Wallen and Cornett, PSC
CERTIFIED PUBLIC ACCOUNTANTS

106 Fourth Street • Post Office Box 1349 • Pikeville, Kentucky 41502

J. Don Wallen, CPA
Johnny C. Cornett, CPA
Johnny K. White, CPA
L. Kevin Puckett, CPA

606-432-8833
FAX 606-432-8466

November 24, 2008

Mr. Donovan Blackburn
Pikeville City Manager
City of Pikeville
Pikeville, KY 41501

Re: Review of water/sewer rate revision

Dear Donovan;

Per your request, I obtained the data and workpapers prepared by Carryn Lee and later revised by Mr. Bob Meyers, in conjunction with Mrs. Lee, the computation of a change to the water/sewer rates.

I reviewed the mathematics and methodology used in the computation, met with Mr. Meyers to discuss the methodology and have concluded that the resulting rates indicated in Mr. Meyers revision are accurate and necessary to cover both the in-city and out-of-city water/sewer expenses. These rates cover the expenses only and should not result in a surplus of any appreciable amount in the water/sewer fund.

If you need anything further, please contact me anytime.

Sincerely,

James D. Wallen

James D. Wallen
Certified Public Accountant

JDW/kt

RECEIVED
JUN 17 2009
PUBLIC SERVICE
COMMISSION

LEE UTILITY CONSULTING * 900 ARGYLL DRIVE * DANVILLE, KENTUCKY 40422
859.238.0283

To: Donovan Blackburn

City of Pikeville

From: Carryn Lee

Lee Utility Consulting

Date: December 2, 2008

Re: Revised Pikeville Rate Study

Mr. Blackburn:

I have reviewed our final revisions to the revised rate study for the City of Pikeville. The revised study includes the expenses and revenue associated with providing service to the Sandy Valley customers or "Out of City Customers". Additionally, all expenses including debt and capital items have been reviewed. I concur with the allocation of expenses and the resulting rates to all customers.

Should you have questions feel free to contact me.

CITY OF PIKEVILLE

RECEIVED
JUN 17 2009
PUBLIC SERVICE
COMMISSION

Rate Analysis for Water And Wastewater Divisions

Retail and Wholesale Customers

REVISED

November 2008

REVISED RATE STUDY
For the
CITY OF PIKEVILLE

NOVEMBER 2008

Table of Contents

Summary of Revised Rate Study	1
Current and Revised Rates	2
Regional Comparison of Rates	3
Water Produced and Sold	5
Jointly Used Miles of Line	6
Wholesale Allocation Factors	7
Allocation of Expenses (Water)	8
Former SVWD Customer Expenses	10
Summary of All Expenses	11
Allocation of Debt (Water Only)	12
Capital Expenses – Overall Water	13
Capital Expenses – Outside Water Only	15
Recommended Water Rates – Inside	16
Recommended Water Rates – Out of City	17
Sewer Overview	18
Allocation of Wastewater Expenses	19
Recommended Sewer Rates	20
Summary of All Sewer Expenses	22
Capital Expenses – Overall Sewer	23
Capital Expenses – Out of City Sewer	24

SUMMARY OF REVISED RATE STUDY

The Kentucky Rural Water Association (KRWA) prepared a rate study for the City of Pikeville, Water and Wastewater divisions in January 2008. The following is a revision to the original study reflecting updated information obtained from the City of Pikeville and revisions to expense allocations and revenue projections made in coordination with Carryn Lee, author of the original study and now an independent consultant, and Bob Meyer, an employee of Utility Management Group. At the request of the City, this revised report has also been reviewed by Don Wallen, an independent certified public accountant.

Pikeville provides water and wastewater service to customers located both inside and outside the city limits. In 2006, the city's "outside" water customer base increased significantly as a result of the dissolution of Sandy Valley Water District, with those retail customers of Sandy Valley located in Pike County being transferred to the City of Pikeville. Also, in 2006, the city's "outside" sewer customers increased as a result of the transfer of the Mossy Bottom sewer plant – and sewer customers previously served by that plant – from Mountain Water District to Pikeville. This revised study reflects those changes to Pikeville's customer base, as well as revenue and expense projections associated with those changes.

A customer breakdown for the city's water division is shown below:

Number of Inside Water Customers	2,916
Number of Outside Water Customers	1,577
Number of Wholesale Water Customers	3

The following table shows the customer breakdown for the wastewater division.

