

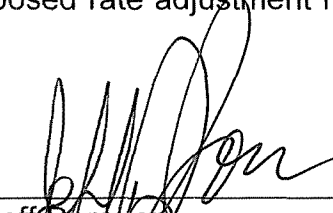
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO.
CUNNINGHAM WATER DISTRICT) 2011-00455

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of March 2, 2012, the attached report containing the findings and recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding.



Jeff Berouin
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

DATED: APR 16 2012

cc: Parties of Record

STAFF REPORT
ON
CUNNINGHAM WATER DISTRICT

CASE NO. 2011-00455

On November 23, 2011, Cunningham Water District ("Cunningham") filed with the Commission an application to adjust its current rates for water service. Using its historical operations for the calendar year ended December 31, 2010 and adjusting for known and measureable changes, Cunningham proposes rates that will produce additional revenues from water sales of \$14,973, an increase of 14.97 percent over normalized revenues from water sales of \$37,403. For the average residential customer who purchases 5,000 gallons of water monthly, his or her monthly bill will increase from \$23.13 to \$32.39, or approximately 40 percent.

Commission Staff members Mark Frost and Eddie Beavers performed a limited financial review of Cunningham's test period operations to determine whether test period operating revenues and expenses are representative of normal operations and the proposed adjustments are reasonable. They did not pursue and have not addressed in this report insignificant or immaterial discrepancies. Where they have not expressly addressed a test period expense, they found insufficient evidence to contest the reasonableness of that expense.

This report summarizes Commission Staff's review and recommendations. Mr. Beavers reviewed Cunningham's normalized revenue adjustment and proposed rate design. Mr. Frost addresses all pro forma expense adjustments and the revenue requirement determination. Appendix A contains Cunningham District's proposed pro forma operating statement. Commission Staff's recommended pro forma operating

statement is set forth in Appendix B. At Appendix C, Commission Staff sets forth its findings and recommendations regarding Cunningham's test-period operations. Commission Staff's calculation of Cunningham's revenue requirements is shown at Appendix D. Commission Staff's revised billing analysis is found at Appendix E and its recommended rates are found at Appendix F.

Cunningham proposes to use an 88 percent operating ratio to calculate its requested revenue requirement. The Commission has historically used the debt service coverage ("DSC") methodology to determine the revenue requirement for water districts and water associations. This approach is used primarily because a bond ordinance or loan agreement requires the water district or water association to maintain a predetermined DSC level. Because Cunningham has no outstanding bonds or loans, Commission Staff does not recommend the use of this methodology in this case.

The operating ratio methodology¹ is used when no basis for a rate-of-return determination exists, the cost of the utility has fully or largely been funded through contributions, or the utility has little or no outstanding long-term debt. Commission Staff finds that an operating ratio of 88 percent will allow Cunningham sufficient revenues to cover its reasonable operating expenses, and provide for reasonable equity growth. Therefore, Commission Staff agrees with Cunningham's use of an 88 percent operating ratio calculate its revenue requirement.

¹ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

Commission Staff finds that Cunningham has not accurately reported its test-period operations in its application and that its proposed pro forma adjustments do not meet the ratemaking criteria of known and measurable. Based upon its review, Commission Staff finds that Cunningham's pro forma operating expenses are \$45,452. Applying an 88 percent operating ratio to Cunningham's pro forma operating expenses produces an annual revenue requirement of \$51,650, and an annual revenue requirement from water sales of \$46,835, an increase of \$9,637, or 25.9 percent above normalized revenue from water sales of \$37,198. This level of revenue from water sales will allow Cunningham to cover its pro forma operating expenses, and provide for future equity growth.

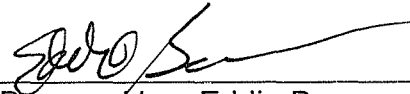
Commission Staff reviewed the billing data provided by Cunningham in its application and has prepared a test period billing analysis that slightly differs from the analysis contained in Cunningham's application. Commission Staff finds that, based upon adjusted test-period sales, Cunningham's proposed rates will produce revenues from water sales of \$52,176 and recommends these rates be denied.

