

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST SHELBY WATER)
DISTRICT FOR APPROVAL OF INCREASE IN) CASE NO. 2009-00454
RATES FOR WATER SERVICE)

ORDER

On January 28, 2010, West Shelby Water District ("West Shelby District") filed its application for an adjustment of its water rates. Commission Staff has reviewed the application and prepared the attached report containing its findings and recommendations regarding the proposed adjustment.

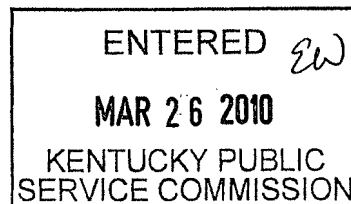
IT IS THEREFORE ORDERED that:

1. All parties shall have 14 days from the date of this Order to file with the Commission written comments regarding the attached Staff Report and any request for hearing or informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings and recommendations 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 its agreement with that finding or recommendation.
4. If West Shelby District accepts Commission Staff's recommended rates and wishes to charge those rates, it shall file with the Commission within 14 days of

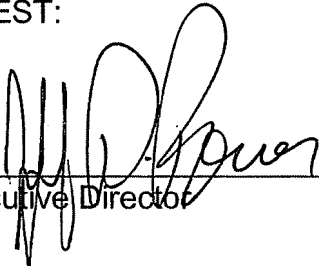
the date of this Order a written statement indicating its agreement with Commission Staff's recommendation and requesting approval to charge the recommended rates.

5. If no request for a hearing or an informal conference is filed with the Commission within 14 days of this Order, this case shall stand submitted to the Commission for decision.

By the Commission



ATTEST:

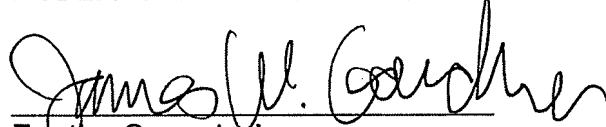


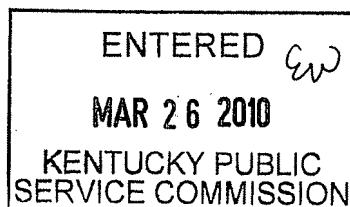
Executive Director

the date of this Order a written statement indicating its agreement with Commission Staff's recommendation and requesting approval to charge the recommended rates.

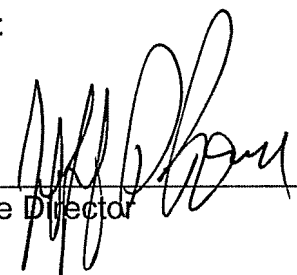
5. If no request for a hearing or an informal conference is filed with the Commission within 14 days of this Order, this case shall stand submitted to the Commission for decision.

PUBLIC SERVICE COMMISSION


For the Commission



ATTEST:


Executive Director

Case No. 2009-00454

STAFF REPORT
ON
WEST SHELBY WATER DISTRICT
CASE NO. 2009-00454

Pursuant to a request by West Shelby Water District ("West Shelby") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited review of West Shelby's test period operations for the calendar year ending December 31, 2008. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of its limited review, Staff assisted West Shelby in the development and preparation of its rate application, which West Shelby filed with the Commission on January 28, 2010. Staff hereby adopts the contents of West Shelby's application as its recommendation in this report, as set out herein, with the exception of purchased water expense and depreciation expense. Eddie Beavers of the Commission's Division of Financial Analysis is responsible for the pro forma revenue adjustment and the billing analysis. Sam Bryant of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Exhibit three of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test-period operating revenues and expenses that were known and measurable and deemed to be

reasonable. The revenue requirement determination, in Exhibit six of the application and attached hereto as Appendix B, shows that West Shelby's pro forma operations support a revenue requirement from water rates of \$1,228,573, an increase of \$32,398 or 2.7 percent over normalized revenues from water sales of \$1,196,175.

Upon its review of the application, and the documents upon which it is based, Staff finds that the revenue requirement of \$1,228,573 will allow West Shelby to pay its adjusted operating expenses, meet the 1.2x debt service coverage requirements, and provide for future equity growth. The rates contained in Appendix C of this report will generate the revenues from rates found reasonable herein.

West Shelby's proposed rates will generate revenue from water sales of \$1,222,490. Should West Shelby wish to charge the higher rate, it should provide the Commission a written statement indicating its acceptance of staff's recommendation and request approval to implement the recommended rates.



