

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CANNONSBURG WATER	)	
DISTRICT FOR (1) APPROVAL OF EMERGENCY	)	CASE NO. 2011-00217
RATE RELIEF AND (2) APPROVAL OF THE	)	
INCREASE IN NONRECURRING CHARGES	)	

ORDER

The Commission, on its own motion, HEREBY ORDERS that:

1. Cannonsburg Water District ("Cannonsburg") shall have 14 days from the date of this Order to file with the Commission written comments, if any, on the findings and recommendations contained in the Commission Staff Report, a copy of which is found at Appendix A to this Order, and to request a hearing or a conference with Commission Staff in this matter.

2. Cannonsburg's failure to file with the Commission written objections to a finding or recommendation contained in the Commission Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation and a waiver of any right to object to that finding or recommendation.

3. Cannonsburg's failure to request a formal hearing in this matter within 14 days of the date of this Order shall be deemed a waiver of any right to a hearing in this matter.

4. If Cannonsburg requests a hearing in this matter, it shall specifically identify in its written request for hearing all objections to the findings and

recommendations set forth in the Commission Staff Report and shall provide a brief summary of testimony that it expects to present at hearing.

5. Within 14 days of the date of this Order, Cannonsburg shall file with the Commission, in writing, its position on:

a. Adjusting its general rates for water service to a level that will produce \$2,444,661 from water sales; and

b. The conditions for the assessment of a surcharge to address excessive non-revenue water.

6. Cannonsburg shall file any revised request for rate adjustment, including the assessment of a surcharge to address excessive non-revenue water, with its response to the Commission Staff Report.

7. If Cannonsburg revises its request for rate adjustment, it shall publish notice of its revised request in a newspaper of general circulation in its territory and shall provide the Commission with proof of publication of such notice no later than March 23, 2012. Notice shall be in the format set forth in Appendix B.

8. If the Commission does not receive any written request for a hearing or for an informal conference with Commission Staff within the 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

ENTERED <sup>PA</sup>  
FEB 27 2012  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

*for Linda Sauskner*  
Executive Director

Case No. 2011-00217

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00217 DATED FEB 27 2012

STAFF REPORT  
ON  
CANNONSBURG WATER DISTRICT  
CASE NO. 2011-00217

On August 8, 2011, Cannonsburg Water District (“Cannonsburg”) applied for an adjustment of its rates for water service.<sup>1</sup> It proposed rates that would reportedly produce additional revenues of \$183,330 and total annual revenues of \$2,234,187.<sup>2</sup> The proposed rates would increase the monthly bill of a customer who uses 5,000 gallons of water from \$36.00 to \$39.50.<sup>3</sup>

Commission Staff members Mark Frost and Sam Reid performed a limited financial review of Cannonsburg’s operations for the calendar year ending December 31, 2010 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. Attachment A contains Cannonsburg’s proposed pro forma operating statement.

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<sup>1</sup> Cannonsburg District tendered its application with the Commission on June 27, 2011. Upon review of the application, the Executive Director refused to accept the application for filing and advised Cannonsburg District of several deficiencies that required corrective action. On July 25, 2011, Cannonsburg District supplemented its application to cure the noted deficiencies and requested a deviation from 807 KAR 5.006, Section 10(6)(b). It renewed and supplemented its request for a deviation on August 8, 2011. On August 10, 2011, the Commission granted Cannonsburg District’s request for a deviation, accepted the application for filing, and directed that it be considered filed as of August 8, 2011.

<sup>2</sup> Application at 3.

<sup>3</sup> These rates do not reflect adjustments in Cannonsburg’s rates due to increases in its cost of purchased water.

Commission Staff's recommended pro forma operating statement is set forth in Attachment B. In Attachment C, Commission Staff sets forth its findings and recommendations regarding Cannonsburg's proposed adjustments and explains its recommended adjustments to Cannonsburg's test-period operating statement. Commission Staff's cost-of-service study is found at Attachment D. Its proposed rates are found at Attachment E.

Mr. Reid is responsible for the pro forma revenue adjustment and the calculation of the recommended rates. Mr. Frost is responsible for all pro forma operating expense adjustments, the revenue requirement determination, and the non-revenue water surcharge.

In developing its recommended pro forma operating statement, Commission Staff proposes that Cannonsburg's purchased water expense not include the cost of purchased water for unaccounted-for water loss that exceeds 15 percent of Cannonsburg's total water purchases during the test period. Commission Staff found that, during the test period, Cannonsburg experienced water line losses of 29.91 percent of purchased water and recommended exclusion of \$233,625 of the cost of this lost water from rate recovery. 807 KAR 5:066, Section 6(3)<sup>4</sup> requires this action.

Pursuant to 807 KAR 5:066, Section 6(3), Cannonsburg has proposed that its present level of unaccounted-for water loss of 29.91 percent be deemed a reasonable

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<sup>4</sup> Except for purchased water rate adjustments for water districts and water associations, and rate adjustments pursuant to KRS 278.023(4), for rate making purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations. Upon application by a utility in a rate case filing or by separate filing, or upon motion by the commission, an alternative level of reasonable unaccounted-for water loss may be established by the commission. A utility proposing an alternative level shall have the burden of demonstrating that the alternative level is more reasonable than the level prescribed in this section.

level in light of the current condition of Cannonsburg's water distribution system.<sup>5</sup> It states that, because of the age of its water mains, which is in excess of 40 years, repairs on a water main result in increased water pressure at other portions on the water system resulting in further main breaks. These occurrences, it states, can only be remedied with the development of a comprehensive water main replacement program.

807 KAR 5:066, Section 6(3), places the burden upon Cannonsburg to demonstrate the reasonableness of its alternative level for unaccounted-for water loss. Commission Staff does not believe that Cannonsburg has met this burden and recommends denial of Cannonsburg's proposal. As shown in Table I, a review of Cannonsburg's annual reports to the Commission indicates that the unaccounted-for water problems have existed for an extended period and that Cannonsburg has consistently underreported its unaccounted-for line loss while reporting a large portion of water usage as "Other Water Used – Other." Its officers cannot explain the nature of this use and have suggested that it represents unaccounted-for water.<sup>6</sup>

Assuming that Cannonsburg had properly reported its water usage, it would have experienced unaccounted-for water in excess of 15 percent for an extended period of time. Commission Staff is of the opinion that, even without properly reporting its water usage, Cannonsburg should have recognized its unaccounted-for water issue and implemented a program to reduce its non-revenue water problem

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<sup>5</sup> Letter from Danny Clarkson, General Manager, Cannonsburg Water District, to Gerald Wuetcher, Attorney, Public Service Commission (Aug. 18, 2011).

<sup>6</sup> When questioned regarding the circumstances regarding this water, Cannonsburg's General Manager could not explain the nature of this use and stated it should be considered as unaccounted-for water. Video Transcript: 8/16/2011, 11:05:20 – 11:05:50.

much earlier. Moreover, Cannonsburg has failed to demonstrate that a 15 percent unaccounted-for water level is unattainable.