Neither Cunningham nor Commission Staff performed a cost-of-service study in this case. Commission Staff agrees with Cunningham's proposal that each rate block within the current rates be increased by an equal percentage derived from the percentage increase in revenue requirement over adjusted test-period revenues. Accordingly, the rates set forth in Appendix F reflect an approximate 25.9 percent increase to each rate block of Cunningham's current rates and will produce the revenue requirement of \$46,513.

Signatures



Prepared by: Mark C. Frost
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
 STAFF REPORT, CASE NO. 2011-00455
 CUNNINGHAM'S PRO FORMA OPERATIONS

	2010 Annual Report	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Revenue - Water Sales	\$ 39,803	\$ (2,400)	\$ 37,403
Operating Expenses:			
Operation & Maintenance:			
Purchased Power	\$ 2,403	\$ 0	\$ 2,403
Chemicals	675	0	675
Materials & Supplies	13,225	(6,612)	6,613
Contractual Services	13,329	2,400	15,729
Water Testing	1,978	0	1,978
Rents	1,256	0	1,256
Insurance	2,078	257	2,335
Miscellaneous	2,794	1,200	3,994
Total Operation & Maint.	\$ 37,738	\$ (2,755)	\$ 34,983
Depreciation	14,733	(14)	14,719
Amortization	0	567	567
Taxes Other Than Income	59	0	59
Utility Operating Exp.	\$ 52,530	\$ (2,202)	\$ 50,328
Net Utility Operating Income	\$ (12,727)	\$ (198)	\$ (12,925)
Other Income & Deductions:			
Interest Income	4,815	0	4,815
Net Income	\$ (7,912)	\$ (198)	\$ (8,110)

APPENDIX B
STAFF REPORT, CASE NO. 2011-00455
COMMISSION STAFF'S PRO FORMA OPERATIONS

	<u>2010</u> <u>Annual Report</u>	<u>Pro Forma</u> <u>Adjustments</u>	<u>Ref.</u>	<u>Pro Forma</u> <u>Operations</u>
Operating Revenues:				
Revenue - Water Sales	\$ 39,803	\$ (2,605)	(a)	\$ 37,198
Operating Expenses:				
Operation & Maintenance:				
Purchased Power/Utilities	\$ 2,403	\$ 121	(b)	\$ 2,524
Chemicals	675	1,371	(c)	2,046
Materials & Supplies	13,225	(9,764)	(d)	3,461
Contractual Services	13,329	(462)	(e)	12,867
Water Testing	1,978	0		1,978
Rents	1,256	0		1,256
Insurance	2,078	419	(f)	2,497
Miscellaneous	2,794	0	(g)	2,794
Total Operation & Maint.	\$ 37,738	\$ (8,315)		\$ 29,423
Depreciation	14,733	670	(h)	15,403
Amortization	0	567	(i)	567
Taxes Other Than Income	59	0		59
Utility Operating Exp.	\$ 52,530	\$ (7,078)		\$ 45,452
Net Utility Operating Income	\$ (12,727)	\$ 4,473		\$ (8,254)
Other Income & Deductions:				
Interest Income	4,815	0		4,815
Net Income	<u>\$ (7,912)</u>	<u>\$ 4,473</u>		<u>\$ (3,439)</u>

APPENDIX C
STAFF REPORT, CASE NO. 2011-00455
COMMISSION STAFF'S PRO FORMA ADJUSTMENTS

a. Metered Water Sales. Cunningham reports a test-period level of revenue from metered water sales of \$39,803.² The summary billing analysis provided by Cunningham produces revenue from metered water sales of \$37,403,³ which is \$2,400 below the amount reported in the annual report. Cunningham's monthly customer billing records summary showed that the actual amount collected in the test period was \$37,513 or \$110 above the amount computed in its billing analysis.