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



Prepared by: Eddie Beavers
Rate Analyst
Water and Sewer Rate Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT FOR WEST SHELBY WATER DISTRICT
CASE NO. 2009-00454

Proforma Income Statement

| | 2008 <u>Annual Report</u> | <u>Adjustments</u> | | Proforma <u>Adjusted</u> |
|------------------------------|------------------------------|--------------------|---|-----------------------------|
| Operating Revenues | | | | |
| Water Sales | \$ 1,200,759 | \$ (4,584) | | \$ 1,196,175 |
| Total Water Sales | \$ 1,200,759 | \$ (4,584) | A | \$ 1,196,175 |
| Other Revenues | | | | |
| Forfeited Discounts | 16,686 | | | 16,686 |
| Miscellaneous Revenues | 12,681 | 0 | | 12,681 |
| Total Operating Revenue | \$ 1,230,126 | \$ (4,584) | | \$ 1,225,542 |
| Water Expenses: | | | | |
| Salaries and Wages-Employees | 190,398 | 23,245 | B | 213,643 |
| Salaries and Wages-Officers | 17,240 | | | 17,240 |
| Pensions and Benefits | 54,181 | 7,167 | C | 61,348 |
| Purchased Water | 469,741 | 6,849 | D | 476,590 |
| Purchased Power | 27,466 | | | 27,466 |
| Materials and Supplies | 68,353 | | | 68,353 |
| Contract Services-Accounting | 16,012 | | | 16,012 |
| Contract Services-Legal | 6,261 | | | 6,261 |
| Rent-Bldg | 2,250 | | | 2,250 |
| Transportation | 25,507 | | | 25,507 |
| Vehicle Insurance | 2,258 | | | 2,258 |
| General Liability | 13,866 | | | 13,866 |
| Workers' Compensation | 4,047 | 168 | E | 4,215 |
| Other Insurance | 2,825 | | | 2,825 |
| Bad Debt Expense | 1,055 | | | 1,055 |
| Miscellaneous Expense | 22,717 | | | 22,717 |
| Depreciation Expense | 229,232 | 19,765 | F | 248,997 |
| Amortization Expense | 1,555 | | | 1,555 |
| Taxes Other Than Income | 13,374 | 3,099 | G | 16,473 |
| Total Operating Expenses | \$ 1,168,338 | \$ 60,293 | | \$ 1,228,631 |
| Interest Income | 92,907 | | | 92,907 |
| Net Income | \$ 154,695 | \$ (64,877) | | \$ 89,818 |

Explanation of Adjustments

- A. Revenues were normalized by the Staff per the billing analysis.
- B. Wages and Salaries were adjusted for salary increases for 2009 and the addition of one full-time employee to replace two part-time employees.
 - a. Pay increases for 2009 for hourly employees equal \$6,593.
 - b. Lump sum increases for two managers equal \$4,231.
 - c. One new full-time employee: \$27,067.
 - d. Less: Removal of two part-time employees: (\$14,646.)
- C. Pensions and Benefits are adjusted for an increase in retirement benefits and an increase in health insurance costs. Retirement benefits increased by \$5,085. The test period retirement costs were \$29,488 and the 2009 costs are projected to be \$34,546, the difference being \$5,085. Health insurance costs according to Anthem invoices will increase approximately \$2,082.
- D. Purchased Water Adjustment. In Case No. 2008-00546, In the Matter of: PURCHASED WATER ADJUSTMENT OF WEST SHELBY, issued on January 8, 2009, West Shelby was allowed to increase its cost of purchased water from the Shelbyville Municipal Water and Sewer Commission by \$6,849. This adjustment reflects that increase.
- E. Workers' Compensation was adjusted for an increase in premium per invoices.
- F. Depreciation expense was adjusted to include a full year of depreciation on plant that was added during the test year and plant under construction at the end of the test year and completed in 2009. In its application West Shelby listed this adjustment as \$20,531. Due to a miscalculation for 2009 depreciation expense, this adjustment should have been \$19,765.
- G. Taxes other than income. This account was adjusted to account for changes to salaries and wages.

Depreciation Adjustment

| <u>Plant</u> | <u>Acquired</u> | <u>Cost</u> | <u>Life</u> | <u>2008 Dep.</u> | <u>2009 Dep.</u> | <u>Adjustment</u> |
|-------------------------|-----------------|--------------------------|-------------|------------------------|-------------------------|-------------------------|
| Tank Painting | 7/31/2008 | \$ 272,975 | 15 | \$ 7,583 | \$ 18,198 | \$ 10,615 |
| Services | 7/1/2008 | 20,810 | 30 | 347 | 694 | 347 |
| Meters | 7/1/2008 | 37,253 | 30 | 621 | 1,241 | 620 |
| Hydrants | 5/31/2008 | 3,164 | 50 | 37 | 63 | 26 |
| Variable Drive | 7/1/2008 | 5,589 | 30 | 93 | 186 | 93 |
| Computer Equipment | 7/18/2008 | 2,392 | 7 | 156 | 341 | 185 |
| Trailer | 8/31/2008 | 3,850 | 10 | 128 | 385 | 257 |
| Meter Reading Equipment | 1/15/2008 | 2,260 | 10 | 217 | 226 | 9 |
| Hammer Drill | 2/7/2008 | 299 | 10 | 28 | 30 | 2 |
| Cutquick | 8/31/2008 | 771 | 10 | 26 | 77 | 51 |
| Distribution Mains | 12/31/2008 | <u>378,000</u> | 50 | <u>0</u> | <u>7,560</u> | <u>7,560</u> |
| Total | | <u>\$ 727,363</u> | | <u>\$ 9,236</u> | <u>\$ 29,001</u> | <u>\$ 19,765</u> |