Year	Total H <sub>2</sub> O Purchased	Reported Unaccounted H <sub>2</sub> O Loss	Reported Unaccounted H <sub>2</sub> O Loss Percentage	Reported Other H <sub>2</sub> O Used - Other	Total Unaccounted H <sub>2</sub> O Loss	Total Unaccounted H <sub>2</sub> O Loss Percentage
2002	439,822,000	36,836,000	<b>8.3752</b>	70,926,000	107,762,000	<b>24.50</b>
2003	350,590,000	62,995,000	<b>17.9683</b>	55,112,000	118,107,000	<b>33.69</b>
2004	357,234,000	95,560,000	<b>26.7500</b>	8,631,000	104,191,000	<b>29.17</b>
2005	371,021,000	86,058,000	<b>23.1949</b>	0	86,058,000	<b>23.19</b>
2006	532,331,000	52,814,000	<b>9.9213</b>	2,343,000	*276,297,000	<b>51.90</b>
2007	477,872,000	38,195,000	<b>7.9927</b>	6,802	**133,944,000	<b>28.03</b>
2008	440,278,000	27,352,000	<b>6.2124</b>	90,159,000	117,511,000	<b>26.69</b>
2009	456,104,000	15,474,000	<b>3.3926</b>	131,907,000	147,381,000	<b>32.31</b>
2010	538,431,000	23,179,000	<b>4.3049</b>	***126,701,000	149,880,000	<b>27.84</b>

Source: Cannonsburg's Annual Reports for the Calendar Years 2002-2010

\*In its Annual Report for the Calendar Year Ending December 31, 2006, Cannonsburg failed to account for the total amount of water purchased. The sum of Total Water Sales (line 13), Total Other Water Used (line 21), and Total Line Loss (line 28) should equal Total Water Produced and Purchased (line 4). Although Cannonsburg reported 532,331,000 gallons Produced and Purchased (line 4), the sum of Total Water Sales of 256,052,000 gallons (line 13), Total Other Water Used of 2,343,000 gallons (line 21), and Total Line Loss of 52,814,000 gallons (line 28) only equals 311,209,000 gallons. Cannonsburg failed to account for approximately 221,122,000 gallons of water purchased. When this unaccounted for amount is added to reported Total Line Loss and Other Water Used-Other, an actual Unaccounted-for Water Loss of 273,936,000 gallons results.

\*\*In its Annual Report for the Calendar Year Ending December 31, 2007, Cannonsburg failed to account for the total amount of water purchased. The sum of Total Water Sales (line 13), Total Other Water Used (line 21), and Total Line Loss (line 28) should equal Total Water Produced and Purchased (line 4). Although Cannonsburg reported 477,872,000 gallons Produced and Purchased (line 4), the sum of Total Water Sales of 342,375,000 gallons (line 13), Total Other Water Used of 8,355,000 gallons (line 21), and Total Line Loss of 38,195,000 gallons (line 28) only equals 388,925,000 gallons. Cannonsburg failed to account for approximately 88,947,000 gallons of water purchased. When this unaccounted for amount is added to reported Total Line Loss and Other Water Used-Other, an actual Unaccounted-for Water Loss of 273,936,000 gallons results.

\*\*\*On January 24, 2012, Cannonsburg amended its Annual Report for the Calendar Year Ending December 31, 2010 to report total water loss of 142,452,000 gallons and a water loss percentage of 26.4569 percent.

Cannonsburg has two outstanding long-term debts: outstanding bonds from a 1974 bond issuance that the United States Department of Agriculture Rural Development ("RD") holds; and a 2001 Kentucky Rural Water Finance Corporation ("KRWFC") loan. In calculating its requested revenue requirement, Cannonsburg used



an annual debt service payment of \$65,112. As shown in Table II, the three-year average debt service for Cannonsburg is \$56,002.

	2012	2013	2014	3-Year Average
RD	\$ 28,125	\$ 26,875	\$ 25,625	\$ 26,875
KRWFC	28,797	29,153	29,432	29,127
Totals - Debt Service	\$ 56,922	\$ 56,028	\$ 55,057	\$ 56,002

Cannonsburg requests rates that will produce annual revenues of \$2,200,548<sup>7</sup> based upon an annual debt service of \$65,112 and a 1.2x Debt Service Coverage (“DSC”). Since filing its application, Cannonsburg has twice adjusted its rates to pass through increases in its water supplier’s rate for water service.<sup>8</sup> Adjusting normalized revenues to reflect these rates will increase Cannonsburg’s normalized revenues from \$2,017,218<sup>9</sup> to \$2,201,936. Cannonsburg’s requested revenue requirement of \$2,200,548 is \$1,388 below normalized revenues of \$2,201,936.

The Commission generally uses the DSC methodology to determine the revenue requirement for water districts and associations. It uses this methodology because a bond ordinance or loan agreement requires the district or association to maintain a specified DSC level.<sup>10</sup> Normally the DSC methodology produces adequate revenue to

<sup>7</sup> Application, Exhibit 4, 2010 Revenue and Expenses, \$2,340,187 (Total Revenue Requirement) - \$35,070 (Tap Fees) - \$16,376 (Interest Income) - \$53,261 (Other Income) - \$34,932 (Penalties and Charges) = \$2,200,548.

<sup>8</sup> Case No. 2011-00355, *Purchased Water Adjustment Filing of Cannonsburg Water District* (Ky. PSC Sep. 22, 2011). Case No. 2011-00518, *Purchased Water Adjustment Filing of Cannonsburg Water District* (Ky. PSC Jan. 10, 2012)

<sup>9</sup> Application, Exhibit 4, 2010 Revenue and Expenses, \$1,645,492 (Retail Sales) + \$333,865 (Wholesales) + \$37,861 (Leak Adjustments) = \$2,017,218.

<sup>10</sup> The 1974 bond ordinance requires Cannonsburg to maintain a 1.2x DSC but the KRWFC loan agreement does not mandate a specific DSC level. For such loans, the Commission has historically used a 1.1x DSC.

allow the district or association to pay its operating expenses, service its debt, and generate equity growth. In this case, however, the use of the DSC methodology produces a total revenue requirement of \$2,291,771 for a negative cash flow of (\$51,316) as shown in Table III. Commission Staff, therefore, does not recommend the use of the DSC methodology in this case.

Table III: DSC and Cash Flow				
	Debt Service		DSC	Requirement
RD	\$ 26,875	x	1.20	\$ 32,250
KRWFC	\$ 29,127	x	1.10	+ 32,040
Debt Service Coverage				\$ 64,290
Add: Pro Forma Operating Expenses				+ 2,227,481
Total Revenue Requirement				\$ 2,291,771
Less: Pro Forma Operation and Maintenance Expenses				2,023,294
Disallowed Purchased Water Cost				233,625
Taxes Other Than Income Tax				30,166
Average Annual Debt Service				- 56,002
<b>Net Cash Flow</b>				<b>\$ (51,316)</b>

Commission Staff instead recommends that the Commission use the operating ratio methodology to calculate Cannonsburg's revenue requirement.<sup>11</sup> The Commission generally uses this approach to determine a utility's revenue requirement when no basis for a rate-of-return determination exists, the utility's plant is fully or largely funded through contributions, or the DSC methodology fails to produce a revenue requirement sufficient to support the utility's operations. Commission Staff is of the opinion that an operating ratio of 88 percent will allow Cannonsburg sufficient revenues to cover its reasonable operating expenses, meet its debt service requirements, and provide for reasonable equity growth.

