

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO.
WEST CARROLL WATER DISTRICT) 2010-00209

ORDER

On May 26, 2010, West Carroll Water District ("West Carroll") applied to the Commission for an adjustment in water rates pursuant to 807 KAR 5:076. Commission Staff, having performed a limited financial review of West Carroll's operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 14 days from the date of this Order.

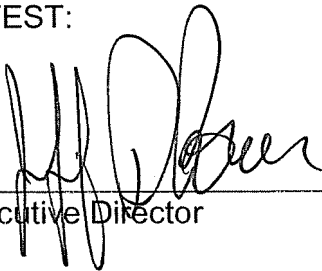
IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 14 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or an informal conference.
2. Any party requesting a hearing shall include in its request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony that it would present at hearing.
3. 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

ENTERED
JUL 28 2010 *M*
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2010-00209

STAFF REPORT
ON
WEST CARROLL WATER DISTRICT
CASE NO. 2010-00209

Pursuant to a request by West Carroll Water District ("West Carroll") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited financial review of West Carroll's test period operations, 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 presented to West Carroll a draft rate application containing a pro forma income statement reflecting Staff's findings and recommendations. West Carroll agreed with Staff's findings and recommendations. West Carroll filed its rate application with the Commission on May 26, 2010.

Jason Green of the Commission's Division of Financial Analysis is responsible for the pro forma revenue adjustment and the calculation of the recommended rates. Daryl Parks of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Attachment B 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. West Carroll determined that its requested pro forma operations would

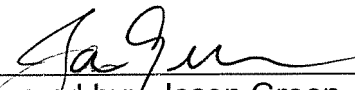
support a revenue requirement from water sales of \$506,273. As shown in Appendix B of this report, Staff has determined that West Carroll can justify a revenue requirement from water sales of \$506,273. The rates proposed by West Carroll and contained in Appendix C of this report will increase the average residential bill from \$17.76 to \$22.50, an increase of \$4.74 or 26.69 percent and will provide the needed revenue.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$506,273 will allow West Carroll to pay its adjusted test-period operating expenses, meet its debt service obligations, partially fund depreciation expense, and will result in a positive cash flow. Staff recommends that West Carroll's proposed rates be approved.

Signatures



Prepared by: Daryl Parks
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis



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

APPENDIX A
WEST CARROLL WATER DISTRICT
CASE NO. 2010-00209

PRO FORMA OPERATING STATEMENT

	Test Year	Adjustment	Ref.	Pro forma
Operating Revenues				
Sales of Water				
Residential Customers	399,475	(1,820)	A	397,655
Commercial Customers	14,636	-		14,636
Total Sales of Water	<u>414,111</u>	<u>(1,820)</u>		<u>412,291</u>
Other Water Revenue				
Forfeited Discounts	11,016	-		11,016
Miscellaneous Service Revenue	3,820	-		3,820
Other Water Revenues	19,190	-		19,190
Total Other Water Revenue	<u>34,026</u>			<u>34,026</u>
Total Operating Revenues	<u>448,137</u>	<u>(1,820)</u>		<u>446,317</u>
Operating Expenses				
Operation and Maintenance Expenses				
603 Salaries and Wages	9,000	-		9,000
610 Purchased Water	122,103	(6,105)	B	115,998
615 Purchased Power	11,348	(567)	C	10,781
620 Materials & Supplies	29,919	-		29,919
632 Contractual Services - Acct.	4,130	-		4,130
633 Contractual Services - Legal	6,076	-		6,076
634 Contractual Services - Mgmt Fees	161,635	13,181	D	174,816
635 Contractual Services - Water Testing	7,190	-		7,190
657 Insurance - General Liability	6,010	-		6,010
659 Insurance - Other	1,418	-		1,418
660 Advertising Expenses	1,601	-		1,601
670 Bad Debt	3,421	-		3,421
675 Miscellaneous Expenses	3,724	-		3,724
Total Operation and Maintenance Expenses	<u>367,575</u>	<u>6,509</u>		<u>374,084</u>
Depreciation	160,843	(74,122)	E	86,721
Amortization	269	445	F	714
Taxes Other than Income	1,389	677	G	2,066
Total Operating Expenses	<u>530,076</u>	<u>(66,491)</u>		<u>463,585</u>
Utility Operating Income	(81,939)	64,671		(17,268)
Plus: Interest and Dividend Income	4,758	-		4,758
Income Available to Service Debt	<u>\$ (77,181)</u>	<u>64,671</u>		<u>\$ (12,510)</u>

A. Normalized revenue as determined by Staff.

B. For the 2008 test year, West Carroll's water loss was calculated at 20.00%. Pursuant to 807 KAR 5:066 6(3), the maximum allowed water loss for rate-making purposes is 15%. West Carroll's Purchased Water expense is being recalculated to only allow a 15% water loss.