Number of Inside Sewer Customers	2,695
Number of Outside Sewer Customers	623

Finally, the city's current wholesale customers are identified below:

Mountain Water District
Mountain Water District (Cowpen Area)
Southern Water & Sewer District

Inside and outside customer WATER rates are shown below (rates in effect prior to the original rate study in January 2008, rates as recommended and adopted pursuant to the original study, and rates based on this revised study):

INSIDE CITY WATER RATES			
	Prior to Jan 2008	Revised Jan 2008	Current Revision
2,000 Gal (Min)	7.00	11.20	11.20
Next 3,000 Gal	3.50	6.20	6.20
Next 5,000 Gal	3.45	6.20	6.20
Next 10,000 Gal	3.40	3.98	3.98
Next 30,000 Gal	3.35	3.95	3.95
Next 50,000 Gal	3.25	3.85	3.85
Over 100M Gal	1.52	1.90	1.90

OUTSIDE CITY WATER RATES			
	Prior to Jan 2008	Revised Jan 2008	Current Revision
2,000 Gal (Min)	15.72	27.00	22.50
Next 3,000 Gal	3.70	6.95	6.30
Next 5,000 Gal	3.65	6.95	6.30
Next 10,000 Gal	3.60	6.50	5.40
Next 30,000 Gal	3.55	6.00	5.40
Next 50,000 Gal	3.45	6.00	5.00
Over 100M Gal	3.15	3.50	3.50

Inside and outside customer WASTEWATER rates are shown below (rates in effect prior to the original rate study in January 2008, rates as recommended and adopted pursuant to the original study, and rates based on this revised study):

INSIDE SEWER RATES	Prior to Jan 2008	Revised Jan 2008	Current Revision
First 2,000 Gallons	6.98	8.50	8.00
Over 2,000 Gallons	3.46	4.60	4.00

OUTSIDE SEWER RATES	Prior to Jan 2008	Revised Jan 2008	Current Revision
First 2,000 Gallons	14.00	17.05	18.80
Over 2,000 Gallons	7.00	9.34	10.75

It should be noted that outside city rates – both water and wastewater – are higher than inside city rates, based on a range of factors, including additional debt assumed by the City for outside city customers (from assumption of loans from Sandy Valley Water District (water customers) and sewer customers (assumption of loans associated with the Mossy Bottom Sewer Plant), and larger amounts of proposed capital expenditures required to upgrade outside city water & sewer lines, pump stations, etc. An additional factor in evaluating the difference between in-city and out-of-city rates is the fact that in-city customers are charged an occupational tax fee which out-of-city customers do not pay.

Current and recommended rates for Pikeville's wholesale water customers are shown in the chart below (rates are per 1,000 gallons):

Wholesale Customer	Prior to Jan 2008	Revised Jan 2008	Current Revision
Mountain Water Dist	1.44	1.70	1.78
MWD (Cowpen)	2.45	2.45	1.75
Southern W&S Dist	1.69	1.89	1.72

The tables below are a comparison of the City's currently proposed water and wastewater rates with other public utilities throughout the region, based on an assumed usage of 5,000 gallons of water. The rates were obtained for the utilities by reviewing Kentucky Public Service Commission tariffs and a report issued by Allen and Hoshall dated September 2006. Although the comparative rate information shown below was accurate at the time of this report preparation, some utilities may have made adjustments to their rates since that time.

REGIONAL UTILITY NAME	WATER RATES (5,000 GALLONS)
City of Hazard	14.35
City of Benham	23.70
City of Pikeville (Inside Customers)	**29.80**
City of Campton	30.50
Big Sandy Water District	32.95
City of Paintsville	32.95
Southern Water & Sewer District	33.30
Mountain Water District	36.15
City of Vicco	42.20
City of Pikeville (Outside Customers)	**41.40**

REGIONAL UTILITY NAME	SEWER RATES (5,000 GALLONS)
City of Hazard	15.30
City of Pikeville (Inside Customers)	**20.00**
City of Campton	32.50
City of Vicco	29.54
City of Booneville	29.48
City of Benham	32.75
City of Paintsville	35.64
City of Pikeville (Outside Customers)	**51.05**

In today's utility regulatory environment, federal and state lending agencies are beginning to require that separate accounts be maintained for each division of utilities. One reason for this requirement is that state and federal funding is scarce and lending agencies want to ensure that each utility service is "paying its own way". There has been concern that some cities were using money collected from utility services to fund other city needs – and then obtaining grants and low interest loans to pay for utility system improvements. Although there have been relatively few customer complaints regarding rates in the past, with the increasing cost of compliance with the Safe Drinking Water Act requirements and more and more need for capital expenditures for repair / replacement of aging infrastructure, utility rates are increasing and customers want to understand what they are paying for. Pikeville is to be recommended for taking a proactive position and maintaining separate accounts for water and sewer services.

CALCULATION OF WATER RATES

Formulating a new rate structure is a complex process. The first step is to allocate expenses to the various utility services (ie: water and wastewater, in Pikeville's case). As Pikeville already maintains separate accounting for its water and wastewater utilities, this step has already been dealt with internally. Given the changes in its customer base and consequent changes in future expenses and revenues, expenses utilized in the preparation of this revised report are based on Pikeville's current year budget appropriations. All projected expenses are accounted for including routine operational expenses, annual debt service on existing loans for utility system improvements and expansions, and projected amortization of future capital expenditures.

