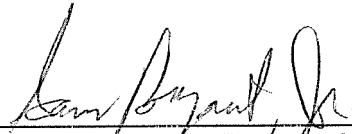
In its filing, Hendron proposed to increase its test-period operating expenses by \$18,392. The proposed adjustments and operating expenses are explained in Exhibit 4 of the application and Appendix A to this report. Staff has reviewed and recommends acceptance of all of the adjustments Hendron proposed with the exception of its Contract Service-Testing.

Hendron proposed no change to the test-period amount of \$2,764 that was expended for water testing. As a result of its review of 2008 invoices, Staff determined that water was tested twice monthly at a cost of \$3,840 per year, an increase of \$1,076. Therefore, Staff made an adjustment to increase Contract Services-Testing from the test amount to \$3,840.

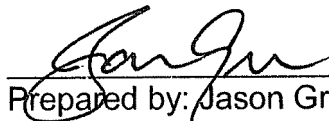
Hendron's adjusted operating expenses of \$809,509 results in a revenue requirement of \$913,938 as calculated in Appendix B to this report and as generated by the rates in Appendix D to this report. The rates proposed by Hendron in its application will not generate the recommended revenue requirement. However, Staff finds that Hendron's proposed rate will generate sufficient revenue to pay its operating expenses and provide for future equity growth. Hendron proposed an across-the-board percentage increase in its current rates. Staff is in agreement with these rates and concurs that this method is appropriate. Therefore, Staff recommends that the Commission accept Hendron's proposed rate as set out in Appendix C to this report.

Should Hendron decide to increase its rates to generate the revenue requirement recommended by Staff, it should amend its application to reflect those rates and provide the Commission with confirmation that it has published notice of those rates pursuant to 807 KAR 5:011, Section 8.

Signatures:



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



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

APPENDIX A
STAFF REPORT
CASE NO. 2009-00148
OPERATING STATEMENT

| | <u>2007</u> | <u>Adjustments</u> | <u>Adjusted</u> |
|---------------------------------|-------------------|--------------------|--------------------|
| Operating Revenues: | | | |
| Water Sales Revenue | \$ 775,690 | \$ 846 | \$ 776,536 |
| Other Operating Revenue | 17,530 | (1078) | 16,452 |
| Operating Revenue | \$ 793,220 | \$ (232) A | \$ 792,988 |
| Operating Expenses: | | | |
| Employee Salaries | \$ 170,057 | \$ 3,015 B | \$ 173,072 |
| Officer Salaries | 7,200 | 0 | 7,200 |
| Pension Benefits | 39,961 | 0 | 39,961 |
| Purchased Water | 324,845 | 6,751 C | 331,596 |
| Purchased Power | 31,849 | 3,760 D | 35,609 |
| Chemicals | 2,563 | 0 | 2,563 |
| Materials/Supplies | 46,819 | 0 | 46,819 |
| Contract Services-Eng. | 7,318 | 0 | 7,318 |
| Contract Services-Acct. | 7,410 | 520 E | 7,930 |
| Contract Services-Legal | 534 | 0 | 534 |
| Contract Services-Testing | 2,764 | 1,076 F | 3,840 |
| Contract Services-Other | 15,342 | 0 | 15,342 |
| Transportation Expenses | 20,348 | 0 | 20,348 |
| Insurance-General Liability | 1,000 | 0 | 1,000 |
| Insurance-Workers Comp. | 5,495 | 0 | 5,495 |
| Insurance-Vehicle | 15,999 | 0 | 15,999 |
| Bad Debt | 1,724 | 0 | 1,724 |
| Miscellaneous Expense: | 10,529 | (688) G | 9,841 |
| Total Water Utility Expenses | 711,757 | 14,434 | 726,191 |
| Depreciation Expense | 63,361 | 4,886 H | 68,247 |
| Amortization Expense | 282 | 998 I | 1,280 |
| Taxes OT Income | 14,641 | (850) J | 13,791 |
| Total Operating Expenses | \$ 790,041 | \$ 19,468 | \$ 809,509 |
| Net Operating Income | \$ 3,179 | \$ (19,700) | \$ (16,521) |
| Other Income: | | | |
| Interest Income | 2,498 | (2,023) K | 475 |
| Nonutility Income | 11,445 | (11,445) L | 0 |
| Other Expenses: | | | |
| Interest Expense | 20,971 | 7,367 M | 13,604 |
| Net Income | \$ (3,849) | \$ (25,801) | \$ (29,650) |