<sup>11</sup> Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

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

As shown in Table IV, Commission Staff's recommended pro forma operations, a dollar-for-dollar coverage of interest expense, and an operating ratio of 88 percent result in a revenue requirement from rates of \$2,444,661, an increase of \$242,725, or 11.02 percent, over Commission Staff's normalized revenue from rates of \$2,201,936. Unlike the DSC, the operating ratio produces a net positive cash flow of \$186,315.<sup>12</sup>

Table IV: Operating Ratio	
Pro Forma Operating Expenses	\$ 2,227,481
Divided by: Operating Ratio	÷ 88%
Subtotal	\$ 2,531,228
Add: Interest Expense	+ 18,002 <sup>13</sup>
Total Revenue Requirement	\$ 2,549,230
Less: Other Income & Deductions	- 16,376
Revenue Requirement from Operations	\$ 2,532,854
Less: Other Operating Revenues	- 88,193
Revenue Requirement from Water Sales	\$ 2,444,661
Less: Pro Forma Revenue - Water Sales	- 2,201,936
<b>Recommended Increase</b>	<b>\$ 242,725</b>

Commission Staff finds that Cannonsburg's proposed rates will produce a level of revenue that is insufficient to meet the water district's reasonable operating expenses and service its existing debt. Based upon the cost-of-service study found at Attachment D, Commission Staff finds that, based upon normalized test-period sales, the rates set forth in Attachment E will produce annual revenues of \$2,444,661.

In reviewing Cannonsburg's financial condition, Commission Staff is of the opinion that Cannonsburg lacks adequate resources necessary to address its excessive

<sup>12</sup> \$2,531,228 (Total Revenue Requirement) – \$2,227,482 (Pro Forma Operating Expenses) - \$233,625 (Disallowed Purchased Water Cost) = \$70,121 (Net Operating Income) + \$172,196 (Depreciation) - \$56,002 (Average Debt Service) = \$186,315.

<sup>13</sup> \$1,875 (Three Year Average Interest RD Bonds) + \$16,127 (Three Year Average Interest KRWC Loan) = \$18,002.

non-revenue water<sup>14</sup> and adequate funds to sustain the level of effort necessary to reduce excessive non-revenue water. Commission Staff has recommended a reduction of \$221,348 in Cannonsburg's purchased water expense for ratemaking purposes to comply with 807 KAR 5:066, Section 6(3). This reduction will limit the funds available to the water district to address its non-revenue water problem. Commission Staff is concerned that this reduction will severely restrict Cannonsburg's cash flow and prevents Cannonsburg from taking action necessary to focus on leak detection and repair.

Given these circumstances, Commission Staff recommends that the Commission grant Cannonsburg's request to assess a surcharge whose proceeds will be solely devoted to Cannonsburg's non-revenue water reduction efforts. Such surcharge is consistent with Commission action in other cases involving water districts with high non-

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<sup>14</sup> According to the Commission's annual financial and statistical report form, "line loss" is the total amount of water lost because of tank overflows, line breaks, line leaks, and other causes. "Non-revenue Water" is defined as "those components of system input volume that are not billed and produce no revenue; equal to unbilled authorized consumption plus apparent losses plus real losses." American Water Works Association, *Water Audits and Loss Control Programs* (3d ed. 2009) at 271. 807 KAR 5:066, Section 6(3), provides that "for rate making purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations." "Unaccounted-for water loss" equals the difference of the total amount of water produced and purchased and the sum of water sold, water used for fire protection purposes, and water used in treatment and distribution operations (e.g., backwashing filters, line flushing).

revenue water problems.<sup>15</sup> The amount of the surcharge would be based upon the amount of expenses that 807 KAR 5:066, Section 6(3), requires to be disallowed.

Using past Commission practice as a guide, the proposed surcharge would allow for the assessment and collection of \$233,625<sup>16</sup> annually for a period of 36 months or until \$700,875<sup>17</sup> had been assessed. Based upon the number of bills that Cannonsburg issues annually, the amount of the proposed monthly surcharge would be \$5.53 per customer.<sup>18</sup>

Commission Staff recommends that authorization to assess such a surcharge be subject to the following conditions:

- Within 90 days of the entry of a Final Order, Cannonsburg file with the Commission a comprehensive non-revenue water-reduction plan that identifies the sources of the excessive non-revenue water and the amount of non-revenue water from each source, establishes priorities and a time schedule for eliminating each source of non-revenue water, and provides a specific spending plan for the surcharge's proceeds.
- Cannonsburg must deposit surcharge collections in a separate interest-bearing account.

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<sup>15</sup> See, e.g., Case No. 9262, *The Application of the Muhlenberg County Water District, a Water District Organized Pursuant to Chapter 74 of the Kentucky Revised Statutes for a General Adjustment of Rates and Revision of Rates* (Ky. PSC Oct. 9, 1985); Case No. 9290, *The Notice of Lake Village Water Association, Inc. of a Tariff Amendment Adjusting Rates; Notice of Tariff Adjustment Imposing a Temporary Special Rule to Limit the Availability of Water Service Connections; Application for a Certificate of Public Convenience and Necessity; Application for Authority to Issue a Promissory Note and Mortgage to the Farmers Home Administration; and Application that It be Included in the Demonstration Project to Define Excessive Water Loss* (Ky. PSC Dec. 30, 1985); Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2010-00300, *Application of Martin County Water District for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC July 7, 2011).

<sup>16</sup> \$1,332,234 (Purchased Water Expense Without Unaccounted for Water Limitation) - \$1,098,609 (Purchased Water Expense Limited to 15% Unaccounted For Water) = \$233,625.

<sup>17</sup> \$233,625 (Annual Nonrevenue Water Surcharge) x 3 (Years) = \$700,875.

<sup>18</sup> \$233,625 (Annual Non-Revenue Water Limitation) ÷ 42,240 (Number of Bills) = \$5.53.

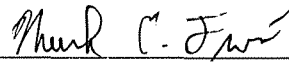
- No surcharge proceeds may be disbursed from the separate account until the Commission has approved Cannonsburg's comprehensive non-revenue water reduction plan. Surcharge proceeds may then be used to reimburse non-revenue water reduction expenses that are incurred after the date of the Commission's approval of the assessment of the surcharge but before the Commission's approval of the comprehensive non-revenue water reduction plan.
- Cannonsburg must file monthly activity reports with the Commission that include a statement of monthly surcharge billings and collections, a monthly surcharge bank statement, a list of each payment from the account, its payee and a description of its purpose, and invoices supporting each payment.
- Cannonsburg must file monthly water-loss reports with the Commission.
- Surcharge proceeds may not be used to reimburse Cannonsburg for non-revenue water reduction expenses incurred prior to the issuance of a Final Order in this proceeding.
- The Commission may revoke Cannonsburg's authority to assess the surcharge and require refund of all surcharge proceeds if Cannonsburg fails to comply with any condition.