With regard to water rates, the next step is to allocate a portion of projected expenditures to wholesale customers. In that context, certain allocation factors must be determined. Since the City's wholesale customers use only a portion of Pikeville's distribution system, it would not be equitable to allocate a percentage al all expenses to wholesale customers. Page 5 shows total water produced, sales to retail customers, sales to wholesale customers, plant usage and unaccounted water loss. Page 6 illustrates the "jointly used line ratio" (the proportionate amount of various sized water used to distribute water to wholesale customers as well as retail customers). Based on data from these two sources, additional expense allocation formulae are calculated (Page 7) which formulae are used to allocate expenses between the City's wholesale users and its retail users. The allocation of production and distribution expenses between wholesale users and retail users is shown on Page 8.

CITY OF PIKEVILLE		
WATER PRODUCED AND SOLD 2007		
Pikeville Inside	274,620,800	28.4%
Pikeville Outside	106,315,100	11.0%
Mountain Water District	377,972,000	39.1%
Mountain Water District – Cowpen	28,183,000	2.9%
Southern Water & Sewer District	178,586,000	18.5%
Total Sales	965,676,900	100.0%
Treatment Plant Use	5,106,480	0.5%
Unaccounted For Water	342,679,820	35.5%
Total Produced	1,313,463,200	

CITY OF PIKEVILLE

JOINTLY USED MILES OF LINE

Pikeville Miles of Line

Size	Feet	Miles	Inch-Miles
2	14,400	2.73	5.46
3	12,800	2.42	7.26
4	16,800	3.18	12.72
6	121,600	22.03	138.18
8	126,800	24.02	192.16
10	33,200	6.29	62.90
12	23,200	4.39	52.68
16	10,900	2.06	32.96
			504.32

Mountain Jointly Used Inch Mile Ratio	0.1881
Southern Jointly Used Inch Mile Ratio	0.1315
Mountain (Cowpen) Jointly Used Inch Mile Ratio	0.1594

CITY OF PIKEVILLE

WHOLESALE ALLOCATION FACTORS

Line Loss Percentage	6.20%		
Plant Use	5.00%		
Total Plant Use & Line Use	11.20%		
Pikeville Production Multiplier 1/1-.1120			1.1261
Wholesale Inch Mile Ratio			
Southern			0.1315
Mountain			0.1881
Mtn (Cowpen)			0.1594
Wholesale Share of Plant Use & Line Loss			
Southern .1315*.0500 + .0602			0.0668
Mountain .1881*.0500 + .0602			0.0696
Mtn (Cowpen) .1594*.0500 + .0602			0.0682
Production Multiplier			
Southern 1/1-.0668			1.0716
Mountain 1/1-.0696			1.0748
Mtn (Cowpen) 1/1-.0682			1.0720

CITY OF PIKEVILLE

ALLOCATION OF EXPENSES

	Total	Southern Factors	Southern	Mountain Factors	Mountain	Mountain (Cowpen) Factors	Mountain (Cowpen)	Pikeville Retail Expenses	In-City Retail (Excluding SVWD Cust)	Out-of-City Retail (Excluding SVWD Cust)
		WHOLESALE						RETAIL	RETAIL ALLOC (IN-OUT)	
Auto Maintenance	$ 2,500	0.1943	$ 486	0.4109	$ 1,027	0.0306	$ 77	$ 910	814.45	95.55
Dues	2,600	0.1943	505	0.4109	1,068	0.0306	80	947	847.57	99.43
Freight and Postage	4,000	0.1943	505	0.4109	1,644	0.0306	122	1,729	1,547.46	181.54
Vehicle Insurance	3,500	0.0243	85	0.0736	258	0.0047	16	3,141	2,811.20	329.80
Insurance General Liab	10,000	0.1943	1,943	0.4109	4,109	0.0306	306	3,642	3,259.59	382.41
Office Expenses	4,000	0.1943	777	0.4109	1,644	0.0306	122	1,457	1,304.02	152.98
Public Works T&D	729,900	0.0243	17,737	0.0736	53,721	0.0047	3,431	655,011	586,234.85	68,776.15
Public Works Productic	727,224	0.1943	141,300	0.4109	298,816	0.0306	22,253	264,855	237,045.23	27,809.77
Professional Training	1,000	0.1943	194	0.4109	411	0.0306	31	364	325.78	38.22
Legal	500	0.1943	97	0.4109	205	0.0306	15	183	163.79	19.21
Other Professional Serv	10,000	0.1943	1,943	0.4109	4,109	0.0306	306	3,642	3,259.59	382.41
Rent and Easements	1,000							1,000	895.00	105.00
Telephone	7,000	0.1943	1,360	0.4109	2,876	0.0306	214	2,550	2,282.25	267.75
Utilities	7,500	0.1943	1,457	0.4109	3,082	0.0306	230	2,731	2,444.25	286.75
Depreciation T & D	20,000	0.0243	486	0.0736	1,472	0.0047	94	17,948	16,063.46	1,884.54
Depreciation Prod	20,000	0.1943	3,886	0.4109	8,218	0.0306	612	7,284	6,519.18	764.82
Salaries/Benefits T & D	13,200	0.0243	321	0.0736	972	0.0047	62	11,845	10,601.28	1,243.72
Salaries/Benefits Prod	13,200	0.1943	2,565	0.4109	5,424	0.0306	404	4,807	4,302.27	504.73
Subtotal	$ 1,577,124		$ 175,647		$ 389,056	0.0086	$ 28,375	$ 984,046	880,721.22	103,324.78
	Total	Southern Factors	Southern	Mountain Factors	Mountain	Mountain (Cowpen) Factors	Mountain (Cowpen)	Pikeville Expenses		
Capital Costs - Inside										
Transmission and Dist	$ 188,404	0.0243	$ 4,578	0.0736	$ 13,867	0.0047	$ 885	$ 169,074	151,321.23	17,752.77
Treatment	136,050	0.1943	26,435	0.4109	55,903	0.0306	4,163	49,549	44,346.36	5,202.64
Water Line Extensions	0							0	-	-
Vehicles and Equipme	45,484	0.1943	8,838	0.4109	18,689	0.0306	1,392	16,565	14,825.68	1,739.32
Debt (Per Debt Sched)	$ 544,431	0.1943	$ 91,827	0.4109	$ 194,079	0.0306	$ 14,394	243,634	140,968.00	
Total Expenses	$ 2,491,493		$ 307,325		$ 671,594		$ 49,209	$ 1,462,868	$ 1,232,182	$ 128,020
Rate to Southern - 178,586.0 Gallons			$ 1.72							
Rate to Mountain - 377,972.0 Gallons					$ 1.78					
Rate to - Mountain (Cowpen) - 28,183.0 Gallons							$ 1.75			
Current Rates			$ 1.69		$ 1.44		$ 2.45			
Difference per 1,000 Gallons			$ 0.03		$ 0.34		$ (0.70)			

