

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ELKHORN WATER DISTRICT) CASE NO.
FOR ALTERNATIVE RATE ADJUSTMENT) 2011-00083

ORDER

On April 1, 2011, the Commission accepted for filing an application submitted by Elkhorn Water District ("Elkhorn") for approval of a proposed increase in 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.

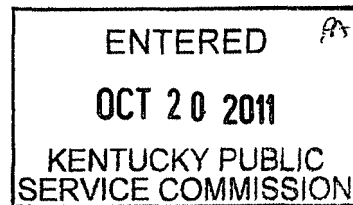
IT IS THEREFORE ORDERED that:

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 shall provide a brief summary of testimony that it would present at hearing.

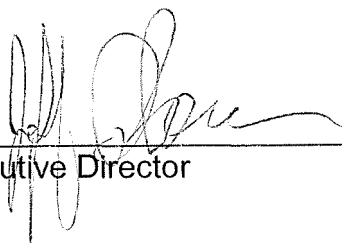
3. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of the date of this Order shall be deemed as agreement with that finding or recommendation.

4. If no request for a hearing or an informal conference is received within the 14 days, this case shall stand submitted to the Commission for decision.

By the Commission



ATTEST:



Executive Director

STAFF REPORT
ON
ELKHORN WATER DISTRICT
CASE NO. 2011-00083

On March 7, 2009, Elkhorn Water District, ("Elkhorn") requested Commission Staff assistance with the preparation of a rate application. Sam Bryant and Jason Green of the Commission's Staff ("Staff") provided that assistance. In preparing the application and in order to determine the reasonableness of Elkhorn's proposed expenses, Staff performed a limited review of Elkhorn's test year, 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. Insignificant or immaterial discrepancies were not pursued nor addressed in the development of the application.

After receiving the Acknowledgement Letter from Elkhorn on August 20, 2009, Staff experienced difficulty getting information from Elkhorn. There were numerous attempts made to contact someone to schedule a field review, as well as numerous attempts to get additional information. A field review was finally conducted on June 9, 2010, but Staff continued to experience difficulty obtaining billing records. The billing records issue was resolved and the completed application was delivered to Elkhorn on February 15, 2011.

On March 7, 2011, Elkhorn tendered for filing its application seeking to increase its rates for water service pursuant to 807 KAR 5:076. Elkhorn's application was determined to be deficient because it did not include a completed billing analysis. Due

to an error in Elkhorn's billing software program, complete customer billing and usage data for the test period was not available. The usage information that was provided was actual customer usage for a twelve-month period, but what period the usage information is from is unknown.

On March 14, 2011, Elkhorn filed an initial request for a deviation from the requirement to file a billing analysis. Elkhorn filed a supplemental request for a deviation on April 1, 2011. The Commission subsequently granted Elkhorn's request, and the rate application was accepted for filing as of April 1, 2011.

Elkhorn has agreed that, once it has a complete and accurate twelve-month period of customer usage data, it will file another rate application to ensure that its rates are appropriate.

Elkhorn proposes to increase its current rates to produce additional revenues of \$ 30,298, or 10.06 percent, over test-period normalized sales of \$301,024.

During the 2009 calendar year test period, Elkhorn owed long-term debt of \$171,000 to Rural Development at an interest rate of 5.25 percent. In determining its revenue requirement, Elkhorn's application, as prepared by Staff, utilized a debt service for a total three-year period of \$36,725. In determining a utility's revenue requirement, the Commission normally uses a three-year average debt service which, in this instance, is \$12,242. By using the three-year average, Elkhorn's revenue requirement is less than what was included in its application and does not justify a rate increase for Elkhorn.

Due to the unreliability of Elkhorn's 2009 billing information, the error in the debt service calculation, and the resulting inability of Elkhorn to justify a rate increase, an

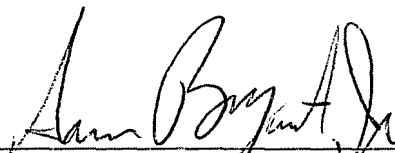
informal conference was held on August 12, 2011. At the conference, Elkhorn and Staff agreed that the test period in this case would be updated to be the twelve months ending December 31, 2010.

This report summarizes Staff's findings and recommendations resulting from its review of Elkhorn's application as revised to reflect the 2010 test year. Mr. Bryant is responsible for all areas of this report concerning revenue requirements and Mr. Green is responsible for normalized revenues and rate design.

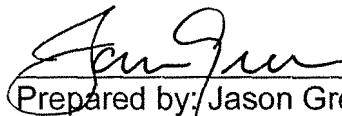
Attachment A of this report details Elkhorn's reported test-year operations and adjustments thereto. Attachment B includes narrative explanations for all test-year adjustments proposed by Elkhorn and by Staff.

Attachment C to this report shows the calculation of the revenue requirement of \$245,186, or \$12,525 less than Elkhorn's normalized revenues of \$257,711 and does not justify a rate increase.

