

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR ADJUSTMENT OF WATER)	CASE NO.
RATES OF NORTH MARSHALL WATER DISTRICT)	2010-00247

ORDER

On July 19, 2010, North Marshall Water District ("North Marshall") submitted its application for Commission approval of proposed water service rates. Commission Staff, having performed a limited financial review of North Marshall's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding North Marshall's application. 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.

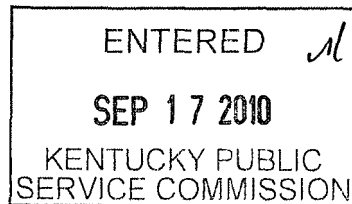
IT IS HEREBY ORDERED that all parties shall have 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision based on the record.

By the Commission

ATTEST:



Executive Director



STAFF REPORT
ON
NORTH MARSHALL WATER DISTRICT
CASE NO. 2010-00247

Pursuant to a request by North Marshall Water District ("North Marshall") 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 North Marshall's test-year operations, the calendar year ending December 31, 2009. 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 North Marshall in the development and preparation of an application. North Marshall filed the Application on July 19, 2010.

As stated in the Application, North Marshall's revenue requirement from monthly water service rates is \$1,402,392, requiring a \$266,645, or 23.48 percent,¹ increase over present rate revenue of \$1,135,747.² However, to minimize the potential "rate

¹ While reviewing the Application, Staff noted an error in Exhibit G. The amount shown on Exhibit G for non-operating income is the test-year amount of \$49,289. This amount should have been stated at \$9,858, the pro forma amount shown on Exhibit E, Page 1. Correction of this error results in a revenue increase of \$306,076, or 26.95 percent. Because North Marshall only requested a 20 percent increase to minimize "rate shock," correction of this error does not impact the requested rates.

² Application, Attachment G.

shock” felt by its customers, North Marshall sought to increase revenues by only \$227,149, or 20 percent.³ North Marshall requested that the increase be applied to its current monthly water service rates across the board evenly.⁴ The requested rates will increase the monthly bill of a customer using 5,000 gallons through a 5/8” x 3/4” meter connection from \$21.78 to \$26.14, a \$4.36 increase.

After reviewing North Marshall's financial information and Application, Staff finds that:

1. North Marshall's proposed adjusted operating statement, as presented in its Application, is reflective of normal operations and should be used to determine North Marshall's revenue requirement;
2. It is appropriate to apply the requested increase across the board evenly to all monthly water service rates;
3. Although the rates proposed by North Marshall, as shown in Attachment A, will not produce revenues equal to North Marshall's revenue requirement, they will provide enough revenue for North Marshall to meet its long-term debt principal and interest payments, pay all pro forma cash operating expenses, and fund 83 percent⁵ of its pro forma depreciation expense; and

³ Application at 4.

⁴ Application at 6.

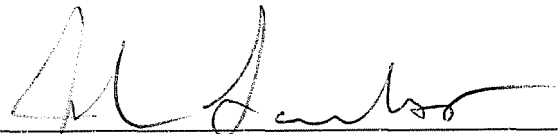
⁵

Required Revenue Increase to Fully Fund Depreciation	\$266,645
Less: Requested Revenue Increase	<u>(227,149)</u>
Depreciation Under Funding	39,496
Divide by: Pro forma Depreciation Expense	<u>230,420</u>
Percent of Depreciation Under Funded	<u>17%</u>
Percent of Depreciation Funded (100% - 17% Under-funded)	<u>83%</u>

4. The Commission should approve the rates requested by North Marshall.

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
Manager, Financial Audit Branch
Division of Financial Analysis



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

ATTACHMENT
STAFF REPORT, CASE NO. 2010-00247
STAFF'S RECOMMENDED WATER SERVICE RATES

Monthly Water Rates

Customer Charges:

5/8" x 3/4" Meter	\$12.94
1" Meter	20.44
1 1/2" Meter	32.95
2" Meter	47.99
3" Meter	83.03
4" Meter	133.12
6" Meter	258.30

Volumetric Charge:

All Water Usage	\$2.64 per thousand
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Brad Anderson
North Marshall Water District
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