RETAIL CUST. (Excluding SVWD)		
CUST.	#	% To Total
IN-CITY	*2916*	*89.5%*
OUTSIDE	*341*	*10.5%*
TOTAL	3257	*100.0%*

NOTE: Above customer count is from May 2007, prior to the Sandy Valley Water District transition.

Pikeville presently provides water service to two wholesale customers, Southern Water & Sewer District and Mountain Water District. It should be noted that Mountain Water District has two wholesale rates, one for the bulk of its customers and one for those customers located in the Cowpen area. The wholesale rate for customers in the Cowpen area was higher because previously, water was sold by Pikeville to Sandy Valley Water District and then resold to Mountain Water District. Also, prior to June 2006, there was a third wholesale customer – Sandy Valley Water District. However, as mentioned earlier, Sandy Valley Water District was dissolved in 2006 and all its customers were transferred to the City of Pikeville and Southern Water and Sewer District. Consequently, it is no longer a wholesale customer for Pikeville.

Once expenses associated with wholesale customers have been allocated, the remaining costs can be allocated to retail customers. The allocation of expenses to retail customers is identified on two separate schedules. The first schedule (Page 8) illustrates expenses allocated to Pikeville retail customers, excluding those new customers transferred to the City from the former Sandy Valley Water District. A second schedule (Page 10) identifies specific expenses associated with former Sandy Valley Water District customers. All expenses on this schedule are allocated 100% to out-of-city customers. Page 11 is a summary of all expenses for both inside and out-of-city customers.

In addition to operational expenses addressed in the previous paragraphs, expenditures associated with existing debt and projected capital expenditures must also be factored into new rates. Separate schedules address these costs. The Allocation of Debt Schedule on Page 12 identifies all of the city's existing debt, annual debt service amounts and allocation of that debt to retail and wholesale customers. On pages 13 through 15, schedules of planned capital expenditures are shown for the system, amortization of those capital expenditures over the lives of the various assets, and the allocation of those amortized costs to retail and wholesale customers. Note that all capital expenditures shown on page 15 are specifically related to out of city customers only.

Finally, pages 16 and 17 identify the proposed new water rates for inside-city and out-of-city customers.