If the Commission authorizes Cannonsburg to assess a non-revenue water surcharge, those collections constitute contributions and should be accounted for in the manner prescribed by the Uniform System of Accounts for Class A and B Water Districts and Associations. The monthly billing should be debited to customer accounts receivable and credited to the contribution account. When the non-revenue water surcharge is actually collected from the customer, special funds would be debited and the customer account credited.

In summary, Commission Staff is of the opinion that Cannonsburg requires additional funds to address its non-revenue water problems, but that such funds should

be subject to strong controls to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds.

Signatures



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Prepared by: Mark C. Frost  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis



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

ATTACHMENT A  
STAFF REPORT, CASE NO. 2011-00217  
CANNONSBURG'S PRO FORMA OPERATIONS

	2010 Operations	Differences	Pro Forma Operations
Operating Revenues:			
Revenue - Metered Water Sales	\$ 2,039,401	\$ (22,183)	\$ 2,017,218
Other Operating Revenues:			
Forfeited Discounts	34,932	0	34,932
Other Water Revenues	53,261	0	53,261
Interest Income	0	16,376	16,376
Tap-on Fees	0	35,070	35,070
Total Other Operating Rev.	\$ 88,193	\$ 51,446	\$ 139,639
Total Operating Rev.	\$ 2,127,594	\$ 29,263	\$ 2,156,857
Operating Expenses:			
Operation & Maintenance:			
Salaries & Wages – Emp.	\$ 382,103	\$ 17,280	\$ 399,383
Salaries & Wages – Com.	30,000	0	30,000
Emp. Pension & Benefits	328,595	13,600	342,195
Purchased Water	1,025,068	0	1,025,068
Purchased Power	58,718	0	58,718
Materials & Supplies	92,306	0	92,306
Contractual Services - Other	12,531	0	12,531
Insurance - Gen. Liability	14,602	0	14,602
Insurance - Workers Comp.	9,640	0	9,640
Advertising	1,298	0	1,298
Bad Debt Expense	2,725	0	2,725
Miscellaneous	118,869	0	118,869
Total Operation & Maint.	\$ 2,076,455	\$ 30,880	\$ 2,107,335
Depreciation	139,191	0	139,191
Taxes Other Than Income Tax	28,549	0	28,549
Utility Operating Expenses	\$ 2,244,195	\$ 30,880	\$ 2,275,075
Net Utility Operating Income	\$ (116,601)	\$ (1,617)	\$ (118,218)
Other Income & Deductions:			
Interest Income	16,376	(16,376)	0
Nonutility Income	386,300	(386,300)	0
Net Inc. Available for Debt Service	\$ 286,075	\$ (404,293)	\$ (118,218)



ATTACHMENT B  
STAFF REPORT, CASE NO. 2011-00217  
COMMISSION STAFF'S PRO FORMA OPERATIONS

	2010 Annual Report	Differences	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Revenue - Metered Water Sales	\$ 2,039,401	\$ 162,535	(a)	\$ 2,201,936
Other Operating Revenues:				
Other Water Revenues	88,193	0		88,193
Total Operating Rev.	<u>\$ 2,127,594</u>	<u>\$ 162,535</u>		<u>\$ 2,290,129</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages – Emp.	\$ 382,103	\$ 12,242	(b)	\$ 394,345
Salaries & Wages – Com.	30,000	0		30,000
Emp. Pension & Benefits	328,595	(99,013)	(c)	229,582
Purchased Water	1,025,068	73,541	(d)	1,098,609
Purchased Power	58,718	0		58,718
Materials & Supplies	92,306	(39,901)	(e)	52,405
Contractual Services - Other	12,531	0		12,531
Insurance - Gen. Liability	14,602	285	(f)	14,887
Insurance - Workers Comp.	9,640	(315)	(g)	9,325
Advertising	1,298	0		1,298
Bad Debt Expense	2,725	0		2,725
Miscellaneous	118,869	0		118,869
Total Operation & Maint.	<u>\$ 2,076,455</u>	<u>\$ (53,161)</u>		<u>\$ 2,023,294</u>
Depreciation	139,191	33,005	(h)	172,196
Amortization	0	1,825	(i)	1,825
Taxes Other Than Income Tax	28,549	1,617	(j)	30,166
Utility Operating Expenses	<u>\$ 2,244,195</u>	<u>\$ (16,714)</u>		<u>\$ 2,227,481</u>
Net Utility Operating Income	<u>\$ (116,601)</u>	<u>\$ 179,249</u>		<u>\$ 62,648</u>
Other Income & Deductions:				
Interest Income	16,376	0		16,376
Nonutility Income	386,300	(386,300)	(k)	0
Net Inc. Available for Debt Service	<u>\$ 286,075</u>	<u>\$ (207,051)</u>		<u>\$ 79,024</u>

ATTACHMENT C  
STAFF REPORT, CASE NO. 2011-00217  
COMMISSION STAFF'S RECOMMENDED PRO FORMA ADJUSTMENTS

a. Metered Water Sales. Cannonsburg reports a test-period level of revenue from metered water sales of \$2,039,401.<sup>1</sup> The billing analysis provided by Cannonsburg produces revenue from metered water sales of \$1,883,592,<sup>2</sup> which is \$155,809 below the amount reported in the annual report. Adjusting its billing analysis to reflect the rates granted in Case No. 2011-00518,<sup>3</sup> Cannonsburg proposes to decrease reported revenues from metered water sales of \$2,039,401 by \$22,183 to a pro forma level of \$2,017,218.<sup>4</sup>

Commission Staff compared Cannonsburg's billing analysis to the monthly customer billing registers to determine the accuracy of billing analysis. Applying the rates authorized in Case No. 2011-00518 to Cannonsburg's billing analysis results in normalized revenue from water sales of \$2,201,936, which is \$162,535 above the reported test-period level of \$2,039,401. Commission Staff recommends that the Commission not accept Cannonsburg's proposed adjustment and instead increase revenue from metered water sales by \$162,535.

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<sup>1</sup> *Annual Report of Cannonsburg Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* (hereinafter "2010 Annual Report") at 27.

<sup>2</sup> Application, Exhibit 8.

<sup>3</sup> Case No. 2011-00098, *Purchased Water Adjustment Filing of Cannonsburg Water District* (Ky. PSC Jan. 03, 2011).