APPENDIX B
 STAFF REPORT FOR WEST SHELBY WATER DISTRICT
 CASE NO. 2009-00454

Revenue Requirement Calculation

| | | |
|---------------------------------|--------|------------------|
| Adjusted Operating Expense | \$ | 1,228,631 |
| Debt Service Coverage | | 101,847 |
| 20% DSC | | <u>20,369</u> |
| Revenue Requirement | \$ | 1,350,847 |
| Less: | | |
| Other Revenues | \$ | 29,367 |
| Interest Income | | <u>92,907</u> |
| | \$ | 122,274 |
| Revenue Required From Rates | \$ | 1,228,573 |
| Less: | | |
| Normalized Revenues | | <u>1,196,175</u> |
| Increase Required | \$ | 32,398 |

Debt Service Calculation

| <u>Year:</u> | <u>Bonds</u> | <u>KRWA Financing</u> | <u>Total</u> |
|--------------|---------------|-----------------------|----------------|
| 2009 | \$ 22,250 | \$ 47,845 | \$ 70,095 |
| 2010 | 68,800 | 47,741 | 116,541 |
| 2011 | <u>70,400</u> | <u>48,505</u> | <u>118,905</u> |
| | \$ 161,450 | \$ 144,091 | 305,541 |
| | | 3 yr average. | \$ 101,847 |

APPENDIX C
STAFF REPORT FOR WEST SHELBY WATER DISTRICT
CASE NO. 2009-00454

5/8" Meters

| | | |
|-------|-----------------|---------------------------|
| First | 2,500 gallons | \$16.62 per 1,000 gallons |
| Next | 7,500 gallons | 4.82 per 1,000 gallons |
| Next | 20,000 gallons | 4.50 per 1,000 gallons |
| Next | 200,000 gallons | 4.09 per 1,000 gallons |
| Over | 230,000 gallons | 3.68 per 1,000 gallons |

3/4" Meters

| | | |
|-------|-----------------|---------------------------|
| First | 3,500 gallons | \$21.44 per 1,000 gallons |
| Next | 6,500 gallons | 4.82 per 1,000 gallons |
| Next | 20,000 gallons | 4.50 per 1,000 gallons |
| Next | 200,000 gallons | 4.09 per 1,000 gallons |
| Over | 230,000 gallons | 3.68 per 1,000 gallons |

1" Meters

| | | |
|-------|-----------------|---------------------------|
| First | 5,000 gallons | \$28.67 per 1,000 gallons |
| Next | 5,000 gallons | 4.82 per 1,000 gallons |
| Next | 20,000 gallons | 4.50 per 1,000 gallons |
| Next | 200,000 gallons | 4.09 per 1,000 gallons |
| Over | 230,000 gallons | 3.68 per 1,000 gallons |

1 1/2" Meters

| | | |
|-------|-----------------|---------------------------|
| First | 10,000 gallons | \$52.77 per 1,000 gallons |
| Next | 20,000 gallons | 4.50 per 1,000 gallons |
| Next | 200,000 gallons | 4.09 per 1,000 gallons |
| Over | 230,000 gallons | 3.68 per 1,000 gallons |

2" Meters

| | | |
|-------|-----------------|---------------------------|
| First | 16,000 gallons | \$79.77 per 1,000 gallons |
| Next | 14,000 gallons | 4.50 per 1,000 gallons |
| Next | 200,000 gallons | 4.09 per 1,000 gallons |
| Over | 230,000 gallons | 3.68 per 1,000 gallons |

3" Meters

| | | |
|-------|-----------------|----------------------------|
| First | 30,000 gallons | \$142.77 per 1,000 gallons |
| Next | 200,000 gallons | 4.09 per 1,000 gallons |
| Over | 230,000 gallons | 3.68 per 1,000 gallons |

4" Meters

First 50,000 gallons
Next 180,000 gallons
Over 230,000 gallons

\$224.57 per 1,000 gallons
4.09 per 1,000 gallons
3.68 per 1,000 gallons

6" Meters

Next 100,000 gallons
Next 130,000 gallons
Over 230,000 gallons

\$429.07 per 1,000 gallons
4.09 per 1,000 gallons
3.68 per 1,000 gallons

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