Purchased Water	\$ 122,103
Percent over the allowable 15%	x <u>5.00%</u>
Reduction in Purchased Water Expense to meet the 15% cutoff	<u>\$ 6,105</u>

C. For the 2008 test year, West Carroll's water loss was calculated at 20.00%. Pursuant to 807 KAR 5:066 6(3), the maximum allowed water loss for rate-making purposes is 15%. West Carroll's Purchased Power expense is being recalculated to only allow a 15% water loss.

Purchased Power	\$ 11,348
Percent over the allowable 15%	x <u>5.00%</u>
Reduction in Purchased Water Expense to meet the 15% cutoff	<u>\$ 567</u>

D. According to the 2009 General Ledger, the monthly expense at the end of 2009 for Account 634 - Contractual Services - Management Fees was \$14,568. Multiplying over 12 months results in a total cost of \$174,816, which is a \$13,181 increase from the current test year.

Management Fee expense	\$ 14,568
	x <u>12</u>
Total pro forma amount of Management Fees	<u>\$ 174,816</u>
Pro Forma Management Fees	\$ 174,816
2008 Management Fees	<u>161,635</u>
Increase in Management Fees	<u>\$ 13,181</u>

E. Test-year depreciation expense has been decreased by \$74,122 to account for a change in the estimated service lives. The decreasing adjustment accounts for a change to the average life recommended by the National Association of Regulatory Utility Commissioners ("NARUC") using the straight line, remaining life method. The calculation of this adjustment is shown in Attachment C of the Application.

2008 Depreciation Expense	\$ 160,843
Pro Forma Depreciation Expense	<u>86,721</u>

Decrease in total Depreciation Expense	<u>\$ 74,122</u>
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F. West Carroll's amortization expense increased from \$269 for the test year to \$714 for the 2009 calendar year. This is an increase of \$445.

G. West Carroll's Taxes Other than Income increased from the test year to the 2009 calendar year.

Pro Forma Taxes Other than Income	
Ky State Treasurer	\$ 689
Payroll Tax	<u>1,377</u>

Total Pro Forma Taxes Other than Income	<u>\$ 2,066</u>
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Pro Forma Taxes Other than Income	\$ 2,066
2008 Taxes Other than Income	<u>1,389</u>

Increase in Taxes Other than Income	<u>\$ 677</u>
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APPENDIX B
WEST CARROLL WATER DISTRICT
CASE NO. 2010-00209

CALCULATION OF REVENUE REQUIREMENT

Pro forma Operating Expense		\$ 463,585
Debt Service Subject to Coverage Requirements		
Rural Development Bond 1975	20,000	
Rural Development Bond 1981	6,700	
Rural Development Bond 1984	21,850	
Rural Development Bond 2005	<u>19,343</u>	
Total Debt Service		67,893
Additional 20% Debt Service Coverage		<u>13,579</u>
Total Revenue Requirement		545,057
Less: Other Operating Revenue		(34,026)
Interest and Dividend Income		<u>(4,758)</u>
Revenue Required from Rates		506,273
Less: Pro forma Present Rate Water Sales		<u>412,291</u>
Revenue Deficiency		<u>\$ 93,982</u>
Percentage to Present Rate Revenues		<u>22.79%</u>

APPENDIX C
WEST CARROLL WATER DISTRICT
CASE NO. 2010-00209

MONTHLY RATES

First	2,000 gallons	\$ 22.50 minimum bill
Next	3,000 gallons	\$ 7.84 per 1,000 gallons
Next	5,000 gallons	\$ 7.06 per 1,000 gallons
Next	10,000 gallons	\$ 6.28 per 1,000 gallons
Over	20,000 gallons	\$ 5.53 per 1,000 gallons

Vickie Edwards
Chairperson
West Carroll Water District
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