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DAMON R. TALLEY

ATTORNEY AT LAW

April 24, 2007

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**PUBLIC SERVICE
COMMISSION**

Ms. Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RE: Case No. 2006-00248
Muhlenberg County Water District

Dear Ms. O'Donnell:

Enclosed for filing are the original and ten (10) copies of the Muhlenberg County Water District's Comments to the Staff Report prepared by Commission Staff.

Yours truly,
DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY, ATTORNEY FOR
MUHLENBERG COUNTY WATER DISTRICT

DRT/ms

Enclosures

cc: Attorney General, Utility Intervention and Rate Division
Muhlenberg County Water District

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

THE APPLICATION OF MUHLENBERG)
COUNTY WATER DISTRICT FOR A)
GENERAL RATE ADJUSTMENT PURSUANT)
TO THE PROVISIONS OF KRS 278.030)
AND 807 KAR 5:001)

CASE NO. 2006-00248

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PUBLIC SERVICE
COMMISSION

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COMMENTS OF MUHLENBERG COUNTY WATER DISTRICT

TO PSC STAFF REPORT

*** ** *** ** *** ** *** ** ***

The Applicant, MUHLENBERG COUNTY WATER DISTRICT (the "District"), by Counsel, makes the following comments to the recommendations contained in the Staff Report performed by the Commission's Staff (the "Staff").

1. The District hereby waives its right to a formal, public hearing in this matter.
2. The District does **not** request an informal conference.
3. Although the District disagrees with some of the specific Staff recommended adjustments contained in the Staff Report, the District is willing to

accept all the recommended adjustments except for: (1) depreciation expense; (2) debt service expense; and (3) debt service coverage. These three (3) items will be discussed in the following paragraphs of these comments.

4. **Depreciation Expense.** The District requests that the depreciation expense shown in Appendix B of the Staff Report and discussed at page 5 of Appendix C of the Staff Report be increased by **\$84,954** to reflect a full year's depreciation expense for various capital improvement projects that were placed into service in 2006 and capital assets that were purchased during 2006. **Schedule 1**, which is attached hereto, contains a complete listing of the capital improvements and capital assets, cost data, date placed into service, useful life, and pro forma depreciation expense for each item. Not any of the depreciation expense shown in **Schedule 1** is included in the Staff recommended pro forma depreciation expense of \$281,143. Therefore, the Staff recommended expense should be increased by **\$84,954**, which is the entire amount shown in **Schedule 1**.

Debt Service Expense

5. The District requests that the Staff recommended debt service expense be increased by **\$150,234** to reflect the annual principal and interest payments that the District will be incurring when it issues new securities, to be evidenced by a Loan Agreement and Note to the Kentucky Rural Water Finance Corporation in

the approximate principal amount of \$1,897,000 (the “2007 Notes”) in July, 2007. The sale is scheduled for July 3, 2007 and the closing is scheduled for July 17, 2007. The closing must take place before August 1, 2007, which is the maturity date of the short term loan which is being refinanced and converted to long term debt by the 2007 Notes. The District had originally planned to refinance the short term debt by issuing long term bonds or notes in the last quarter of 2006 or the first quarter of 2007, but was unable to do so because this rate case was still pending (The District will not have sufficient revenues to make the debt service payments on its new long term debt unless the Commission approves the revenue requirement adjustment for debt service expense proposed by the District). Therefore, under its existing bond resolutions, the District cannot issue the proposed 2007 Notes until the conclusion of this rate case.

6. **Schedule 2**, which is attached hereto, shows the anticipated annual debt service expense for each of the next 20 years. The three (3) year average annual debt service is computed as follows:

<u>Calendar Year</u>	<u>Debt Service</u>
2008	\$150,035
2009	150,228
2010	<u>150,438</u>
Total	\$450,701
Annual Average	\$150,234

7. The District recently filed its application seeking Commission approval to issue certain securities in the amount of \$1,897,000 as described above in paragraph 5 and identified as the 2007 Notes (See PSC Case No. 2007-00163). **Schedule 2**, which is attached to these comments, is identical to Exhibit 1, which is attached to the application in PSC Case No. 2007-00163. Additional information concerning the 2007 Notes may be found in the District's application filed in PSC Case No. 2007-00163.

8. Because of the District's limited finances, it has not made any interest payments on the short term loan which is being refinanced by the 2007 Notes. All interest expense on the short term loan has been capitalized rather than paid by the District. Consequently, there is no interest expense to offset or deduct from the \$150,234 annual debt service payment that the District will be making on the 2007 Notes.

9. The District submits that the debt service payments that it will be obligated to make on the 2007 Notes are known and measurable and should, therefore, be included in the District's Revenue Requirements.

10. **Debt Service Coverage.** The District requests that the Staff recommended debt service coverage be increased by **\$30,047**. This amount represents 20% of the \$150,234 annual average debt service expense for the 2007

Notes (\$150,234 x 20% = \$30,047). As noted by Staff, the District's existing bond authorizing resolutions require 20% coverage of the annual debt service payments on long term debt.

11. **Summary.** In summary, the District requests the following adjustments to the Staff Report:


Depreciation Expense:	\$84,954 Increase
Debt Service Expense:	150,234 Increase
Debt Service Coverage:	<u>30,047</u> Increase
 TOTAL	 \$265,235 Increase

12. Except as stated above, the District accepts all other portions of the Staff Report.

This 24th day of April, 2007.