Using the detail billing report attached to the application, Commission Staff prepared its own billing analysis. Commission Staff's analysis produces revenue from metered water sales of \$37,198, which is \$2,605 below the reported level. Commission Staff recommends that the Commission not accept Cunningham's proposed adjustment and instead decrease revenue from metered water sales by \$2,605.

b. Utilities. In its 2010 Annual Report, Cunningham reported a test-period level of utilities expense of \$2,403. In reviewing the general ledger and invoices, Commission Staff determined that the actual test-period utility expense is \$2,524⁴ or \$121 above the amount reported. Accordingly, Commission Staff recommends that Cunningham's test-period utility expense be increased by \$121.

c. Chemicals. Cunningham reports a test-period level of chemical expense of \$675. Based upon its review of the general ledger and test-period invoices, Commission Staff concluded that Cunningham misclassified its test-period chemical purchases of

² *Annual Report of Cunningham Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* [hereinafter "2010 Annual Report"] at 27.

³ Application, Billing Analysis Form.

⁴ \$1,387 (Electricity - Jackson Purchase Energy Corporation) + \$626 (Gas - Bardwell City Utilities) + \$511 (Telephone - Western Kentucky Rural Telephone Cooperative) = \$2,524.

\$2,046⁵ in materials and supplies expense. The only \$675 purchase that Cunningham made in 2010 was for a three-inch turbine meter from CSS Pipe & Meter. Correcting Cunningham's classification errors will result in a net increase to chemical expense of \$1,371.⁶ The effect of this adjustment on materials and supplies expense and depreciation expense is discussed below.

d. Materials and Supplies. Cunningham proposes to decrease its materials and supplies expense of \$13,225 by \$6,612 to a pro forma level of \$6,613.⁷ Cunningham states that in 2010 this expense was abnormally high due to costs associated with the waterline replacement project being recorded in this expense account.⁸ Cunningham contends that its materials and supplies expense fluctuates from year-to-year due to line-loss and its aging water system and that, if this expense is established too low, more frequent rate increase requests will be necessary.⁹ To establish an appropriate expense level and to reduce the frequency of rate case filings, Cunningham proposes to reduce materials and supplies expense by 50 percent.¹⁰ Cunningham notes that its 2011 materials and supplies expense will be affected by its plans to replace 55 meters at a cost of \$630, install 6 yokes/meter setters at a cost of \$630 and replace 150 feet of line at a cost of \$900.¹¹

⁵ \$1,750 (ADC) + \$296 (Hydrodyne) = \$2,046.

⁶ \$2,046 (Test-Period Chemicals) - \$675 (Three Inch Turbine Meter) = \$1,371.

⁷ Application, Attach. A, Adjustment B.

⁸ Cunningham's Response to Commission Staff's Initial Request for Information, Item 1(b).

⁹ *Id.*

¹⁰ Application, Attach. A, Adjustment B.

¹¹ Cunningham's Response to Commission Staff's Initial Request for Information, Item 1(b).

Cunningham has failed to demonstrate that its repairs and maintenance expense is subject to significant variations. In calendar years 2008 and 2009, Cunningham reported materials and supplies expense of \$932 and \$1,469, respectively. The only year in which a significant increase in this expense occurred was 2010. This increase can be attributed to the water main replacement project. In reviewing the test-period invoices, Commission Staff identified capital expenditures totaling \$7,718 that were incorrectly recorded by Cunningham in its materials and supplies expense. Table 1 is a list of the capital expenditures Commission Staff identified that were incorrectly expensed in the test period.

Table 1: Capital Expenditures - Materials and Supplies Exp.