Signatures:



Prepared by: Sam Bryant, Jr.
Financial Analyst, Water and Sewer
Revenue Requirement Branch
Division of Financial Analysis



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

Attachment A
 Operating Statement
 Case No. 2011-00083

Elkhorn Water District	<u>2010</u>	<u>Adjustment</u>	<u>Pro Forma</u>
Operating Revenues			
Water Sales	\$ 222,477	\$ 35,234	\$ 257,711
Total Operating Revenues	\$ 222,477	\$ 35,234	\$ 257,711
Expenses:			
Salaries & Wages	\$ 17,912		\$ 17,912
Purchased Water	150,505	\$ (39,035) B	111,470
Purchased Power	8,744		8,744
Materials & Supplies	7,156		7,156
Contractual Services	41,313	(23,091) C	18,222
Engineering		20 D	20
Legal		4,800 E	4,800
Accounting		4,200 F	4,200
Water Testing	860		860
Repairs & Maintenance		14,071 G	14,071
Rents	840		840
Insurance	3,020		3,020
Bad Debts	950		950
Miscellaneous	795		795
Total O&M Expenses	\$ 232,095	\$ (39,035)	\$ 193,060
Depreciation Expense	35,667	144 H	35,811
Amortization Expense	149		149
Taxes Other Than Income	1,404		1,404
Utility Operating Expenses	269,315	(38,891)	230,424
Operating Income	\$ (46,838)	\$ 74,125	\$ 27,287
Interest Income	2,175		2,175
Interest Expense	8,810		8,810
Net Income	\$ (53,473)	\$ 74,125	\$ 20,652

Attachment B
Pro Forma Adjustments
Case No. 2011-00083

A. Normalized Operating Revenues :

Revenue normalization using end-of-period customer level and the current tariffed rate.

Test-Period Revenues (2010 Annual Report)	\$ 222,477
Staff billing analysis	\$ 28,578
Increase due to PWA filed 2011	<u>\$ 6,656</u>
Normalized Revenues	<u>\$ 257,711</u>

B. Purchased Water Expense.

For the test period, Elkhorn recorded purchased water expense of \$150,505. It was determined that Elkhorn's unaccounted-for water was 36.73 per cent. This expense was reduced by \$39,035 to allow for only fifteen per cent line loss, pursuant to 807 KAR 5:066, Section 6(3). This adjustment reduces purchased water expense to \$111,470.

Unaccounted for Water Loss Percentage

Water Produced/Purchased	82,734,000
Water Sales - Staff's Billing Analysis	52,123,000
Water Treatment Plant	0
System Flushing	225,000
Fire Department	
Other	<u>0</u>
Total Water Sold and Used	52,348,000
Unaccounted for Water Loss - Gallons	30,386,000
Percentage of Unaccounted for Water Loss	36.727%
Percentage Water Loss in Excess of 15 Percent	21.727%

Determination of Pro Forma Purchased Water

Pro Forma Water Sales	52,123,000
Add: System Flushing, Fire Department, and Other	<u>225,000</u>
Subtotal	52,348,000
Divided by: 15% Line Loss Reciprocal	<u>85.00%</u>
Allowable Purchases/Production	61,585,882

Purchased Water Cost per 1,000 Gal

Allowable Purchases	61,585,882.000
Multiplied by: Water Rate per 1,000 Gallons	\$ <u>1.810</u>
Pro Forma Purchased Water Expense	\$ 111,470
Less: Actual Test-year Expense	<u>\$ 150,505</u>
Pro Forma Adjustment - Nonrevenue Water	\$ (39,035)

C. Contractual Services:

Elkhorn recorded \$41,313 Contractual Services for the test year. Included are amounts for operation of the District, repairs and maintenance, engineering, legal, and accounting fees. This account was reduced by \$23,091 to remove amounts for all services except the operator fee. Gatewood Water Service ("Gatewood") has a contract with Elkhorn to operate the water system for a fee of \$1,518.48 per month, or \$18,222 annually. ($\$1,518.48 \times 12 = \$18,222$). This leaves the balance of this account at \$18,222. ($\$41,313 - \$23,091 = \$18,222$). For the amounts removed from this account, see adjustments D, E, F, and G.

D. Engineering Services:

The amount for engineering services for the test year was twenty dollars. This amount was reclassified from the Contractual Services account.

E. Legal Services:

Legal service expenses consisted of a retainer of \$400 per month for an attorney. This amount, \$4,800 annually ($12 \times \$400 = \$4,800$), was reclassified from the Contractual Services account.

F. Accounting Services:

Elkhorn's invoices show that \$4,200 was paid to their accountant for the 2010 audit. This amount was reclassified from the Contractual Services account.

G. Maintenance and Repairs:

Invoices show that Elkhorn spent \$14,071 for maintenance and repairs that were performed by Gatewood. This expense was recorded in the Contractual Services account and was reclassified to the proper account.

H. Depreciation Expense:

Elkhorn's test-period depreciation expense is \$35,667. During the test period, Elkhorn added \$14,410 in new distribution mains. The mains have a fifty-year life, resulting in \$288 in annual depreciation. There was \$144 of depreciation expensed for this asset during the test period. This leaves an adjustment of \$144, increasing this account to a pro forma amount of \$35,811.

Attachment C
Debt Service and Revenue Requirement
Case No. 2011-00083

Debt Service:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	3,700	8,578	12,278
2012	3,900	8,374	12,274
2013	<u>4,200</u>	<u>8,154</u>	<u>12,354</u>
Total	11,800	25,106	<u>36,906</u>
Three-Year Average			12.302

Revenue Requirement:

Adjusted Operating Expenses	230,424
Debt Service	12,302
20% Coverage	<u>2,460</u>
Revenue Requirement	245,186
Less: Interest Income	2,175
Less: Normalized Revenue	<u>257,711</u>
Increase	<u>(14,700)</u>

Garland Moore
Chairman
Elkhorn Water District
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