

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR ADJUSTMENT OF WATER) CASE NO.
RATES FOR MUHLENBERG COUNTY WATER) 2010-00359
DISTRICT #3

ORDER

On September 23, 2010, Muhlenberg County Water District #3 ("Muhlenberg") 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 Muhlenberg's operations, 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 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.

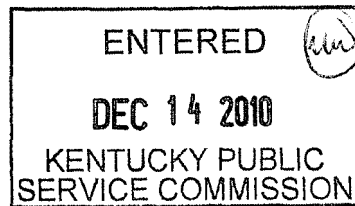
IT IS THEREFORE ORDERED that:

1. All parties shall 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 informal conference in this matter.
2. Any party requesting a hearing 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 the date 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 14 days of the date of this Order, this case shall stand submitted to the Commission for decision based upon the existing record.

By the Commission



ATTEST:

Carol D. Brumwell for
Executive Director

STAFF REPORT
ON
MUHLENBERG COUNTY WATER DISTRICT #3
CASE NO. 2010-00359

Pursuant to a request by Muhlenberg County Water District #3 (“Muhlenberg”) for assistance with the preparation of a rate application, Commission Staff (“Staff”) performed a limited financial review of Muhlenberg’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 presented to Muhlenberg a draft rate application containing a pro forma income statement reflecting Staff’s findings and recommendations. Muhlenberg agreed with Staff’s findings and recommendations. Muhlenberg filed its rate application with the Commission on September 23, 2010.

Eddie Beavers 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. Muhlenberg determined that its requested pro forma operations would

support a revenue requirement from water sales of \$988,121. As shown in Appendix B of this report, Staff has determined that Muhlenberg can justify a revenue requirement from water sales of \$988,121, an increase of \$45,122 or 5.05 percent over the test year normalized revenue. The rates proposed by Muhlenberg, as contained in Appendix C of this report, will decrease the average residential bill for a customer using 5,000 gallons from \$25.26 to \$25.04, a decrease of \$0.22 or .09 percent. The decrease is due to the allocation of expenses in the cost-of-service study and the usage pattern of Muhlenberg's customers.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$988,121 will allow Muhlenberg 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 Muhlenberg's proposed rates be approved.

Signatures:



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



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

APPENDIX A
 MUHLENBERG COUNTY WATER DISTRICT #3
 CASE NO. 2010-00359

PRO FORMA OPERATING STATEMENT

	Test Year	Adjustment	Ref.	Pro forma
Operating Revenues				
Sales of Water				
Residential Customers	543,850	88,593	A	632,443
Commercial Customers	140,082	-		140,082
Sales for Resale	120,321	-		120,321
Total Sales of Water	804,253	88,593		892,846
Other Revenue				
Forfeited Discounts	17,680	-		17,680
Misc Service Revenues	12,177	-		12,177
Other Water Revenues	93	(93)	B	0
Total Other Revenue	29,950	(93)		29,857
Total Operating Revenues	834,203	88,500		922,703
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	189,639	18,715	C	208,354
Salaries and Wages - Officers	18,000	-		18,000
Employee Pensions and Benefits	68,574	2,119	D	70,693
Purchased Water	375,745	9,352	E	385,097
Purchased Power	20,453	437	F	20,890
Materials and Supplies	23,048	1,347	G	24,395
Contractual Services - Acct.	5,500	500	H	6,000
Contractual Services - Other	23,197	(9,679)	I	13,518
Rental Equipment	31	(31)	J	(0)
Transportation Expenses	13,565	(3,595)	K	9,970
Insurance - Vehicle	3,389	48	L	3,437
Insurance - General Liability	6,288	42	M	6,330
Insurance - Worker's Comp	6,051	(624)	N	5,427
Insurance - Other	102	-		102
Advertising Expenses	1,785	(1,105)	O	680
Bad Debt	1,249	2,708	P	3,957
Miscellaneous Expenses	11,759	(1,442)	Q	10,317
Total Operation and Maintenance Expenses	768,375	18,792		787,167

Depreciation	77,735	(13,694)	R	64,041
Taxes Other than Income	20,094	(1,756)	S	18,338
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Total Operating Expenses	866,204	3,342		869,546
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Utility Operating Income	(32,001)	85,158		53,157
Plus: Interest and Dividend Income	31,313	(11,017)	T	20,296
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Income Available to Service Debt	\$ (688)	74,141		\$ 73,453
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A. Normalized revenue as determined by Staff

B. Normalized revenue as determined by Staff

C. Increase in cost of the Salaries and Wages - Employees account from the 2008 Annual Report to the 2009 Annual Report, along with the addition of a new hire at \$7.25/hr times 20 hours weekly which comes out to \$7,540 for the year.