<u>Date</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
08/16/10	CSS Pipe & Meter	\$3,332 Coupled Pipe	\$ 3,332
09/22/10	CSS Pipe & Meter	240 Feet 8 Inch IPS PVC	2,480
09/22/10	CSS Pipe & Meter	12 5/8x3/4 Meters & 100 Rubber Gaskets	468
09/27/10	CSS Pipe & Meter	Various Pipes	376
08/02/10	G&C Supply	Couplings, Clamps, & Tubing	766
09/15/10	G&C Supply	4 5/8x3/4 Ford Copper-setter	+ 296
Total Capital Expenditures			<u>\$ 7,718</u>

Reducing materials and supplies expense by the misclassified chemicals expense of \$2,046 and the capital expenditures of \$7,718, results in a pro forma expense level of \$3,461, which is greater than historical levels but less than Cunningham's proposed expense of \$6,613. Cunningham has failed to present evidence to show that its proposed 50 percent reduction to materials and supplies expense is an accurate predictor of the ongoing level of this expense and that its proposed adjustment meets the rate-making criteria of being known and measurable. Moreover, the items Cunningham intends to purchase in 2011 are capital expenditures that should be depreciated rather than expensed.

For these reasons, Commission Staff recommends that the rejection of Cunningham's proposed adjustment and the reduction of materials and supplies expense by \$9,764 to eliminate the misclassified expenditures.

e. Contractual Services. Cunningham proposes to increase its test-period contractual services expense of \$13,329 by \$2,400 to pro forma level of \$16,369.¹² Cunningham states that its "operator has been held at the same pay rate for many years, and an increase from \$800 per month to \$1,000 per month is warranted."¹³ Cunningham points to the Staff Report in Case No. 2007-00203¹⁴ as evidence that the fee paid to its licensed operator was increased to \$800 per month in June 2006.¹⁵ Cunningham states that, given the increased costs incurred by its licensed operator in the six years since the last increase and the level of service being provided, some increase in the fee is warranted.¹⁶ Cunningham's adjustment reflects its proposal to increase the fee by \$200 per month.¹⁷

The \$800 monthly fee was actually for two services, licensed operator and customer billing and collection.¹⁸ Furthermore, Cunningham's Board of Commissioners

¹² Application, Attach. A, Adjustment C.

¹³ *Id.*

¹⁴ Case No. 2007-00203, *The Application of Cunningham Water District for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 5, 2007) (issuing Commission Staff Report).

¹⁵ Cunningham's Response to Commission Staff's Initial Request for Information, Item 2(c).

¹⁶ *Id.*, Item 2(d).

¹⁷ Application, Attach. A., Adjustment C.

¹⁸ Staff Report on Cunningham Water District, *supra* note 14, Attach. A at 1 ("First, the monthly fee for plant operations, billing and collection has increased to \$800 per month effective June 2006.").

has not approved the proposed increase in the licensed operator fee.¹⁹ Cunningham’s Board of Commissioners will not ratify the fee increase until “the rates are sufficient to pay for it.”²⁰ Because of the uncertainty regarding the date of the proposed increase and whether the operator’s fee will be increased, the proposed \$2,400 adjustment to reflect the increased fee does not meet the rate-making criteria of being “known and measurable.” Accordingly, Commission Staff recommends that Cunningham’s adjustment be denied.

In reviewing the test-period invoices, Commission Staff identified capital expenditures totaling \$1,116 that were incorrectly recorded by Cunningham in its contractual services expense. Table 2 is a list of the capital expenditures Commission Staff identified that were incorrectly expensed in the test period. Commission Staff recommends that these expenditures be removed from test-period operating expenses and depreciated.

Table 2: Capital Expenditures - Contractual Services Exp.