CITY OF PIKEVILLE

SANDY VALLEY EXPENSES

(Out of City Customers Only)

Dues	$ 2,500
Freight and Postage	2,500
Insurance – Vehicle	3,000
Insurance - General Liab	18,698
Office Supplies	4,000
Professional Training	1,000
Engineering	15,000
Legal	3,500
Professional Services	2,500
Billing Prof Services	5,500
Billing Service Bank	2,500
Rent and Easements	1,000
Contract Management (UMG)	252,000
Repair & Maintenance	30,000
Travel	1,000
City Utilities	2,500
Depreciation	5,000
Workers Comp.	1,000
Salaries and Wages	20,000
Payroll Tax	1,500
Employee Benefits	7,700
Travel	1,000
Uniforms	500
Total Operation and Maintenance	$ 383,898
Capital Expense	263,251
Debt (Sandy Valley Only)	48,066
Total	$ 695,215

CITY OF PIKEVILLE

SUMMARY OF EXPENSES

INSIDE CITY	
Operation and Maintenance	$ 880,721
Capital Improvments	210,493
Debt	140,968
Penalties (Revenue)	(8,600)
Special Revenue	(1,000)
Water SC	(22,000)
Public Works Reimbursement	(6,500)
Interest	(2,000)
Water Unearned Revenue	(1,000)
TOTAL INSIDE	**$ 1,191,082**
OUTSIDE CITY	
Oper & Maint (Sandy Valley)	$ 383,898
Oper & Maint (Other Outside Cust)	$ 103,325
Capital Improvements	263,251
Debt	102,666
Penalties (Revenue)	(3,100)
Water Special Revenue	(2,500)
Water SC	(7,500)
Interest	(400)
Bank Charges - Revenue	(500)
TOTAL OUTSIDE	**$ 839,140**

								11/20/2008
		CITY OF PIKEVILLE RATE STUDY						
		ALLOCATION OF DEBT (BASED ON GALLONS OF WATER SOLD)						
			RETAIL		WHOLESALE			
			INSIDE	OUTSIDE	SOUTHERN	MOUNTAIN	MTN-COWPEN	TOTAL
		GALLONS->	274,620,800	106,315,100	178,586,000	377,972,000	28,183,000	965,676,900
SPECIFIC DEBTS	ANNUAL DEBT SVC	% To Total	28.4%	11.0%	18.5%	39.1%	2.9%	100.0%
Water Treatment Plant	$ 364,835		$103,613	$40,132	$67,494	$142,650	$10,580	$364,835
Water Treatment Plant	94,347		$26,795	$10,378	$17,454	$36,890	$2,736	$94,347
Raw Water Project	37,183		$10,560	$4,090	$6,879	$14,539	$1,078	$37,183
Sandy Valley Water	48,066			$48,066				$48,066
Total	$ 544,431	TOTAL ALLOC.	$140,968	$102,666	$91,827	$194,079	$14,394	$544,431

CAPITAL EXPENSES AND AMORTIZATION

OVERALL WATER SYSTEM

	Total	Total to be Amortized	Amortization	Inside / Wholesale	Outside Retail
TREATMENT PLANT					
Chain and Sprockets - Flocculators (2)	$10,500	$10,500	5	$1,812	$288
CL17 Chlorine Analyzer (2)	15,000	$15,000	6	2,157	343
Upgrade Security Lights/Cameras (1)	5,000	$5,000	5	646	354
Gate Valve Oper - Floc & Settling Basins (2)	50,000	$50,000	7	6,164	979
Replace Raw Water Pump (2)	50,000	$50,000	10	4,315	686
Replace High Service Pumps (2)	521,600	$521,600	10	45,009	7,151
Control Valve Repair Kits/Cylinder Cans (2)	37,500	$37,500	3	10,786	1,714
Replace Subsurface Wash on Filter (2)	30,000	$30,000	3	8,629	1,371
Coating Lamella Filters (2)	25,000	$25,000	5	4,315	686
Sludge Dewatering Facility (2)	300,000	$300,000	10	25,887	4,113
New Storage Tank (WTP Expansion)	1,067,976	$1,067,976	35	26,330	4,183
SUBTOTAL WATER TREATMENT PLANT	2,112,576	2,112,576		136,050	21,868
WATER DISTRIBUTION PLANT					
Main Line Insertions (2)	52,000	$52,000	40	1,122	178
Water Meter Replacements (1)	80,000	$80,000	10	5,170	2,830
Replace 2" Galvanized Water Lines (2)	48,000	$48,000	40	1,035	165
Replace PRV Station (2)	13,000	$13,000	10	1,122	178
Install 2 Master Meter Sites Inc Telemetry (2)	38,000	$38,000	10	3,279	521
Inspect/Repair Existing Tanks (2)	350,000	$350,000	5	60,403	9,597
Replace Qual Ridge Tank (100,000 gal) (2)	110,000	$110,000	35	2,712	431
New 500,000 Tank @ Yorktown (2)	$350,000	$350,000	35	$8,629	$1,371
Upgrade Town Mountain Pump Station (2)	350,000	$350,000	35	8,629	1,371
Install Telemetry at Various Sites (2)	200,000	$200,000	10	17,258	2,742
New Distribution Mains from WTP	3,664,145	$3,664,145	40	79,045	12,559
SUBTOTAL DISTRIBUTION SYSTEM	5,255,145	5,255,145		188,404	31,943
VEHICLES AND EQUIPMENT REPLACEMENTS					
Replace Backhoe	45,000	$45,000	5	7,766	1,234
Replace Dump Truck	75,000	$75,000	5	12,944	2,057
Replace Utility Field Trucks	105,000	$105,000	3	22,617	12,383