<sup>4</sup> Application, Exhibit 4, 2010 Revenue and Expenses. \$1,645,492 (Retail Water Sales) + \$333,865 (Wholesale) + \$37,861 (Leak Adjustments) = \$2,017,218.

b. Salaries and Wages–Employee. Cannonsburg proposes to increase its test-period salaries and wages–employee expense of \$382,103 by \$17,280 to reflect the hiring of a new office clerk.<sup>5</sup> Because of its current financial condition, Cannonsburg has deferred hiring a new office clerk and cannot identify a date certain for such action. Because of this uncertainty, any adjustment to pro forma salaries and wages–employee expense to reflect the hiring of a new office clerk is not known and measurable and should be excluded.

Using the current staff level and 2010 employee wages, Commission Staff calculates a pro forma salaries and wages–employee expense of \$394,345, as shown in Table I. Accordingly, Commission Staff recommends the Commission deny Cannonsburg’s proposed adjustment and increase salaries and wages–employee expense by \$12,242.

Table I -- Pro Forma Salaries and Wages–Employee Expense					
Employee		2010 Wages	2010 Hours		Pro Forma Salaries
			Regular	Overtime	
Danny	Clarkston	\$ 2,201.04			\$ 52,825 <sup>6</sup>
Sharon	Hambrick	\$ 17.79	2,080.00	6.50	37,176
Lora	Meadows	\$ 14.34	2,080.00	2.00	29,870
Melanie	Stemmer	\$ 12.27	2,080.00	1.00	25,540
Paul	Clarkston	\$ 17.02	2,080.00	19.50	35,900
Richard	Crooks	\$ 17.02	2,080.00	146.25	39,136
Randall	Donta	\$ 17.02	2,080.00	85.00	37,572
Robert	Hicks	\$ 17.02	2,080.00	193.00	40,329
James	Keller	\$ 12.54	2,080.00	120.75	28,354
Thomas	McCalvin	\$ 17.02	2,080.00	190.00	40,253
Kenneth	Howard	\$ 12.54	2,080.00	69.50	27,390
					\$ 394,345

<sup>5</sup> *Id.*, Expenses.

<sup>6</sup> \$2,201.04 x 24 (Paid Twice per Month) ≈ \$52,825.

c. Employee Pensions and Benefits. Cannonsburg proposes to increase its test-period employee pensions and benefits expense of \$328,595 by \$13,600 to reflect the 2011 employee insurance premiums, hiring a new office clerk, and the 2010 County Employees Retirement System (“CERS”) employer contribution rate.<sup>7</sup>

Cannonsburg provides health insurance coverage to members of its Board of Commissioners, but does not offer similar benefits to part-time employees. Commission Staff finds that Cannonsburg’s commissioners should be classified as part-time employees because they do not work a 40-hour work week. As Cannonsburg fails to provide all part-time employees with comparable benefits, its practice of providing health insurance benefits to its commissioners is contrary to law.<sup>8</sup> Commission Staff, therefore, recommends that the costs associated with employee health insurance benefits for its commissioners be eliminated from Cannonsburg’s pro forma operating expenses.

In reviewing the employee benefits, Commission Staff notes that the provision of providing the employees with dependent health insurance coverage cost \$124,401 and that the total annual premium for the employee health insurance benefit is \$262,468, or

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<sup>7</sup> *Id.*, Expenses.

<sup>8</sup> See, e.g., Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2003-00224, *Application of Northern Kentucky Water District for (A) An Adjustment of Rates; (B) A Certificate of Convenience and Necessity for Improvements to Water Facilities if Necessary; And (C) Issuance of Bonds* (Ky. PSC June 14, 2004); Case No. 2005-00148, *Application of Northern Kentucky Water District for (A) An Adjustment of Rates; (B) A Certificate of Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC Apr. 28, 2006). Given that Cannonsburg pays its commissioners the maximum salary that the law permits, Cannonsburg’s actions may also violated KRS 74.020. See *Caldwell County Fiscal Court v. Paris*, 945 S.W.2d 952 (Ky. App. 1997).

12.5 percent<sup>9</sup> of Cannonsburg's pro forma operation and maintenance expense. From 2005 to 2011, the monthly employee health insurance premium increased from \$10,496 to \$21,872, an increase of \$11,375 or 108.37 percent. For the six-year period, the average annual increase in employee health insurance was approximately 18.06 percent.<sup>10</sup>

Commission Staff found that during this period Cannonsburg had failed to implement cost control measures such as contacting several health insurance providers to seek lower health insurance premiums, increasing the employee deductibles and copays, or requiring a greater employee contribution for premiums. Commission Staff further questions the reasonableness of and need for providing employee dependent health insurance coverage. The water district has failed to explain why the provision of such coverage is necessary or comparable with other similarly situated water utilities. Accordingly, Commission Staff recommends that employee pensions and benefits expense be decreased by \$124,401 to eliminate the cost of dependent health insurance coverage.

Using the current employee insurance premiums, eliminating commissioner health insurance benefits, eliminating the employee dependent health insurance coverage, removing the estimated benefits for the office clerk position, and using the employer retirement contribution rate of 18.96 percent,<sup>11</sup> Commission Staff calculates a pro forma level of employee pensions and benefits expense of \$229,582 as shown in

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<sup>9</sup>  $\$262,468$  (Employee Health Insurance)  $\div$   $\$2,107,335$  (Cannonsburg's Pro Forma Operation and Maintenance Expenses) = 12.5%.

<sup>10</sup>  $108.37\% \div 6$  (Years) = 18.06%.

<sup>11</sup> On July 1, 2011, the CERS employer contribution rate was increased to 18.96 percent.

Table II. Commission Staff recommends that Canonsburg’s proposed adjustment be denied and employee pensions and benefits expense be decreased by \$99,013.

Employee		Employee Insurance Benefits				CERS Retirement	Totals
		Health	Vision	Dental	Life & Disability		
Danny	Clarkston	\$ 16,335	\$ 170	\$ 508	\$ 1,292	\$ 9,984	\$ 28,289
Paul	Clarkston	16,335	97	264	1,056	6,785	24,537
Richard	Crooks	12,072	185	508	606	7,397	20,768
Randall	Donta	12,072	97	795	786	7,101	20,851
Sharon	Hambrick	16,041	282	795	700	7,026	24,844
Robert	Hicks	12,072	282	795	721	7,622	21,492
Kenneth	Howard	7,369	170	508	306	5,177	13,530
James	Keller	16,041	282	795	650	5,359	23,127
Thomas	McCalvin	7,369	282	795	350	7,608	16,404
Lora	Meadows	7,181	97	264	1,103	5,645	14,290
Melanie	Stemmer	15,180	97	795	551	4,827	21,450
		\$ 138,067	\$ 2,041	\$ 6,822	\$ 8,121	\$ 74,531	\$ 229,582

d. Purchased Water. In its 2010 Annual Report, Cannonsburg reported a test-period level of purchased water expense of \$1,025,068 and non-revenue water of 23,179,000 gallons, or 4.035 percent. As previously mentioned, Cannonsburg incorrectly reported non-revenue water in the category, Other Water Used – Other. On January 24, 2012, Cannonsburg amended its 2010 Annual Report to correct its error to report total non-revenue water of 142,452,000 gallons, or 26.4569 percent. Using its billing analysis and gallons recorded on the purchased water invoices, Commission Staff determined that the test-period non-revenue water was actually 161,946,746, or 29.91 percent.