A. **Operating Revenue** was adjusted downward \$232 to reflect the Staff's adjustment to normalized revenue.

B. Employee Salaries and Wages was adjusted to reflect the 2008 wage rates. Hendron calculated its pro forma salaries and wages expense of \$173,072, as shown in Table 1 below.

| Table 1: Pro Forma Salaries | |
|------------------------------------|------------------------|
| Title | Pro Forma Wages |
| Field Worker | \$ 32,406 |
| Field Worker | 31,346 |
| Field Worker | 28,662 |
| Field Worker | 23,837 |
| Office Worker | 27,061 |
| Office Worker | 19,448 |
| Subtotal | \$ 162,760 |
| Part-Time Help | 721 |
| Overtime ¹ | 9,591 |
| Total Pro Forma | \$ 173,072 |

C. Purchased Water Expense was adjusted to \$331,596 to reflect the current purchased water rate of \$1.50 per thousand gallons multiplied by test-year purchases of 221,064 gallons.

D. Purchased Power Expense was adjusted by \$3,760 to reflect increased costs of electrical power used for pumping.

E. Contractual Services – Accounting was adjusted by \$520 to reflect the current CPA fees of \$7,930 for the annual audit and PSC report.

F. Contractual Services- Testing was adjusted by Staff to reflect an increase in the number of tests to twice monthly at a cost of \$160 per test.

G. Miscellaneous Expense was reduced by \$688 to remove a charge for an employee Christmas dinner.

¹ \$162,760 (Regular Pay 2008) ÷ \$155,207 (Regular Pay 2007) = 1.048664 (Regular Pay Ratio) x \$9,146 (Overtime Pay 2007) = \$9,591.

H. **Depreciation Expense** was increased by \$4,886 to include a full year of depreciation expense on 2007 plant additions as shown in Table 2 below.

| Table 2: Depreciation | | | | |
|-----------------------|---------------|------------|---------------------|-------------------|
| Plant Account | Plant Balance | Dep. Rates | Annual Depreciation | 2007 Depreciation |
| Distribution System | \$ 92,184 | 2% | \$ 1,844 | \$ 922 |
| Water Tank Upgrades | 74,426 | 10% | 7,443 | 3,721 |
| Other Equipment | 2,170 | 20% | 434 | 217 |
| Telephone Equipment | 255 | 20% | 51 | 26 |
| Totals | \$ 169,035 | | \$ 9,772 | \$ 4,886 |

I. **Amortization Expense** was adjusted by \$998 to allow for a three-year recovery of rate case expense of \$2,995.

J. **Taxes Other Than Income Tax Expense** was adjusted to include FICA taxes of \$13,791 based upon pro forma salaries of \$180,272 for the employees and Commissioners, at 7.65%.

K. **Interest Income** was reduced by \$2,023 to remove interest income on restricted cash, which was approximately 81% of total cash.

L. **Nonutility Income** was removed as it should not be included as a ratemaking item.

M. **Interest Expense** was adjusted to reflect pro forma interest expense accrued and interest actually paid on long-term debt.