New Air Compressor	25,000	$25,000	10	2,157	343
SUBTOTAL VEHICLES	$250,000	$250,000		$45,484	$16,017
TOTAL ALL CAPITAL EXPENSES	**$7,617,721**	**$7,617,721**		**$369,938**	**$69,828**

PIKEVILLE WATER

CAPITAL EXPENSES AND AMORTIZATION

OUTSIDE CITY (Previously SVWD)

	Total	Total to be Amortized	Amortization	Outside
WATER DISTRIBUTION SYSTEM				
Main Line Insertions (2 per year)	$49,998	$49,998	40	$1,250
Water Meter Replacements	80,000	$80,000	10	8,000
Replace 2 Bores under Railroad	50,000	$50,000	40	1,250
Replace Commercial Meters	75,000	$75,000	10	7,500
Install 2 Master Meter Sites Inc. Telemetry	38,000	$38,000	25	1,520
Inspect/Clean Tanks	70,000	$70,000	5	14,000
New Storage Tank at Coal Run	500,000	$500,000	35	14,286
Aquavar (fix pressure at Raltiffs Br.)	10,000	$10,000	10	1,000
Relocate line on Riverbank (uncovered)	350,000	$350,000	40	8,750
Replace 12" Main Line Along US 23	1,100,000	$1,100,000	40	27,500
Install Telemetry (Various Sites)	36,000	$36,000	10	3,600
Replace Fire Hydrants (3 per year)	36,000	$36,000	10	3,600
Encase Main Line at Walters Toyota	200,000	$200,000	40	5,000
WATER LINE REPLACEMENTS/EXTENSIONS				
Back up Water Main for Sandy Valley Customers	450,000	$450,000	40	11,250
VEHICLE & EQUIPMENT REPLACEMENTS				
Replace Service / Utility Trucks	120,000	$120,000	3	40,000
Replace Backhoes 5 year life	37,500	$37,500	5	7,500
Replace Dump Truck 5 year life	37,500	$37,500	5	7,500
Replace Field Utility Trucks 3 year	70,000	$70,000	3	23,333
New Air Compressor (10 year	12,500	$12,500	10	1,250
Lowboy Trailer	10,000	$10,000	15	667
Exavator	20,000	$20,000	10	2,000
Meter Reader Truck	8,000	$8,000	3	2,667
Total	$3,360,498	$3,360,498		$193,423

CITY OF PIKEVILLE

INSIDE CITY CUSTOMERS

11/20/2008

CURRENT AND REVISED RATES

	Bills	Gallons	Current Rates	Revenue	Revised Rates	Revenue	Percentage Increase	Dollar Increase	*Originally Proposed Rates*
First 2,000	34,561	56,278,800	$ 7.00	$ 241,927	$ 11.20	$ 387,083	60%	$ 4.20	*$11.20*
Next 3,000		17,985,500	3.50	62,949	6.20	111,510	77%	2.70	*$ 6.20*
Next 5,000		22,695,000	3.45	78,298	6.20	140,709	80%	2.75	*$ 6.20*
Next 10,000		31,400,000	3.40	106,760	3.98	124,972	17%	0.58	*$ 3.98*
Next 30,000		44,940,000	3.35	150,549	3.95	177,513	18%	0.60	*$ 3.95*
Next 50,000		40,565,000	3.25	131,836	3.85	156,175	18%	0.60	*$ 3.85*
Over 100,000		50,558,000	1.52	76,848	1.90	96,060	25%	0.38	*$ 1.90*
TOTAL REV.	**34,561**	**264,422,300**		**$ 849,167**		**$ 1,194,022**			
TOTAL PROJECTED EXPENSES						1,191,082			
REVENUE OVER (UNDER) EXPENSES						**$ 2,940**			

Decreased number of inside city bills by 408.

Decreased gallons by 5,000 gallons per bill (state wide average usage)

CITY OF PIKEVILLE

11/20/2008

OUTSIDE CITY CUSTOMERS
CURRENT AND REVISED RATES

	Bills	Gallons	Current Rates	Revenue	Revised Rates	Revenue	Percentage Increase	Dollar Increase	*Originally Proposed Rates*
First 2,000	18,924	37,848,000	$ 15.72	$ 297,485	$ 22.50	$ 425,790	43%	$ 6.78	*$27.00*
Next 3,000		51,094,800	3.70	189,051	6.30	321,897	70%	2.60	*$6.95*
Next 5,000		8,689,300	3.65	31,716	6.30	54,743	73%	2.65	*$6.95*
Next 10,000		2,618,300	3.60	9,426	5.40	14,139	50%	1.80	*$6.50*
Next 30,000		2,754,000	3.55	9,777	5.40	14,872	52%	1.85	*$6.00*
Next 50,000		1,474,800	3.45	5,088	5.00	7,374	45%	1.55	*$6.00*
Over 100,000		1,188,100	3.15	3,743	3.50	4,158	11%	0.35	*$3.50*
TOTAL REVENUE	**18,924**	**105,667,300**		**$ 546,286**		**$ 842,973**			
TOTAL PROJECTED EXPENSES						839,140			
REVENUE OVER (UNDER) EXPENSES						$ 3,833			