Cannonsburg’s test-period line loss of 29.91 percent exceeds the Commission’s allowable limit of 15 percent.<sup>12</sup> Limiting Cannonsburg’s non-revenue water to 15

<sup>12</sup> 807 KAR 5:066, Section 6(3).

percent and using the current wholesale rates,<sup>13</sup> Commission Staff calculates a purchased water expense of \$1,098,609,<sup>14</sup> \$73,541 above the reported purchased water expense. However, if the non-revenue water is not limited to 15 percent, Cannonsburg's pro forma purchased water expense would have been \$1,332,234,<sup>15</sup> \$233,625 above the Commission Staff recommended level. Commission Staff recommends the Commission increase purchased water expense by \$73,541 to reflect its pro forma level of \$1,098,609.

e. Materials and Supplies. Cannonsburg reports a test-period level of materials and supplies expense of \$92,307. In reviewing the test-period invoices, Commission Staff discovered that \$39,901 of capital expenditures were incorrectly recorded as expenses. To eliminate the capital expenditures that are listed in Table III below, Commission Staff recommends that Cannonsburg's materials and supplies expense be reduced by \$39,901.

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<sup>13</sup> Ashland's wholesale rate is \$2.33 per 1,000 Gallons. Big Sandy Water District's wholesale water rate is \$2.49 per 1,000 gallons.

<sup>14</sup> \$2.46 (Ashland's Wholesale Rate) x 444,112.216 (Limited Gallons Purchased from Ashland) = \$1,092,516. \$2.49 (Big Sandy's Wholesale Rate) x 2,447.145 (Limited Gallons Purchased from Big Sandy) = \$6,093. \$1,092,516 + \$6,093 = \$1,098,609.

<sup>15</sup> Actual Purchased Water Expense: \$2.46 (Ashland's Wholesale Rate) x 538,552.000 (Gallons Purchased from Ashland) = \$1,324,838. \$2.49 (Big Sandy's Wholesale Rate) x 2,970.203 (Gallons Purchased from Big Sandy) = \$7,396. \$1,324,838 + \$7,396 = \$1,332,234.

Date	Vendor	Description	Amount
04/19/10	CI Thornburg	Copper Meter Yokes	\$ (1,836)
04/19/10	CI Thornburg	Gate Valve	(1,511)
04/19/10	CI Thornburg	Hydrants	(5,469)
06/08/10	Utility Service	Parts for Meter Service	(1,349)
06/17/10	Utility Service	Parts for Meter Service	(2,315)
07/08/10	Consolidated Pipe	Meter Covers with Touch Pad	(1,548)
08/05/10	Consolidated Pipe	Pipe - Ball Field by Fairground	(3,785)
08/05/10	Consolidated Pipe	1,000 Feet of Pipe	(2,550)
08/19/10	Consolidated Pipe	Bullet Box	(302)
08/19/10	Consolidated Pipe	Bullet Box	(538)
09/07/10	CI Thornburg	12" PVC Pipe	(1,307)
09/07/10	CI Thornburg	AR4090 Sensors	(281)
10/19/10	CI Thornburg	Hydraulic Pump	(509)
10/19/10	Utility Service	Copper Setters	(1,002)
10/28/10	Consolidated Pipe	Meter Box Extensions	(1,026)
11/15/10	Utility Service	12 VBHH42-7W Resetter	(4,106)
12/09/10	Consolidated Pipe	6 Meter Boxes and Setters	(1,070)
12/09/10	Consolidated Pipe	Valve Box	(583)
12/09/10	Consolidated Pipe	Meter Box Extensions	(114)
12/31/10	CI Thornburg	160 Meters & Transceivers	(8,700)
Total Capital Expenditures			\$ (39,901)

f. Insurance—General Liability. Cannonsburg reports a test-period level of insurance—general liability expense of \$14,602. The general liability insurance premium for the 12-month period of July 1, 2011 through July 1, 2012 is \$14,887, which is \$285 above the reported expense. Accordingly, Commission Staff recommends increasing test-period insurance—general liability expense by \$285.

g. Insurance—Workers Compensation. Cannonsburg reports a test-period level of insurance—workers' compensation expense of \$9,640. The workers' compensation insurance premium for the 12-month period of July 1, 2011 through July 1, 2012 is \$9,325, which is \$315 less than the reported expense. Accordingly,



Commission Staff recommends the Commission decrease test-period insurance-workers' compensation expense by \$315.

h. Depreciation. Cannonsburg reports a test-period level of depreciation expense of \$139,191. As shown in Table IV below, Commission Staff calculates a pro forma depreciation adjustment of \$33,005 to reflect depreciating the capital expenditures removed from operating expenses over their estimated useful lives and including depreciation for test-period capital expenditures.

Table IV: Depreciation			
	Cost	Life	Adjustment
(1) Normalized Depreciation (Full Year):			
178 Meters	\$ 30,162	15	\$ 2,011
Meters - Misclassified	\$ 17,400	15	1,160
171 Additions - Mains	\$ 1,077,369	50	21,547
157 2010 Chevy Truck	\$ 36,720	5	7,344
(2) Items Expensed in Test-Period:			
Copper Meter Yokes	\$ 1,836	45	41
Gate Valve	\$ 1,511	33	46
Hydrants	\$ 5,469	33	166
Parts for Meter Service	\$ 1,349	45	30
Parts for Meter Service	\$ 2,315	45	51
Meter Covers with Touch Pad	\$ 1,548	45	34
Pipe - Ball Field by Fairground	\$ 3,785	50	76
1,000 Feet of Pipe	\$ 2,550	50	51
Bullet Box	\$ 302	45	7
Bullet Box	\$ 538	45	12
12" PVC Pipe	\$ 1,307	50	26
AR4090 Sensors	\$ 281	15	19
Hydraulic Pump	\$ 509	20	25
Copper Setters	\$ 1,002	45	22
Meter Box Extensions	\$ 1,026	45	23
12 VBHH42-7W Resetter	\$ 4,106	15	274
6 Meter Boxes and Setters	\$ 1,070	45	24
Valve Box	\$ 583	45	13
Meter Box Extensions	\$ 114	45	3
Pro Forma Adjustment			\$ 33,005

i. Amortization. Cannonsburg incurred \$5,474 in rate case consulting fees associated with this current procedure. Upon review of the supporting invoices from

Lee Utility Consulting, Commission Staff finds that the fees are reasonable and should be amortized over three years. Accordingly, Staff recommends that the Commission increase pro forma operating expenses by \$1,825.<sup>16</sup>

j. Payroll Taxes. Cannonsburg reports a test-period payroll tax expense of \$28,549. Applying the current "FICA" rate of 7.65 percent to the pro forma salaries, Commission Staff has determined that payroll tax expense should be increased by \$1,617. Accordingly, Staff recommends that payroll tax expense be increased by that amount.

k. Nonutility Income. Cannonsburg reports a test-period nonutility income of \$386,300. In reviewing the 2010 trial balance, Commission Staff determined that grants and tap-on fees received in the test period were mistakenly reported as income rather than as Contributions In Aid of Construction. To correct Cannonsburg's error, Commission Staff recommends that net income be reduced by \$386,300.