2009 Salaries and Wages - Employees	\$ 200,814
2008 Salaries and Wages - Employees	189,639
Increase in cost of Salaries and Wages - Employees	<u>11,175</u>
New Hire @ \$7.25/hr x 20 hrs weekly x 52 weeks	7,540
Total increase in Salaries and Wages - Employees	<u>\$ 18,715</u>

D. Increase in the cost of the Employee Pensions and Benefits account from the 2008 Annual Report to the 2009 Annual Report.

2009 Employee Pensions and Benefits expense	\$ 70,693
2008 Employee Pensions and Benefits expense	<u>68,574</u>
Increase in cost of Employee Pensions and Benefits	<u>\$ 2,119</u>

E. This adjustment eliminates the cost of water purchased in excess of the Commission's allowable lines loss limitation of 15 percent.

<u>Unaccounted for Water Loss Percentage</u>	
Water Produced/Purchased	264,928,000
Water Sales	208,491,000
Water Treatment Plant	1,000
System Flushing	23,000
Fire Department	69,000
Other	0
Total Water Sold and Used	<u>208,584,000</u>
Unaccounted for Water Loss - Gallons	<u>(56,344,000)</u>
Percentage of Unaccounted for Water Loss	<u>21.268%</u>

Percentage Water Loss in Excess of 15 Percent	6.268%
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Determination of Pro Forma Purchased Water

Pro Forma Water Sales	208,491,000
Add: System Flushing	1,000
Subtotal	<u>208,492,000</u>
Divided by: 15% Line Loss Reciprocal	85.00%
Allowable Purchases/Production	<u>245,284,706</u>

Test-Period Purchases	264,928,000
Divided by: Water Produced/Purchased	264,928,000
Percentage of Purchases	<u>100.000%</u>

Allowable Purchases/Production	245,284,706
Multiplied by: Percentage of Purchases	100.000%
Allowable Purchases	<u>245,284,706</u>

Purchased Water Cost per 1,000 Gal

Allowable Purchases	245,284.706
Multiplied by: Purchased Water per 1,000 Gallons	1.57
Pro Forma Purchased Water Expense	<u>\$ 385,097</u>

2009 Pro Forma Purchased Water Expense	\$ 385,097
2008 Purchased Water expense	<u>375,745</u>

Increase in the cost of Purchased Water	<u>\$ 9,352</u>
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F. Increase in the cost of the Purchased Power account from the 2008 Annual Report to the 2009 Annual Report.

2009 Purchased Power expense	\$ 20,890
2008 Purchased Power expense	<u>20,453</u>

Increase in the cost of Purchased Power	<u>\$ 437</u>
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G. Increase in the cost of the Materials and Supplies account from the 2008 Annual Report to the 2009 Annual Report.

2009 Materials and Supplies expense	\$ 24,395
2008 Materials and Supplies expense	<u>23,048</u>

Increase in cost of Materials and Supplies	<u>\$ 1,347</u>
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H. Increase in the cost of the Contractual Services - Acct. account from the 2008 Annual Report to the 2009 Annual Report.

2009 Contractual Services - Acct. expense	\$ 6,000
2008 Contractual Services - Acct. expense	<u>5,500</u>
Increase in the cost of Contractual Services - Acct.	<u>\$ 500</u>

I. Decrease in the cost of the Contractual Services - Other account from the 2008 Annual Report to the 2009 Annual Report. For 2009, the expenses associated with Contractual Services - Other were relocated to Contractual Services - Water Testing.

2009 Contractual Services - Water Testing expense	\$ 13,518
2008 Contractual Services - Other expense	<u>23,197</u>
Decrease in the cost of Contractual Services - Other	<u>\$ (9,679)</u>

J. Decrease in the cost of the Rental Equipment account from the 2008 Annual Report to the 2009 Annual Report.

2009 Rental Equipment expense	\$ -
2008 Rental Equipment expense	<u>31</u>
Decrease in the cost of Rental Equipment	<u>\$ (31)</u>

K. Decrease in the cost of the Transportation Expenses account from the 2008 Annual Report to the 2009 Annual Report.

2009 Transportation Expenses	\$ 9,970
2008 Transportation Expenses	<u>13,565</u>
Decrease in the cost of Transportation Expenses	<u>\$ (3,595)</u>

L. Increase in the cost of the Insurance - Vehicle account from the 2008 Annual Report to the 2009 Annual Report.

2009 Insurance - Vehicle expense	\$ 3,437
2008 Insurance - Vehicle expense	<u>3,389</u>
Increase in cost of Insurance - Vehicle	<u>\$ 48</u>

M. Increase in the cost of the Insurance - General Liability account from the 2008 Annual Report to the 2009 Annual Report.