Includes 1,239 "outside city customers" transferred to the city from the Sandy Valley Water District

1,577 customers times 12 equals 18,924

Gallons based on statewide average of 5,000 gallons

SEWER RATES AND EXPENSES

Expenses used in determining revised wastewater rates are also based on Pikeville's current year budget appropriations. As with water rates, all projected expenses are accounted for, including routine operational expenses, annual debt service on existing loans, and projected amortization of future capital expenditures. A schedule of expenses and allocation of those expenses to in-city and out-of-city customers is shown on Page 19.

A billing analysis showing rates previous to January 2008, those rates adopted in January 2008, and revised rates pursuant to this study is shown on page 20. The billing analysis verifies test year usage and also incorporates a larger out-of-city customer base in determining revenue projections.

Inside and outside customer WASTEWATER rates are shown below (rates in effect prior to the original rate study in January 2008, rates as recommended and adopted pursuant to the original study, and rates based on this revised study):

INSIDE SEWER RATES	Prior to Jan 2008	Revised Jan 2008	Current Revision
First 2,000 Gallons	6.98	8.50	8.00
Over 2,000 Gallons	3.46	4.60	4.00

OUTSIDE SEWER RATES	Prior to Jan 2008	Revised Jan 2008	Current Revision
First 2,000 Gallons	14.00	17.05	18.80
Over 2,000 Gallons	7.00	9.34	10.75

As stated earlier in this report, out-of-city wastewater rates are higher than inside city rates, based on a range of factors, including additional debt assumed by the City for outside city customers (from assumption of loans associated with the transfer of the Mossy Bottom plant from Mountain Water to the City) and larger amounts of proposed capital expenditures required to upgrade outside city sewer lines, lift stations, etc.

CITY OF PIKEVILLE

ALLOCATION OF WASTEWATER EXPENSES

	TOTAL	IN-CITY	OUT-OF-CITY
Auto Maintenance	$ 5,000	$ 2,500	$ 2,500
Service Charge	200	200	
Freight /Postage	5,500	3,000	2,500
Repairs and Maint (In addition to UMG R&M)	48,000	48,000	
Insurance Vehicle	8,500	5,500	3,000
Insurance/General Liability	21,200	15,000	6,200
Office Supplies	7,000	4,000	3,000
Public Works			
Treatment Plant (2)	351,753	285,709	66,044
Sewer Collection (2)	301,337	244,759	56,578
Mossy Bottom	137,000		137,000
Prof Service Other	6,500	1,000	5,500
Prof Service Bank Deposits	6,700	2,500	4,200
Rent-Easements	300	300	
Repairs and Maint (In addition to UMG R&M)	48,000		48,000
Disposal Sewage Fr. Tanks	5,000	5,000	
Electric (2)	5,000	4,061	939
City Utilities (2)	14,000	11,371	2,629
Insurance/Workers Comp.	1,000	1,000	
Salaries and Wages	22,000	22,000	
Payroll Tax	1,500	1,500	
Employer Benefits	5,000	5,000	
Depreciation	30,000	25,000	5,000
Pension Matching	3,500	3,500	
Subtotal	$ 1,033,990	$ 690,901	343,089
Debt			
Sewer Plant	$ 206,883	$ 155,266	$ 51,617
Sewer Harold Br.	122,751	122,751	
Thompson Road	36,744	36,744	
Mossy Bottom	105,450		105,450
Total Debt	471,828	314,761	157,067
Total Operation and Maintenance	**$ 1,505,818**	**$ 1,005,661**	**$ 500,157**

CITY OF PIKEVILLE

SEWER DIVISION

INSIDE CITY CUSTOMERS

	Customers	Gallons	Current Rates	Revenue @ Current Rates	Revised	Revenue @ New Rates	$ Increase	%	Original Proposal
First 2,000	32,340		**$6.98**	$ 225,733	**$8.00**	258,720	$1.02	15%	$8.50
Over 2,000		189,768	**$3.46**	656,597	**$4.00**	759,072	$0.54	16%	$4.60
Total	32,340	189,768		**$ 882,330**		**$ 1,017,792**			
Plus Other Income						**$ 18,100**			
TOTAL INCOME (INSIDE CITY CUSTOMERS)						**$ 1,035,892**			
TOTAL EXPENSES (Incl. debt & capital amortization)						**$ 1,023,094**			
REVENUES GENERATED IN EXCESS OF EXPENSES						**$ 12,798**			

OUTSIDE CUSTOMERS (INCLUDING MOSSY BOTTOM & COWPEN)