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<sup>16</sup> \$5,474 (Consulting Fees) ÷ 3 Years = \$1,825.

ATTACHMENT D  
 STAFF REPORT, CASE NO. 2011-00217  
 COMMISSION STAFF'S  
 DETERMINATION OF WATER RATES

	ALLOCATION OF PLANT		
	Totals <sup>1</sup>	Trans. And Dist.	Customer
Land & Land Rights	\$ 20,810	\$ 20,810	\$ 0
Structures & Improvements	183,350	183,350	0
Pumping Equipment	397,861	397,861	0
Dist. Reservoirs & Standpipes	617,973	617,973	0
Transmission & Dist. Mains	4,298,492	4,298,492	0
Meters & Meter Installations	418,725	0	418,725
Hydrants	90,002	0	90,002
Subtotal	\$ 6,027,213	\$ 5,518,486	\$ 508,727
Percentage		0.9156	0.0844
Office Furniture & Equipment	\$ 90,289	\$ 82,668	\$ 7,621
Transportation Equipment	175,115	160,334	14,781
Power Operated Equipment	105,688	96,767	8,921
Communication Equipment	38,052	34,840	3,212
Tools, Shop & Garage	80,570	73,769	6,801
Total	\$ 6,516,927	\$ 5,966,866	\$ 550,061
Percentage		0.9156	0.0844

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<sup>1</sup> 2010 Annual Report at 14.

ALLOCATION OF DEPRECIATION

	Totals <sup>2</sup>	Trans. And Dist.	Customer
Structures & Improvements	\$ 5,797	\$ 5,797	\$ 0
Pumping Equipment	11,423	11,423	0
Dist. Reservoirs & Standpipes	11,951	11,951	0
Transmission & Dist. Mains	64,388	64,388	0
Meters & Meter Installations	18,967	0	18,967
Hydrants	1,566	0	1,566
Subtotal	<u>\$ 114,092</u>	<u>\$ 93,559</u>	<u>\$ 20,533</u>
Percentage		0.8200	0.1800
Office Furniture & Equip.	\$ 1,138	\$ 933	\$ 205
Transportation Equipment	6,579	5,395	1,184
Power Operated Equipment	10,569	8,667	1,902
Communication Equipment	5,721	4,691	1,030
Tools, Shop & Garage	<u>1,092</u>	<u>895</u>	<u>197</u>
Total	<u>\$ 139,191</u>	<u>\$ 114,141</u>	<u>\$ 25,050</u>
Percentage		0.8200	0.1800

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<sup>2</sup> *Id.* at 15.

WATER PRODUCED AND SOLD

	Gallons	Percentage
Retail	252,854.4 <sup>3</sup>	0.4669
Wholesale	125,513.1	0.2318
Plant Use	940.0	0.0017
Fire Department	268.0	0.0005
Unaccounted For	161,946.7	0.2991
Total Gallons Purchased	541,522.2	1.0000

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<sup>3</sup> Number in application corrected to eliminate duplicated leak adjustment usage.

INCH MILE RATIO

Line Size	Miles	Inch-Miles	Jointly Used Miles	Jointly Used Inch Miles
19	1.0	19.0	0.0	0.0
16	0.1	1.60	0.0	0.0
12	15.0	180.0	0.0	0.0
8	21.0	168.0	0.0	0.0
6	50.0	300.0	5.4	32.4
4	3.0	12.0	0.0	0.0
3	90.0	270.0	0.0	0.0
Total	<u>180.1</u>	<u>950.6</u>	<u>5.4</u>	<u>32.4</u>

Inch Mile Ratio = 32.4 / 950.6

0.0341

## WHOLESALE ALLOCATION FACTORS

Non-revenue Water	0.1500 <sup>4</sup>			
Plant Use	0.0017			
Total Plant Use and Non-revenue Water	0.1517			
Cannonsburg Multiplier	1 /	1-.1517		1.178828
Inch Mile Ratio	32.40 /	950.60		0.0341
Wholesale Share of Non-revenue Water	0.0341	x	0.1500	0.0051
Joint Share of Plant Use and Non-revenue Water	0.0051	+	0.0017	0.0068
Production Multiplier	1 /	1-.0068		1.006847
Production Allocation Factor	<u>125,513.1</u>	x	<u>1.178828245</u>	
	378,367.5		1.006846557	0.388385
Transmission Factor	<u>125,513.1</u>	x		
	378,367.5		0.0341	0.01131
Commodity Factor	125,513.1 /	378,367.5		0.3317

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<sup>4</sup> As previously addressed in the main summary and Attachment C, non-revenue water is limited to 15 percent. In its application, Cannonsburg reported non-revenue water level at four percent.

COMMISSION STAFF ALLOCATION OF EXPENSES

	<u>Pro Forma</u>	<u>Commodity</u>	<u>Trans and Dist.</u>	<u>Customer</u>
Salaries and Wages	\$ 394,345	\$ 0	\$ 242,146	\$ 152,199
Salaries - Commissioners <sup>5</sup>	30,000	0	0	30,000
Pensions and Benefits	229,582	0	140,974	88,608
Purchased Water	1,098,609	1,098,609	0	0
Purchased Power	58,718	58,718	0	0
Materials and Supplies	52,405	0	31,443	20,962
Contractual Services T/D	12,531	0	12,531	0
Insurance - General Liability	14,887	0	14,887	0
Insurance - Workers Comp.	9,325	0	5,726	3,599
Insurance - Other	1,298	0	0	1,298
Bad Debt	2,725	0	0	2,725
Miscellaneous Expense	118,869	0	71,321	47,548
Taxes Other than Income	30,166	0	0	30,166
Depreciation	172,196	0	141,201	30,995
Amortization	1,825	0	0	1,825
Total Operating Expenses	<u>\$ 2,227,481</u>	<u>\$ 1,157,327</u>	<u>\$ 660,228</u>	<u>\$ 409,926</u>
Operating ratio	303,747	0	278,111	25,636
Interest expense	18,002	0	16,483	1,519
Totals	<u><u>\$ 2,549,230</u></u>	<u><u>\$ 1,157,327</u></u>	<u><u>\$ 954,822</u></u>	<u><u>\$ 437,081</u></u>

<sup>5</sup> Commissioner fees are fixed expenses that Commission Staff has allocated 100 percent of this cost to the customer.



