

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GREEN-TAYLOR WATER     ) CASE NO. 2009-00032  
DISTRICT FOR AN ADJUSTMENT OF RATES     )

ORDER

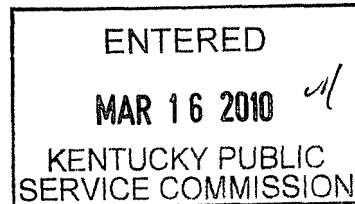
On March 3, 2009, Green-Taylor Water District ("Green-Taylor") filed its application for Commission approval of proposed water rates. Commission Staff has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully 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:

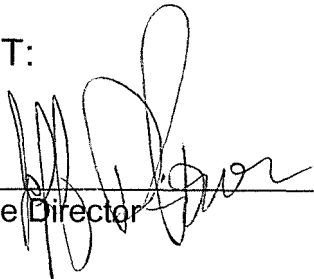
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections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

By the Commission



ATTEST:

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

STAFF REPORT  
ON  
GREEN –TAYLOR WATER DISTRICT  
CASE NO. 2009-00032

On March 3, 2009, Green-Taylor Water District ("Green-Taylor") submitted its application with the Public Service Commission (the "Commission") for an increase in its water rates and certain non-recurring charges. The increase proposed by Green-Taylor would increase its test period operating revenues from rates by \$294,262 or approximately 15.2 percent.

In its application, Green-Taylor proposed using the year ending December 31, 2007 as its test period in this proceeding. In order for the financial information to be more current, the Commission Staff ("Staff") used the financial information contained in Green-Taylor's 2008 Annual Report for the year ended December 31, 2008 in determining Green-Taylor's revenue requirement.

Green-Taylor's original filing was found to be deficient by Staff. The deficiency was cured on August 31, 2009 and the case was considered filed on that date.

On December 7, 2010, Staff performed a limited review of Green-Taylor's 2008 operations. This report contains the findings and recommendations of that review. Jason Green of the Commission's Division of Financial Analysis is responsible for normalized revenues and rate design. Sam Bryant of the same Division is responsible for all pro forma expense adjustments found in Appendix A of this report and the revenue requirement determination found in Appendix B of this report.

Green-Taylor proposed an increase of \$44,064.82 in revenues reported in its 2008 annual report. Upon discovering a discrepancy in Green-Taylor's billing analysis,

Staff made an additional increase of \$103.92, resulting in a normalized operation revenue of \$1,986,525.

Appendix A of this report contains Green-Taylor's 2008 operating statement. In its application, Green-Taylor did not propose any pro forma adjustments. However, after reviewing Green-Taylor's 2008 operations, Staff recommends the following pro forma adjustments be made which results in a revenue requirement of \$2,320,199, an increase of \$333,674 or 16.8 percent above normalized revenues of \$1,986,525 as calculated at Appendix B of this report. The rates contained in Appendix C to this report generate the revenues recommended herein and increase the average residential rate from \$37.65 to \$44.20, an increase of \$6.55 or 17.40 percent.

**Salaries and Wages:** Green-Taylor has ten employees. All are full-time. On April 1, 2008, the nine hourly employees received a sixty-cent-per-hour raise. Since this increase was in effect for only a part of the test period, a normalization adjustment was made to reflect the increase in wages for an entire year. This results in an increase in test period wages of \$2,781. At the same time, the District Manager, Roger D. Moss, received a lump sum increase of \$2,500. Since this was a lump sum payment, no adjustment to test period operations is required.

**Employee Pensions and Benefits:** This account was increased to allow for increased retirement benefits. There is no increase in health insurance benefits.

**Materials and Supplies:** After reviewing this account, Staff determined that \$30,234 of expenditures for meters, materials, and supplies should have been capitalized, either as plant in service or inventory. Therefore, this account has been

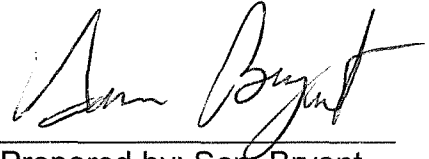
reduced by that amount. An adjustment to include depreciation on these items is made elsewhere in this report.

**General Liability and Workers' Compensation Insurance:** These expenses were increased after reviewing invoices for 2009. The General Liability was increased by \$3,250 and the Workers' Compensation expense was increased by \$33.

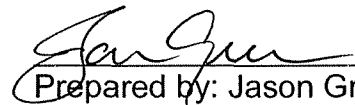
**Depreciation Expense:** This expense was increased by \$1,210 to record depreciation on the expenses that were capitalized.

The revenue requirement proposed by Green-Taylor in its application was calculated using a method determined by Green-Taylor's engineers. The Staff does not believe that this method will generate sufficient revenue for Green-Taylor and, therefore, rejects its use in favor of the more traditional debt-service coverage "(DSC)" method.

While Green-Taylor proposed to increase the minimum bill by \$4.33 for each meter size, Staff believes that due to the variable nature of the increase in expenses, an across-the-board percentage increase in all rates is more appropriate. Staff finds that the rates in Appendix C will generate sufficient revenue to pay Green-Taylor's operating expenses, cover its debt and provide for future equity growth. Staff, therefore, recommends that the Commission accept Staff's proposed rates as set out in Appendix C of this report.



