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June 10, 2004

Dale Wright, Esq.
Kentucky Public Service Commission
211 Sower Blvd
P.O. Box 615
Frankfort, KY 40602



Re: Case No. 2004-00105

Dear Dale:

I am in receipt of the June 1, 2004 letter from John David Myles.

Despite a diligent search by the Company's engineer, Warner A. Broughman, III & Associates, in their closed files. Sandy Broughman has been unable to locate the original calculations used to calculate the original fire protection tariff. The version of the tariff recently proposed, which has been suspended in this rate commission, was obtained by dividing the old rate in half. The old rate was \$.0075 per square foot, and the new rate is \$.00375 per square foot. The reason the old tariff was divided in half was the mistaken understanding that both schools were equal in size, and since the old tariff produced the required amount of revenue for one school, the new tariff would provide the exact same amount of revenue when applied to both schools. Unfortunately, the square footage of the two schools is not the same. However, North Shelby did not go back and attempt to revise the proposed tariff accordingly.

In summary, there are no separate calculations for the proposed tariff, and the calculations supporting the old tariff have not been located.

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I enclose calculations dated March 9, 2004, which support a tariff charge of \$.0036 per square foot per month for the actual correct square footages of the two schools in question. Please note that this does not include any of the depreciation expense for the water tank, 20% debt coverage, electricity, insurance, lost opportunity cost on the \$104,000.00 contribution by the company, and the cost for inspection to prevent unauthorized use of non-metered water. Mr. Broughman is recalculating the fire protection tariff charge, and those calculations will be provided to the Commission as soon as they are available.

We vigorously disagree with Mr. Myles' assertion that the tariff appears to be clearly contrary to the applicable regulation. The regulation in question, 807 KAR 5:095 Section 5(3) states that ". . .the rate shall recover **at least** the cost of. . ." The words 'at least' indicate the regulation contemplates additional costs being included in the fire protection charge as long as those costs are reasonable and directly related to providing fire protection service. The costs included in North Shelby's calculations are reasonable and are required to provide the service.

Apparently the utility was waiting for a direct communication from the Commission before making the additional refund. I have taken care of that, and a refund should be immediately forthcoming.

Suffice it to say that North Shelby Water Company vigorously contests the request to suspend the underlying tariff. This would mean the customer is receiving service at no cost, which would be grossly unfair to the utility's other customers.

Yours Truly,

MATHIS, RIGGS & PRATHER, P.S.C.

By: 

Donald T. Prather

DTP/pm

Enclosure

Cc: John David Myles, Esq.
David Edwards Spenard, Esq.
Darrell Dees, Manager
Duncan LeCompte, President
Sandy Broughman, Engineer

FIRE PROTECTION RATE

WABILL
3/9/04

total school SF = 173,000

total tank cost = \$ 1,120,800⁰⁰

financed portion = 568,000

invested cash = 104,300

non-grant cost = \$ 672,300

@ 4.375% for 38 yrs = \$ 36,605 annually,
fire protection component of tank

1700 gpm x 2HR = 204,000 gallons

$$\frac{204,000}{1,000,000} = 20.4\% \text{ of total}$$

\$ 36,605 annual

20.4%\$ 7,467 annual cost of fire protection water storage
12 months = \$ 622 per month

$$\frac{\$ 622}{173,000 \text{ SF}} = \$ 0.0036 \text{ per S.F. per month}$$