WHOLESALE RATE WITH DEPRECIATION (\$141,201)

Commodity	\$ 1,157,327	0.38838 <sup>6</sup>	\$ 449,483
Transmission and Distribution	954,822	0.01131	10,799
Customer	<u>437,081</u>	0	<u>0</u>
Total Expenses	<u>\$ 2,549,230</u>		<u>\$ 460,282</u>
Wholesale Rate Per 1,000 Gallons (125,513.1)			<u>\$ 3.67</u>

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<sup>6</sup> Cannonsburg used the commodity factor established on the factor sheet. Commission Staff used the revised production allocation factor, which more appropriately includes consideration of non-revenue water in the calculation.

## COMMISSION STAFF'S PROPOSED RATES

	Bills	Gallons	Commission Staff Proposed Rates	Revenue	Current Rates Effective 1/1/2012	Increase
<b>5/8 Inch Connection</b>						
First 2,000	37,680	66,135,697	\$ 19.50	\$ 734,760	\$ 17.86	9.2%
Next 3,000		54,001,600	\$ 7.46	402,852	\$ 6.83	9.2%
Next 15,000		26,060,600	\$ 7.05	183,727	\$ 6.45	9.3%
Next 30,000		1,844,800	\$ 6.63	12,231	\$ 6.07	9.2%
Next 50,000		492,100	\$ 6.23	3,066	\$ 5.70	9.3%
Over 100,000		65,200	\$ 5.79	378	\$ 5.30	9.2%
<b>Total</b>		<u>148,599,997</u>		<u>\$ 1,337,013</u>		
<b>1 and 1 1/2 Inch Connections</b>						
First 5,000	841	2,914,900	\$ 41.88	\$ 35,221	\$ 38.35	9.2%
Next 15,000		3,699,000	\$ 7.05	26,078	\$ 6.45	9.3%
Next 30,000		2,486,000	\$ 6.63	16,482	\$ 6.07	9.2%
Next 50,000		898,900	\$ 6.23	5,600	\$ 5.70	9.3%
Over 100,000		2,111,310	\$ 5.79	12,224	\$ 5.30	9.2%
<b>Total</b>		<u>12,110,110</u>		<u>\$ 95,606</u>		
<b>2 and 3 Inch Connections</b>						
First 20,000	528	7,088,900	\$ 147.63	\$ 77,949	\$ 135.10	9.3%
Next 30,000		6,747,500	\$ 6.63	44,736	\$ 6.07	9.2%
Next 50,000		8,197,500	\$ 6.23	51,070	\$ 5.70	9.3%
Over 100,000		17,425,300	\$ 5.79	100,892	\$ 5.30	9.2%
<b>Total</b>		<u>39,459,200</u>		<u>\$ 274,647</u>		
<b>6 Inch Connection</b>						
First 50,000	36	1,258,000	\$ 346.53	\$ 12,475	\$ 317.20	9.2%
Next 50,000		1,064,700	\$ 6.23	6,633	\$ 5.70	9.3%
Over 100,000		32,592,160	\$ 5.79	188,709	\$ 5.30	9.2%
<b>Total</b>		<u>34,914,860</u>		<u>\$ 207,817</u>		
<b>12 Inch Connection</b>						
First 100,000	12	1,079,000	\$ 658.03	\$ 7,896	\$ 602.20	9.3%
Over 100,000		580,000	\$ 5.79	3,358	\$ 5.30	9.2%
<b>Total</b>		<u>1,659,000</u>		<u>\$ 11,255</u>		
Wholesale Rate	24	125,513,100	\$ 3.67	\$ 460,633	\$ 3.13	17.3%
Leak Adjustment Rate		16,111,190	\$ 3.67	\$ 59,128	\$ 2.82	30.1%
Other Income				<u>\$ 104,569</u>		
<b>Total</b>	39,121	<u>378,367,457</u>		<u>\$ 2,550,668</u>		
Expenses				<u>\$ 2,549,230</u>		

ATTACHMENT E  
STAFF REPORT, CASE NO. 2011-00217  
RECOMMENDED WATER RATES

Monthly Water Rates

5/8 x 3/4-Inch Meter

First	2,000 gallons	\$19.50	Minimum Bill
Next	3,000 gallons	7.46	per 1,000 gallons
Next	15,000 gallons	7.05	per 1,000 gallons
Next	30,000 gallons	6.63	per 1,000 gallons
Next	50,000 gallons	6.23	per 1,000 gallons
Over	100,000 gallons	5.79	per 1,000 gallons

1½-Inch Meter

First	5,000 gallons	\$41.88	Minimum Bill
Next	15,000 gallons	7.05	per 1,000 gallons
Next	30,000 gallons	6.63	per 1,000 gallons
Next	50,000 gallons	6.23	per 1,000 gallons
Over	100,000 gallons	5.79	per 1,000 gallons

2-Inch and 3-Inch Meters

First	20,000 gallons	\$147.63	Minimum Bill
Next	30,000 gallons	6.63	per 1,000 gallons
Next	50,000 gallons	6.23	per 1,000 gallons
Over	100,000 gallons	5.79	per 1,000 gallons

6-Inch Meter

First	50,000 gallons	\$346.53	Minimum Bill
Next	50,000 gallons	6.23	per 1,000 gallons
Over	100,000 gallons	5.79	per 1,000 gallons

12-Inch Meter

First	100,000 gallons	\$658.03	Minimum Bill
Over	100,000 gallons	5.79	per 1,000 gallons

Wholesale volumetric rate

Big Sandy Water District	\$3.67	per 1,000 gallons
City of Greenup	\$3.67	per 1,000 gallons

Leak Adjustment Rate	\$3.67	per 1,000 gallons
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00217 DATED FEB 27 2012

REQUIRED NOTICE TO CUSTOMERS IF UTILITY  
ELECTS TO ACCEPT COMMISSION STAFF'S RECOMMENDATION  
REGARDING THE ASSESSMENT OF A SURCHARGE

NOTICE TO THE CUSTOMERS  
OF CANNONSBURG WATER DISTRICT

On August 8, 2011, Cannonsburg Water District applied to the Kentucky Public Service Commission ("PSC") for authority to adjust its rates for water service. It subsequently requested that the PSC authorize the assessment of a surcharge to permit the water district to fund its efforts to reduce its non-revenue water. After performing a review of Cannonsburg Water District's application and records, the PSC Staff has recommended to the PSC that Cannonsburg Water District be granted an increase greater than that requested and further be authorized to assess a monthly surcharge of \$5.53 for three years. The proceeds of this surcharge would be used solely to fund Cannonsburg Water District's efforts to reduce its non-revenue water. A copy of the PSC Staff report can be found at [http://psc.ky.gov/Order\\_Vault/Orders\\_2012/201100217\\_02272012.pdf](http://psc.ky.gov/Order_Vault/Orders_2012/201100217_02272012.pdf).

Pursuant to the PSC's Order of February 27, 2012, Cannonsburg Water District has requested that the PSC approve the higher rates and the recommended surcharge. Any corporation, association, body politic, or person may submit comments on the proposed request no later than March 9, 2012. Comments shall be in writing and shall be submitted to the Executive Director, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky, 40602. Comments may also be submitted by electronic mail to [psc.info@ky.gov](mailto:psc.info@ky.gov)

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