2009 Insurance - General Liability expense	\$ 6,330
2008 Insurance - General Liability expense	<u>6,288</u>
Increase in the cost of Insurance - General Liability	<u>\$ 42</u>

N. Decrease in the cost of the Insurance - Worker's Comp account from the 2008 Annual Report to the 2009 Annual Report.

2009 Insurance - Worker's Comp expense	\$ 5,427
2008 Insurance - Worker's Comp expense	<u>6,051</u>
Decrease in the cost of Insurance - Worker's Comp	<u><u>\$ (624)</u></u>

O. Decrease in the cost of the Advertising Expenses account from the 2008 Annual Report to the 2009 Annual Report.

2009 Advertising Expenses	\$ 680
2008 Advertising Expenses	<u>1,785</u>
Decrease in the cost of Advertising Expenses	<u><u>\$ (1,105)</u></u>

P. Increase in the cost of Bad Debt from the 2008 Annual Report to the 2009 Annual Report.

2009 Bad Debt expense	\$ 3,957
2008 Bad Debt expense	<u>1,249</u>
Increase in the cost of Bad Debt	<u><u>\$ 2,708</u></u>

Q. Decrease in the cost of the Miscellaneous Expenses account from the 2008 Annual Report to the 2009 Annual Report.

2009 Miscellaneous Expenses	\$ 10,317
2008 Miscellaneous Expenses	<u>11,759</u>
Decrease in the cost of Miscellaneous Expenses	<u><u>\$ (1,442)</u></u>

R. Test year depreciation has been decreased by \$13,694. A decrease of \$5,976 is due to the change in the estimated service lives and the remaining decrease of \$7,718 is due to the decrease in depreciation expense from the 2008 Annual Report to the 2009 depreciation schedule as provided by the utility. The adjustments were made to the average life as recommended by the National Association of Regulatory Utility Commissioners (NARUC) using the straight line, remaining life method.

2009 Depreciation Expense, according to the depreciation schedule as provided by the utility	\$ 70,017
2008 Depreciation Expense	<u>77,735</u>
Decrease in Depreciation Expense	<u>\$ (7,718)</u>
Adjustment made to the 2009 Depreciation Expense	(5,976)
Total decrease in Depreciation Expense	<u><u>\$ (13,694)</u></u>

S. Decrease in the cost of the Taxes Other than Income account from the 2008 Annual Report to the 2009 Annual Report.

2009 Taxes Other than Income expense	\$ 18,338
2008 Taxes Other than Income expense	<u>20,094</u>
Increase in the cost of Taxes Other than Income	<u>\$ (1,756)</u>

T. Decrease in the Interest and Dividend Income from the 2008 Annual Report to the 2009 Annual Report.

2009 Interest and Dividend Income	\$ 20,296
2008 Interest and Dividend Income	<u>31,313</u>
Decrease in Interest and Dividend Income	<u>\$ (11,017)</u>

APPENDIX B
 MUHLENBERG COUNTY WATER DISTRICT #3
 CASE NO. 2010-00359

CALCULATION OF REVENUE REQUIREMENT

Pro forma operating expenses before taxes	\$	869,546
Divide by: Operating ratio		<u>88%</u>
Total revenue required before taxes		988,121
Less: Pro forma operating expenses before taxes		<u>(869,546)</u>
Net income allowed after taxes		118,575
Multiply by: Tax gross up factor		<u>1</u>
Net operating income before taxes		118,575
Plus: Operating expenses before taxes		<u>869,546</u>
Revenue Requirement	\$	<u><u>988,121</u></u>
Revenue Requirement	\$	988,121
Less: Normalized Other Operating Revenue		(29,857)
Non-Operating Income		<u>(20,296)</u>
Required Operating Revenue from Rates	\$	<u>937,968</u>
Less: Normalized Revenue from Rates	\$	<u>892,846</u>
Recommended Increase/(Decrease)	\$	45,122
Percent Increase		<u><u>5.05%</u></u>

APPENDIX C
MUHLENBERG COUNTY WATER DISTRICT #3
CASE NO. 2010-00359

MONTHLY RATES

First	2,000 gallons	\$ 13.73 minimum bill
Next	8,000 gallons	\$ 3.77 per 1,000 gallons
Next	10,000 gallons	\$ 3.51 per 1,000 gallons
Next	30,000 gallons	\$ 3.18 per 1,000 gallons
Over	50,000 gallons	\$ 2.92 per 1,000 gallons

Chester Lear
Superintendent
Muhlenberg County Water District #3
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Bremen, KY 42325