

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH HOPKINS)	
WATER DISTRICT FOR APPROVAL OF A)	CASE NO.
PROPOSED INCREASE IN RATES FOR)	2010-00074
WATER SERVICE)	

ORDER

On February 19, 2010, South Hopkins Water District ("South Hopkins") 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.

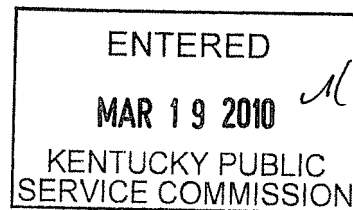
IT IS THEREFORE ORDERED that:

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.

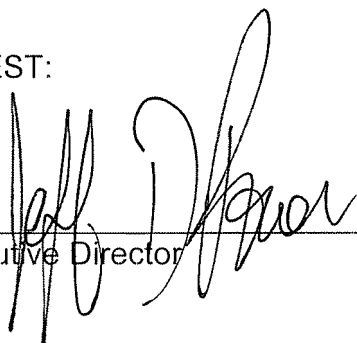
3. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation.

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
SOUTH HOPKINS WATER DISTRICT
CASE NO. 2010-00074

Pursuant to a request by South Hopkins Water District ("South Hopkins") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited review of South Hopkins' test-period operations for the calendar year ending December 31, 2008. The scope of the 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.

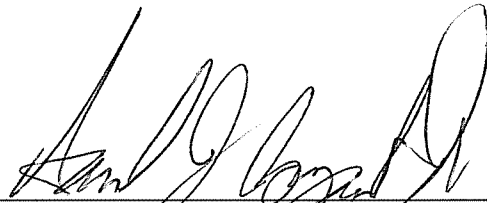
Upon completion of its limited review, Staff assisted South Hopkins in the development of its rate application, which South Hopkins filed with the Commission on February 19, 2010. Staff hereby adopts the contents of South Hopkins' application as its recommendation in this report as if fully set out herein. Jason Green of the Commission's Division of Financial Analysis is responsible for the 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 statement, wherein adjustments were made to the 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, attached hereto as Appendix B, shows that South Hopkins' pro forma operations

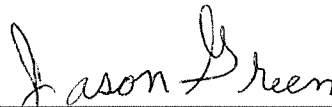
support a revenue requirement from water rates of \$1,296,757, an increase of \$137,143, or 11.83 percent over normalized revenues from water sales of \$1,159,614.

Staff's review of the application found a discrepancy in the rates due to rounding. Staff made an adjustment to South Hopkins' proposed rates to correct this discrepancy. The proposed rates are an across-the-board percentage increase in South Hopkins' current rates. Staff finds that this is an appropriate method for calculating rates.

Upon its review of the application, and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$1,296,757 will allow South Hopkins to pay its adjusted operating expenses, meet the 1.2X debt service coverage requirements, and provide for future equity growth. Staff also finds that the rates attached hereto as Appendix C will generate the annual revenue requirement of \$1,269,802 and are reasonable. Staff recommends that the rates found in Appendix C be approved.



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



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

APPENDIX A
STAFF REPORT
CASE NO. 2010-00074
PRO FORMA FINANCIAL STATEMENTS

	<u>Test-Period Operations</u>	<u>Pro Forma Adjustments</u>	<u>Ref</u>	<u>Pro Forma Operations</u>
Operating Revenues:				
Metered Water Sales	\$ 899,155	\$ (10,198)	(A)	\$ 888,957
Sales for Resale	215,686	0		215,686
Other Operating Revenues	54,971	0		54,971
Total Operating Revenues	<u>\$ 1,169,812</u>	<u>\$ (10,198)</u>		<u>\$ 1,159,614</u>
Operating Expenses:				
Salaries and Wages-Emp.	\$ 230,280	\$ 32,552	(B)	\$ 262,832
Salaries and Wages-Com.	8,600	0		8,600
Emp. Pensions and Benefits	79,649	3,658	(C)	83,307
Purchased Water	501,155	59,492	(D)	560,647
Purchased Power	30,670	0		30,670
Chemicals	1,329	0		1,329
Materials and supplies	65,888	0		65,888
Cont. Services-Accounting	10,950	0		10,950
Cont. Services-Testing	6,262	0		6,262
Cont. Services-Other	4,090	0		4,090
Transportation	27,071	0		27,071
Insurance Vehicle	7,971	0		7,971
Insurance General	7,107	0		7,107
Workers' Comp	6,363	0		6,363
Other Insurance	6,172	0		6,172
Bad Debts	8,457	0		8,457
Miscellaneous Expense	9,898	0		9,898
Depreciation	81,527	9,133	(E)	90,660
Taxes Other Than Income	19,177	2,492	(F)	21,669
Total Operating Expenses	<u>\$ 1,112,616</u>	<u>\$ 107,327</u>		<u>\$ 1,219,943</u>
Total Operating Income	<u>\$ 57,196</u>	<u>\$ (117,525)</u>		<u>\$ (60,329)</u>

A. Revenues. Staff's normalized revenues from the billing analysis.

B. Salaries and Wages. Beginning in 2009, South Hopkins gave its employees a fifty-cent-per-hour raise, which is the basis for Staff's recommended adjustment. Seven full-time employees, each working a total of 2,080 hours per year, would make an additional \$7,280. Three part-time employees, each working 1,664 hours per year, would make an additional \$2,496. A total of \$9,776 in additional expense is required. South Hopkins will add one full-time employee at \$10.95 per hour at an additional expense of \$22,776, making the total wage adjustment \$32,552.