Respectfully submitted,

**MUHLENBERG COUNTY WATER
DISTRICT**



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COUNSEL FOR THE DISTRICT

SCHEDULE 1

Muhlenberg County Water District
 Asset Acquisition
 GAAP

For the Period January 1, 2006 to December 31, 2006

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Asset ID	Acquisition Date	Acquisition Cost	Placed In Service	Book Cost	Life (Years)	Pro Forma Depreciation
Year Ending December, 2006						
Asset GL Acct #: 311						
MCWD000560	Pump Station Improvements Beech Creek and Weir				25	\$16,574.67
	4/4/2006	\$ 414,366.70	4/4/2006	\$ 414,366.70		
MCWD000561	Pump Station Improvements-Contract 3B-Powderly				25	26,451.27
	10/23/2006	661,281.80	10/23/2006	661,281.80		
Subtotal: 311 (2)		\$ 1,075,648.50		\$ 1,075,648.50		
Asset GL Acct #: 331						
MCWD000553	Line Additions 2006				25	630.19
	6/30/2006	15,754.74	6/30/2006	15,754.74		
MCWD000559	US 431 Water Main Extension				50	18,811.77
	2/23/2006	940,588.70	2/23/2006	940,588.70		
MCWD000562	US 431 Water Main Relocation(grant reimbursed)				10	12,417.39
	9/15/2006	124,173.85	9/15/2006	124,173.85		
Subtotal: 331 (3)		\$ 1,080,517.29		\$ 1,080,517.29		
Asset GL Acct #: 334-1						
MCWD000554	Meter Installed 2006				10	2,236.17
	6/30/2006	22,361.70	6/30/2006	22,361.70		
Subtotal: 334-1 (1)		\$ 22,361.70		\$ 22,361.70		
Asset GL Acct #: 335						
MCWD000555	Hydrant at Tammy Terrace				50	21.16
	6/30/2006	1,058.00	6/30/2006	1,058.00		
Subtotal: 335 (1)		\$ 1,058.00		\$ 1,058.00		
Asset GL Acct #: 340						
MCWD000556	Acer Server 80GB hd 17" screen-Computer Resources				5	699.00
	3/10/2006	3,495.00	03/10/2006	3,495.00		
Subtotal: 340 (1)		\$ 3,495.00		\$ 3,495.00		
Asset GL Acct #: 341						
MCWD000557	2006 Chevy Silverado 3500 Ext Cab 4WD vin E178203				5	6,927.45
	2/7/2006	34,637.27	2/7/2006	34,637.27		
Subtotal: 341 (1)		\$ 34,637.27		\$ 34,637.27		
Asset GL Acct #: 346						
MCWD000558	Telemetry equipment TVA tank net of insurance proceeds				10	184.99
	8/15/2006	\$ 1,849.87	8/15/2006	\$ 1,849.87		
Subtotal: 346 (1)		\$ 1,849.87		\$ 1,849.87		
Yearly Subtotal		\$ 2,219,567.63		\$ 2,219,567.63		
Grand Total		\$ 2,219,567.63		\$ 2,219,567.63		\$ 84,954.06

\$1,897,000

*Muhlenberg County Water District**Kentucky Rural Water Finance Corporation**Long-Term Issuance - Payoff of Series 2007 B Note***SCHEDULE 2****Net Debt Service Schedule**

Year end	Principal	Coupon	Interest	Total P+I	Trustee	Net New D/S
12/30/2007	-	-	-	-	450.00	450.00
12/30/2008	63,000.00	4.500%	86,585.28	149,585.28	450.00	150,035.28
12/30/2009	62,000.00	4.500%	87,777.50	149,777.50	450.00	150,227.50
12/30/2010	65,000.00	4.500%	84,987.50	149,987.50	450.00	150,437.50
12/30/2011	68,000.00	4.500%	82,062.50	150,062.50	450.00	150,512.50
12/30/2012	71,000.00	4.500%	79,002.50	150,002.50	450.00	150,452.50
12/30/2013	74,000.00	4.750%	75,807.50	149,807.50	450.00	150,257.50
12/30/2014	78,000.00	4.750%	72,292.50	150,292.50	450.00	150,742.50
12/30/2015	81,000.00	4.750%	68,587.50	149,587.50	450.00	150,037.50
12/30/2016	85,000.00	4.750%	64,740.00	149,740.00	450.00	150,190.00
12/30/2017	89,000.00	4.750%	60,702.50	149,702.50	450.00	150,152.50
12/30/2018	93,000.00	4.750%	56,475.00	149,475.00	450.00	149,925.00
12/30/2019	98,000.00	4.750%	52,057.50	150,057.50	450.00	150,507.50
12/30/2020	102,000.00	4.750%	47,402.50	149,402.50	450.00	149,852.50
12/30/2021	107,000.00	4.750%	42,557.50	149,557.50	450.00	150,007.50
12/30/2022	112,000.00	4.750%	37,475.00	149,475.00	450.00	149,925.00
12/30/2023	118,000.00	4.750%	32,155.00	150,155.00	450.00	150,605.00
12/30/2024	123,000.00	5.000%	26,550.00	149,550.00	450.00	150,000.00
12/30/2025	129,000.00	5.000%	20,400.00	149,400.00	450.00	149,850.00
12/30/2026	136,000.00	5.000%	13,950.00	149,950.00	450.00	150,400.00
12/30/2027	143,000.00	5.000%	7,150.00	150,150.00	450.00	150,600.00
Total	\$1,897,000.00	-	\$1,098,717.78	\$2,995,717.78	\$9,450.00	\$3,005,167.78

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