COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF LOVELACEVILLE WATER

FILING OF LOVELACEVILLE WATER COMPANY

CASE NO. 2009-00381

ORDER

On September 21, 2009, Lovelaceville Water Company ("Lovelaceville") submitted its application for Commission approval of proposed water service rates. Commission Staff, having performed a limited financial review of Lovelaceville's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report

carefully and provide any written comments or requests for a hearing or informal

conference no later than 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 provide written comments regarding the attached Staff

Report or requests for a hearing or informal conference. If no request for a hearing or

informal conference is received, this case will be submitted to the Commission for a

decision.

By the Commission

ATTEST:

Executive Director

ENTERED

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KENTUCKY PUBLIC

STAFF REPORT

ON

LOVELACEVILLE WATER COMPANY

CASE NO. 2009-00381

Pursuant to a request by Lovelaceville Water Company ("Lovelaceville") for Commission Staff ("Staff") assistance with the preparation of an application for an adjustment of water service rates, Staff performed a limited financial review of Lovelaceville's test-year operations, the calendar year ended December 31, 2008. The scope of Staff's review was limited to obtaining information as to whether the test-year operating revenues and expenses were representative of normal operations. Known and measurable adjustments were made to test-year operations as allowed by 807 KAR 5:001, Section 10(7). Insignificant or immaterial discrepancies were not pursued and are not addressed herein. Upon completion of the review, Staff assisted Lovelaceville in the development and preparation of an application.

On September 21, 2009, Lovelaceville filed the application. As shown in the application, the adjusted test-year operations demonstrate that Lovelaceville could justify water service rates that generate annual revenues equal to \$21,987, a 203-percent increase over normalized test-year revenues of \$7,263. To minimize the rate shock felt by its customers, Lovelaceville requested rates that will produce only \$15,979 in annual revenues. Lovelaceville's proposed rates would increase the monthly bill for 5,000 gallons from \$13 to \$28.60, or 120 percent.

After reviewing Lovelaceville's financial information, Staff finds that Lovelaceville's proposed adjusted operating statement as presented in its application is

reflective of normal operations and should be used to determine Lovelaceville's revenue requirement. Although the water service rates requested by Lovelaceville, as shown in Attachment A of this report, will not produce the revenue requirement set forth in Lovelaceville's application, Staff recommends that the Commission recognize Lovelaceville's desire to minimize the rate shock felt by its customers and approve the requested rates.

Jason Green is responsible for all revenue adjustments and calculation of the proposed water service rates. Scott Lawless is responsible for the determination of the revenue requirement.

Signatures

Prepared by: Jack Scott Lawless, CPA Financial Analyst, Water and Sewer Revenue Requirements Branch Division of Financial Analysis

Rrepared by: Jason Green

Rate Analyst, Communications, Water,

and Sewer Rate Design Branch Division of Financial Analysis

ATTACHMENT A STAFF REPORT CASE NO. 2009-00381 STAFF'S RECOMMENDED WATER SERVICE RATES

Monthly Water Rates

First 3,500 gallons \$22.00 minimum bill Over 3,500 gallons 4.40 per 1,000 gallons

Paul S Mcgowan Owner Lovelaceville Water Company 153 S. Broadway P. O. Box 109 Lovelaceville, KY 42060