C. Employee Pensions and Benefits. This adjustment reflects the increase in retirement costs. Test-year retirement costs totaled \$35,438. Pension costs for 2009 are projected to be \$39,096 ($\$234,108 \times 16.7\%$), a difference of \$3,658.

D. Purchased Water. This adjustment reflects the water rate increase from the City of Dawson Springs. Their contract calls for an adjustment at the end of the year for water that they have purchased but have not been billed. At the end of the test year, the unbilled amount for the test year was \$59,492.

E. Depreciation. This adjustment was made to allow for a full year of depreciation expense for plant that was added in 2008. See Table 1 on the following page.

F. Taxes Other Than Income. Staff adjusted payroll taxes to reflect the impact pro forma salaries and wages have on this expense. ($32,579 \times 7.65\% = \$2,492$).

Table 1: Calculation of Depreciation Adjustment

Property	In-Service	Basis	Life Method	Ann.		Additional Depreciation
				Depreciation	2008 Depreciation	
Barn Roof	11/15/2008	487	10/SL	49	8	\$ 41
Rebuilt 2-Stage Pump	11/15/2008	5865	20/SL	293	49	244
Various Transmission Lines	7/1/2008	58,162	65/SL	895	410	485
Meters	7/1/2008	9031	40/SL	226	113	113
Meter Installations	7/1/2008	4350	40/SL	109	54	55
Hydrants	7/1/2008	3406	40/SL	85	43	42
Pressure Recorder	1/15/2008	564	5/SL	113	113	0
Pocket Chlorometer	1/15/2008	1453	5/SL	291	291	0
Water Sampling Station	2/15/2008	865	10/SL	87	79	8
8 Handheld Meter Readers	4/15/2008	18,150	5/SL	3,630	2,723	907
1 Backup Server	11/15/2008	760	5/SL	152	25	127
2008 Ford F-150	8/15/2008	14,731	5/SL	2,946	1,228	1,658
Metal Locator	9/15/2008	795	10/SL	80	27	53
Tank Telemetry	12/31/2008	54,000	10/SL	5,400	0	5,400
Adjustment						\$ 9,133

APPENDIX B
 STAFF REPORT
 CASE NO. 2010-00074
 REVENUE REQUIREMENT

3 Year Average Debt Service		\$	64,012
Multiplied by: Debt Service Coverage	x		1.20
Required Debt Service & Coverage		\$	76,814
Add: Pro Forma Operating Expenses	+		1,219,943
Total Revenue Requirement		\$	1,296,757
Less: Pro Forma Operating Revenue	-		1,159,614
Recommended Increase		\$	137,143

<u>Debt Service Calculation</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 25,000	\$ 21,567	\$ 46,567
2010	\$ 37,700	\$ 35,186	72,886
2011	\$ 38,900	\$ 33,682	72,582
Total			\$ 192,035
Divided by: 3 Years			3
3 Year Average Debt Service			\$ 64,012

APPENDIX C
STAFF REPORT
CASE NO. 2010-00074

Monthly Water Rates

5/8" X 3/4" Meter

First	1000	gallons	\$9.17 minimum bill
Next	9,000	gallons	4.76 per 1,000 gallons
Next	10,000	gallons	4.40 per 1,000 gallons
Next	30,000	gallons	4.04 per 1,000 gallons
Over	50,000	gallons	3.37 per 1,000 gallons

1" Meter

First	10,000	gallons	\$52.01 minimum bill
Next	10,000	gallons	4.40 per 1,000 gallons
Next	30,000	gallons	4.04 per 1,000 gallons
Over	50,000	gallons	3.37 per 1,000 gallons

2" Meter

First	20,000	gallons	\$96.01 minimum bill
Next	30,000	gallons	4.04 per 1,000 gallons
Over	50,000	gallons	3.37 per 1,000 gallons

3" Meter

First	50,000	gallons	\$217.21 minimum bill
Over	50,000	gallons	3.37 per 1,000 gallons

City of Morton's Gap \$2.35 per 1,000 gallons

City of Earlington \$2.37 per 1,000 gallons

Caldwell County Water District \$2.41 per 1,000 gallons

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