	Bills	Gallons	Current Rates	Revenue @ Current Rates	Revised Rates	Revenue @ New Rates	$ Increase	%	
First 2,000	7,476	22,644	$ 14.00	$ 104,664	**$18.80**	140,549	$ 4.80	34%	$17.05
Over 2,000		40,445	$7.00	283,115	**$10.75**	434,784	3.75	54%	$9.34
Plus Other Income						**$ 15,300**			
Total	7,476	63,089		**$ 387,779**		**$ 590,633**			
TOTAL INCOME (OUTSIDE CITY CUSTOMERS)						**$ 605,933**			
TOTAL EXPENSES (Incl. debt & capital amortization)						**$ 600,696**			
REVENUES GENERATED IN EXCESS OF EXPENSES						**$ 5,237**			
TOTAL REVENUE - INSIDE & OUTSIDE				**$ 1,270,109**		**$ 1,641,825**			
TOTAL EXPENSES (INSIDE & OUTSIDE)						**$ 1,623,790**			
REVENUES IN EXCESS OF EXPENSES						**$ 18,035**			

Additional schedules supporting the wastewater rate calculations are as follows:

A Summary of all wastewater related expenses, including debt service and capital expenditure amortization (Page 22)

A schedule of capital expenditures planned for the treatment plant and collection system as a whole (Page 23)

A schedule of capital expenditures specifically related to out-of-city customers (Page 24)

CITY OF PIKEVILLE

SUMMARY OF ALL EXPENSES (SEWER)

INSIDE CITY CUSTOMERS				
Operation and Maintenance		$ 690,901		
Debt (Total Allocation)		314,761		
Less Debt Paid w/Occup Tax	(A)	(155,266)		
Capital Improvements		172,698		
Total		$ 1,023,094		
(A) Per City Ordinance, that amount of debt associated with KIA Loan A90-06 for				
sewer plant improvements is to be paid with occupational tax revenues (for in-city				
customers, who actually pay occupational taxes).				

OUTSIDE- (INCLUDING MOSSY BOTTOM)				
Operation and Maintenance		$ 343,089		
Debt		157,067		
Capital Improvements		100,539		
Total		$ 600,696		

PIKEVILLE SEWER

CAPITAL EXPENSES AND AMORTIZATION

PIKEVILLE AND MOSSY BOTTOM

	Total	Amt to Amortize	Amortization	Inside	Outside
TREATMENT PLANT					
Air Line Replacement (2)	$ 125,000	$ 125,000	10	$ 9,381	$ 3,119
Replace Blower Motors (2)	100,000	$ 100,000	10	7,505	2,495
Corrosion Resistant Coating (2)	150,000	$ 150,000	10	11,258	3,743
Back Up Generators (2)	165,000	$ 165,000	10	12,383	4,117
WASTEWATER COLLECTION SYSTEM					
Correct I/I Problems/Separate Storm Water (2)	350,000	$ 350,000	40	6,567	2,183
Rehab Center Creek LS / Upgrade 700' Old Line (2)	77,000	$ 77,000	10	5,779	1,921
Rehab Lift Station #7 and River Crossing (2)	261,800	$ 261,800	10	19,648	6,532
Rehab Coal Run Fire Dept. Lift Station (2)	30,000	$ 30,000	10	2,252	749
COLLECTION SYSTEM EXPANSION					
Cedar Gap Extensions (5,000 LF) (1)	327,600	$ 327,600	40	6,652	1,538
Yorkwood Forrest Dr Extension (1)	260,600	$ 260,600	40	5,291	1,224
Foxcroft Subdivison Extensions (1)	295,500	$ 295,500	40	6,000	1,387
Johnson Hollow Extension (1)	260,600	$ 260,600	40	5,291	1,224
VEHICLE AND EQUIPMENT REPLACEMENTS					
New Roll-Off Truck (1)	60,000	$ 60,000	5	9,746	2,254
Replace Service/Utility Trucks (1)	120,000	$ 120,000	5	19,493	4,507
New VAC Truck/ Jetter (2)	400,000	$ 400,000	10	30,020	9,980
Replace Mini-Excavator (1)	40,000	$ 40,000	10	3,249	751
Replace Dump Truck (1)	75,000	$ 75,000	5	12,183	2,817
TOTAL	$ 3,098,100	$ 3,098,100		$ 172,698	$ 50,539

Factors

(1) Number of Customers
(2) Gallons Sold

PIKEVILLE WASTEWATER CAPITAL ITEMS

SPECIFICALLY ASSOCIATED WITH MOSSY BOTTOM

	Total	Amt to Amortize	Amortization	Total Amount
Corrision Resistant Coating	150,000	150,000	10	15,000
Replace Coal Run Lift Station	75,000	75,000	15	5,000
Odor Control	200,000	200,000	10	20,000
Repair Lift (coating - hydrogen sulfide corrosion)	50,000	50,000	5	10,000
Total	$ 475,000	$ 475,000		$ 50,000