Vendor	Description	Amount
Dale Burnett	Meter Set	\$ 741
Jessie Jones	Remove Tree Stump - Water Line	\$ 375

Cunningham originally recorded expenditures totaling \$135,546 in its outside contract services expense account, but identified the items recorded in this account as the cost of the water main replacement project. Cunningham reduced operating expenses by the \$135,546 and depreciated the entire amount over 50 years. However, in reviewing the general ledger, Commission Staff notes that Cunningham incorrectly recorded test-period accounting fees of \$654 in this account. The fees are for the preparation of the financial statements and are not connected with the water main

¹⁹ Cunningham’s Response to Commission Staff’s Initial Request for Information, Item 2(d).

²⁰ *Id.*

replacement project. Therefore, Commission Staff recommends that contractual services expense be increased by \$654 to correct Cunningham's error.

The members of Cunningham's Board of Commissioners receive no salary. However, Cunningham pays its Chairman, Dan Bowles, \$100 per month to perform the following duties: pick up bank deposits; answer Cunningham's telephone; perform customer turn-ons and turn-offs; collect late payments; collect and process all mail; ensure that system leaks are repaired; and perform all other day-to-day operations.²¹ Carlisle Fiscal Court has not authorized this fee, but Cunningham's Board of Commissioners approved these payments at its March 9, 2009 meeting.²²

While the level of this expense appears reasonable and has been approved by the Board of Commissioners, the payment of such compensation is inconsistent with existing law. The Attorney General has opined that such payments are improper.²³ Accordingly, Commission Staff recommends that Cunningham cease such payments to its Chairman or, in the alternative, that the Commission consider whether removal proceedings are appropriate if the transaction continues.

f. Insurance. Cunningham proposes to increase its test-period insurance expense of \$2,078 by \$257 to reflect the 2011 insurance expense.²⁴ Cunningham provided an itemized list and copies of the invoices to show that the actual insurance

²¹ *Id.* Item 8(a).

²² *Id.* Item 8(b). Although noting in its response to the Commission Staff's Initial Request for Information that a copy of the minutes of the March 9, 2009 meeting was attached, Cunningham failed to attach a copy of the minutes.

²³ See OAG 66-788 ("[T]here is no statute prohibiting commissioners of a water district from contracting with the district; however, we believe that such would create a conflict of interest and be against public policy.").

²⁴ Application, Attach A, Adjustment D.

premiums paid in 2011 totals \$2,497.²⁵ Commission Staff recommends the Commission deny Cunningham's proposed adjustment and increase insurance expense by \$419 to reflect the documented premiums paid in 2011.

g. Miscellaneous. Cunningham proposes to increase its test-period miscellaneous expense of \$2,794 by \$1,200 to pro forma level of \$3,994.²⁶ In Case No. 2008-00505,²⁷ the Commission allowed an annual fee of \$4,200 for Cunningham's bookkeeper/manager, who has since retired.²⁸ The current bookkeeper/manger was paid \$100 per month in 2010, but Cunningham states that "an increase to \$200 per month is warranted."²⁹ Cunningham's adjustment reflects its proposal to increase the office manager/bookkeeper fee by \$100 per month.³⁰

Cunningham states that its office manager/bookkeeper is responsible for paying the bills and preparing the monthly treasury reports.³¹ It further states that these duties require more than 8 hours per month and that at a normal fee of \$25 per hour the monthly salary would far exceed the proposed fee of \$200 per month.³²

²⁵ Cunningham's Response to Commission Staff's Initial Request for Information, Item 3.

²⁶ Application, Attachment A, Attachment A, Statement of Adjusted Operations and Revenue Requirement Calculation, Adjustment E, Insurance Expense.

²⁷ Case No. 2008-00505, *Application of Cunningham Water District for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC June 3, 2009) (issuing Commission Staff Report). See also Order of July 6, 2009 (adopting the findings and recommendations contained in Commission Staff's Report).

²⁸ Application, Attachment A, Statement of Adjusted Operations and Revenue Requirement Calculation, Adjustment E, Miscellaneous Expense.

²⁹ *Id.*

³⁰ *Id.*

³¹ Cunningham's Response to Commission Staff's Initial Request for Information, Item 4(a).