APPENDIX B
Revenue Requirement and
Debt Service Calculations
Hendron Water District
Case No. 2009-00148

| | |
|--|-------------------------|
| Proforma Operating Expenses | \$ 809,509 |
| Debt Service Coverage (1.2 x \$87,024) | + 104,429 |
| Revenue Requirement | <u>\$ 913,938</u> |
| Less: Other Operating Income | 16,452 |
| Interest Income | 475 |
| Surcharge | - 50,472 |
| Required From Water Sales | <u>\$ 846,539</u> |
| Test Year Revenues | - 742,516 |
| Justified Increase | <u>\$ 104,023</u> |
| Requested Increase | <u>\$ 85,518</u> |

| Debt Service Calculation | | | |
|--------------------------|---------------------|----------------|-----------------------|
| Year | Revenue Bond P&I | KIA Payment | Total Debt Service |
| 2009 | \$ 45,697 | \$ 43,232 | \$ 88,929 |
| 2010 | \$ 45,493 | \$ 41,596 | 87,089 |
| 2011 | \$ 45,182 | \$ 39,872 | + 85,054 |
| Total | | | <u>\$ 261,072</u> |
| Three-Year Average | | | <u>\$ 87,024</u> |

APPENDIX C
STAFF REPORT
CASE NO. 2009-00148
REQUESTED RATES

Schedule No. 1:

Applicable within the service area of the Hendron Water District, described as project #APW-KL-140CL (PFL-KY-90), a map of which is on file in the utility office.

5/8" X 3/4" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 2,000 gallons | \$ | 9.40 minimum bill |
| Next | 3,000 gallons | \$ | 4.58 per 1,000 gallons |
| Next | 5,000 gallons | \$ | 4.17 per 1,000 gallons |
| Next | 10,000 gallons | \$ | 3.65 per 1,000 gallons |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

3/4" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 3,500 gallons | \$ | 16.28 minimum bill |
| Next | 1,500 gallons | \$ | 4.58 per 1,000 gallons |
| Next | 5,000 gallons | \$ | 4.17 per 1,000 gallons |
| Next | 10,000 gallons | \$ | 3.65 per 1,000 gallons |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

1" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 5,000 gallons | \$ | 23.14 minimum bill |
| Next | 5,000 gallons | \$ | 4.17 per 1,000 gallons |
| Next | 10,000 gallons | \$ | 3.65 per 1,000 gallons |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

1 1/2" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 10,000 gallons | \$ | 44.01 minimum bill |
| Next | 10,000 gallons | \$ | 3.65 per 1,000 gallons |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

2" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 20,000 gallons | \$ | 80.51 minimum bill |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

4" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 50,000 gallons | \$ | 186.49 minimum bill |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

APPENDIX D
STAFF REPORT
CASE NO. 2009-00148
JUSTIFIED RATE

Schedule No. 2:

Applicable within the service area of the Hendron Water District, described as project #PFL-KL-206, a map of which is on file in the utility office.

5/8" X 3/4" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 2,000 gallons | \$ | 12.40 minimum bill |
| Next | 3,000 gallons | \$ | 4.58 per 1,000 gallons |
| Next | 5,000 gallons | \$ | 4.17 per 1,000 gallons |
| Next | 10,000 gallons | \$ | 3.65 per 1,000 gallons |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

3/4" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 3,500 gallons | \$ | 19.28 minimum bill |
| Next | 1,500 gallons | \$ | 4.58 per 1,000 gallons |
| Next | 5,000 gallons | \$ | 4.17 per 1,000 gallons |
| Next | 10,000 gallons | \$ | 3.65 per 1,000 gallons |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

1" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 5,000 gallons | \$ | 26.14 minimum bill |
| Next | 5,000 gallons | \$ | 4.17 per 1,000 gallons |
| Next | 10,000 gallons | \$ | 3.65 per 1,000 gallons |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

1 1/2" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 10,000 gallons | \$ | 47.01 minimum bill |
| Next | 10,000 gallons | \$ | 3.65 per 1,000 gallons |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

2" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 20,000 gallons | \$ | 83.81 minimum bill |
| Next | 30,000 gallons | \$ | 3.53 per 1,000 gallons |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

4" Meter

| | | | |
|----------|-----------------|----|------------------------|
| First | 50,000 gallons | \$ | 189.49 minimum bill |
| Next | 50,000 gallons | \$ | 3.30 per 1,000 gallons |
| All over | 100,000 gallons | \$ | 3.19 per 1,000 gallons |

Don E Peck
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