Prepared by: Sam Bryant,  
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. 2009-00032

**Pro Forma Operating Statement**

	<u>2008 AR</u>	<u>Adjustments</u>		<u>Pro forma Adjusted</u>
Sales of Water	\$ 1,878,903	43,961	A	\$ 1,922,864
Forfeited Discounts	29,143			29,143
Miscellaneous Service Revenues	<u>34,518</u>			<u>34,518</u>
<b>Total Operating Revenues</b>	<b>\$ 1,942,564</b>	<b>43,961</b>		<b>\$ 1,986,525</b>
<u>Expenses</u>				
Salaries & Wages	353,442	2,781	B	356,223
Salaries and Wages-officers	18,200			18,200
Employee Pensions and Benefits	209,300	2,238	C	211,538
Purchased Water	705,140			705,140
Purchased Power	76,184			76,184
Fuel for Power	406			406
Materials and Supplies	97,732	(30,234)	D	67,498
Contractual Services-Acct.	7,200			7,200
Contractual Services-Legal	2,750			2,750
Water Testing	7,008			7,008
Contractual Services-Other	9,450			9,450
Transportation	39,711			39,711
Insurance-Vehicle	6,177			6,177
Insurance-General Liability	10,143	3,250	E	13,393
Workers Compensation	8,350	33	E	8,383
Other Insurance	6,207			6,207
Advertising	110			110
Amortization Expense	3,146			3,146
Bad Debt	25,734			25,734
Miscellaneous Expense	<u>43,782</u>			<u>43,782</u>
<b>Operating Expenses</b>	<b>1,630,172</b>	<b>(21,932)</b>		<b>1,608,240</b>
Depreciation Expense	265,433	1,210	F	266,643
Amortization Expense	4,191			4,191
Taxes Other Than Income	<u>27,755</u>			<u>27,755</u>
<b>Total Operating Expenses</b>	<b>1,927,551</b>	<b>(20,722)</b>		<b>1,906,829</b>
<b>Net Operating Income</b>	<b>\$ 15,013</b>	<b>\$ 64,683</b>		<b>\$ 79,696</b>

## **Explanation of Pro Forma Adjustments**

A. Green-Taylor's adjustment to normalize revenues.

B. Staff's adjustment to Salaries and Wages calculated as follows:

9 employees x 515 hours per quarter equals 4,635 hours.

4,635 hours x 60 cents per hour equals \$2,781.

C. Adjustment to Pensions and Benefits:

Test year contributions: \$62,989

Anticipated 2009 contributions: \$65,227 (\$403,386 x 16.17%):

Difference equals \$2,238

D. Staff capitalized \$30,234 of meters and other supplies that had been expensed.

E. Invoices showed that the General Liability insurance increased by \$3,250.

During the test year Workers' Compensation increased by \$33.

F. Depreciation Expense was increased to reflect depreciation on capitalized expenses. ( $\$30,234 / 25 \text{ years} = \$1,210.$ )



APPENDIX B  
STAFF REPORT  
CASE NO. 2009-00032

**Debt Service Coverage**

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2009 Debt Service	132,500	211,210	343,710
2010 Debt Service	137,000	206,614	343,614
2011 Debt Service	145,000	201,102	<u>346,102</u>
			1,033,426
<b>3-year average</b>			<b>\$ 344,475</b>

**Revenue Requirement**

Adjusted Operating Expense	\$1,906,829
1.2x Debt Service Coverage	<u>413,370</u>
<b>Revenue Requirement</b>	<b>2,320,199</b>
Normalized Revenue	1,922,864
Other Revenue	<u>63,661</u>
<b>Increase Required</b>	<b>\$ 333,674</b>

APPENDIX C  
STAFF REPORT  
CASE NO. 2009-00032

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$19.72 Minimum Bill
Next	3,000 Gallons	8.16 Per 1,000 Gallons
Next	5,000 Gallons	6.46 Per 1,000 Gallons
Over	10,000 Gallons	3.99 Per 1,000 Gallons

3/4-Inch Meter

First	3,000 Gallons	\$27.30 Minimum Bill
Next	2,000 Gallons	8.16 Per 1,000 Gallons
Next	5,000 Gallons	6.46 Per 1,000 Gallons
Over	10,000 Gallons	3.99 Per 1,000 Gallons

1-Inch Meter

First	5,000 Gallons	\$42.44 Minimum Bill
Next	5,000 Gallons	6.46 Per 1,000 Gallons
Over	10,000 Gallons	3.99 Per 1,000 Gallons

1 1/2-Inch Meter

First	10,000 Gallons	\$71.79 Minimum Bill
Over	10,000 Gallons	3.99 Per 1,000 Gallons

2-Inch Meter

First	20,000 Gallons	\$105.84 Minimum Bill
Over	20,000 Gallons	3.99 Per 1,000 Gallons

Larue County Wholesale	\$2.55 Per 1,000 Gallons
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Greensburg Wholesale	\$2.16 Per 1,000 Gallons
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Non-Recurring Charges

Meter Test Charge	\$30.00
Reconnection Charge	\$30.00
Returned Check Charge	\$15.00

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