³² *Id.*

Upon review of the 2010 general ledger, Commission Staff determined that in the test period Cunningham issued 166 checks for an average of 14 checks per month. Given that bill payment is a major duty of the office manager/bookkeeper, Commission Staff is of the opinion that Cunningham has failed to document that its contract employee spends over 8 hours per month on Cunningham's business. Given that the contract for this position was dated January 1, 2010, Commission Staff is further of the opinion that Cunningham has not demonstrated that a 100 percent increase in the office manager/bookkeeper fee is reasonable after one year of employment.

As with the operator's fee, Cunningham's Board of Commissioners has not approved the proposed increase in the office manager/bookkeeper fee.³³ Cunningham's Board of Commissioners will not approve the fee increase until "the rates are sufficient to pay for it."³⁴ Because of the uncertainty of the date or if the office manager/bookkeeper fee will actually be increased, the proposed \$1,200 adjustment to reflect the increased fee does not meet the rate-making criteria of being "known and measurable." For these reasons, Commission Staff recommends the Commission deny Cunningham's proposed adjustment to increase the office manager/bookkeeper fee by \$1,200.

h. Depreciation. Cunningham proposes to decrease its test-period depreciation expense from \$14,733 to \$14,719, a decrease of \$14.³⁵ Cunningham's adjustment is comprised of: (1) an increase of \$2,267³⁶ to reflect 12 months of depreciation for the water main replacement that was placed in service in 2010; and (2) a

³³ *Id.* Item 4(b).

³⁴ *Id.*

³⁵ Application, Attach. A, Adjustment F.

³⁶ \$3,200 (Full Year Depreciation - \$159,985 ÷ 50 Years) - \$933 (Test-Period Depreciation Expense Water Line) = \$2,267.

decrease of \$2,281³⁷ to reflect changing the depreciable life of the 2009 water tower repair and painting from seven years to ten years.³⁸

As shown in Table 3, Commission Staff proposes to increase depreciation expense by \$670 to reflect inclusion of Cunningham's proposed adjustments, to reflect depreciating the capital expenditures removed from operating expenses, and to reflect depreciating capital expenditures Cunningham made in 2011.

³⁷ \$5,323 ($\$53,230 \div 10 \text{ Years}$) - \$7,604 ($\$53,230 \div 7 \text{ Years}$) = \$(2,281).

³⁸ Application, Attach. A, Adjustment F.

Table 3: Pro Forma Depreciation

Description	Original Cost	Depreciation	
		Lives	Expense
(1) Pro Forma Existing Plant:			
Plant	\$ 178,817	50	\$ 3,576
Water Pump	\$ 13,730	7	1,961
Paint Water Tower	\$ 53,230	10	5,323
Line Replacement	\$ 159,331 ³⁹	50	3,187
Main	\$ 350	20	18
1,500 Feet 1-4 Inch Main	\$ 5,023	20	251
New Main	\$ 662	20	33
Install New Motors	\$ 1,180	20	59
4 New Motors	\$ 1,985	20	99
Misc. Plant Equipment	\$ 3,160	20	158
PR4 Cannon	\$ 797	20	+ 40
Total Pro Forma Existing Plant			\$ 14,705
(2) Capital Expenditures - Expensed in 2010:			
\$3,332 Coupled Pipe	\$ 3,332	50	67
240 Feet 8 Inch IPS PVC	\$ 2,480	50	50
12 5/8x3/4 Meters & 100 Gaskets	\$ 468	10	47
Various Pipes	\$ 376	50	8
Couplings, Clamps, & Tubing	\$ 766	50	15
4 5/8x3/4 Ford Copper-setter	\$ 296	40	7
3 Inch Turbine Meters	\$ 675	10	68
Meter Set	\$ 741	40	19
(3) Capital Expenditures – 2011			
Lights for Water Tank	\$ 2,615	10	262
36 5/8x3/4 Meters	\$ 1,548	10	+ 155
Total Pro Forma Depreciation			\$ 15,403
Less: Test-Period Depreciation Expense			- 14,733
Pro Forma Adjustment			\$ 670

i. Amortization. Cunningham proposes to increase its test-period operating expenses by \$567 to reflect the amortization of the cost of its rate case consultant of \$1,700 over three years.⁴⁰ While Commission Staff recommends that the proposed adjustment be granted, it further recommends that in any future rate case proceeding,

³⁹ \$159,985 (Water Line Project) - \$645 (Miss-classified Accounting Fee) = \$159,340.

⁴⁰ Application, Attachment A, Statement of Adjusted Operations and Revenue Requirement Calculation, Adjustment G, Amortization Expense.

Cunningham's further use of a consultant to prepare its rate application in be closely reviewed and that Cunningham demonstrate that the retention and performance of a paid consultant, in lieu of other less costly alternatives, provides some value to the utility and its ratepayers.

Commission Staff notes that the Commission has significantly revised the rate adjustment procedures found in 807 KAR 5:076. These procedures have simplified the filing process to a level that allows a utility to prepare and submit an application without the need of outside assistance. To the extent that assistance is required, 807 KAR 5:076 authorizes Commission Staff to provide such assistance. Cunningham received Commission Staff assistance in three of its last four rate case proceedings and has spoken favorably of the assistance provided in at least two of these prior cases. Given these circumstances, the reasonableness of the expenses related to the retention of consultant and the corresponding benefits of such retention are appropriate areas to examine.

APPENDIX D
 STAFF REPORT, CASE NO. 2011-00455
 REVENUE REQUIREMENT DETERMINATION

	<u>Cunningham</u>	<u>Staff</u>
Pro Forma Operating Expenses	\$ 50,328	\$ 45,452
Divided by: Operating Ratio	÷ 88%	÷ 88%
Total Revenue Requirement	<u>\$ 57,191</u>	<u>\$ 51,650</u>
Less: Other Income & Deductions	- 4,815	- 4,815
Revenue Requirement - Water Sales	<u>\$ 52,376</u>	<u>\$ 46,835</u>
Less: Pro Forma Revenue - Water Sales	- 37,403	- 37,198
Requested Increase	<u>\$ 14,973</u>	<u>\$ 9,637</u>
Percentage Increase	<u>40.032%</u>	<u>25.907%</u>

APPENDIX E
 STAFF REPORT, CASE NO. 2011-00455
 BILLING ANALYSIS OF PRESENT RATES

Cunningham Water District
 Test Year Ending December 2010

	USAGE	BILLS	GALLONS	FIRST 2,000	NEXT 3,000	OVER 5,000
FIRST	2,000	527	491,780	491,780		
NEXT	3,000	797	2,731,520	1,594,000	1,137,520	
OVER	5,000	498	4,553,531	996,000	1,494,000	2,063,531
		1822	7,776,831	3,081,780	2,631,520	2,063,531

REVENUE BY RATE
 INCREMENT

		BILLS	GALLONS	RATE	REVENUE
FIRST	2,000	1822	3,081,780	\$12.48	\$22,738.56
NEXT	3,000		2,631,520	3.55	9,341.90
OVER	5,000		2,063,531	2.48	5,117.56
	TOTAL	1822	7,776,831		\$37,198.01

APPENDIX F
STAFF REPORT, CASE NO. 2011-00455
STAFF'S RECOMMENDED RATES

MONTHLY WATER RATES

<u>Usage Brackets</u>		<u>Rates</u>	
First	2,000	\$	15.72 Min. Bill
Next	3,000	\$	4.47 Per 1,000 Gal
Over	5,000	\$	3.12 Per 1,000 Gal

Dan Bowles
Chairman
Cunningham Water District
P. O. Box 644
Cunningham, KY 42035