

Ernie Fletcher  
Governor

Teresa J. Hill, Secretary  
Environmental and Public  
Protection Cabinet

Christopher L. Lilly  
Commissioner  
Department of Public Protection

Don Colder  
Chairman  
Western Pulaski County Water Dist.  
1059 West Highway 80  
Somerset, KY 42501-2779



Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
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psc.ky.gov

Mark David Goss  
Chairman

John W. Clay  
Commissioner

November 20, 2006

RE: Case No. 2006-00370

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

BOD/sh  
Enclosure



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Department of Public Protection

Honorable David Edward Spenard  
Assistant Attorney General  
Office of the Attorney General Utility & Rate Intervention Division  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601-8204

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Department of Public Protection

Honorable William M. Thompson  
Attorney at Law  
PO Box 851  
Somerset, KY 42502

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE WESTERN PULASKI )  
COUNTY WATER DISTRICT FOR APPROVAL OF ) CASE NO.  
INCREASED RATES FOR WATER SERVICE ) 2006-00370

ORDER

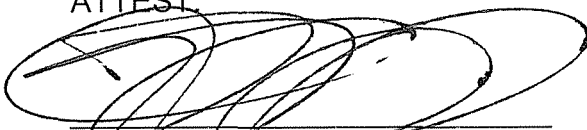
On October 12, 2006, Western Pulaski County Water District ("Western Pulaski") filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Western Pulaski's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 20th day of November, 2006.

By the Commission

ATTEST:

  
Executive Director

STAFF REPORT  
ON  
WESTERN PULASKI COUNTY WATER DISTRICT  
CASE NO. 2006-00370

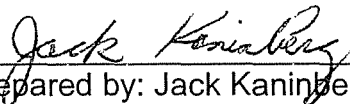
Pursuant to a request by Western Pulaski County Water District ("Western Pulaski") for assistance with the preparation of a rate application for its water operations, Commission Staff ("Staff") performed a limited financial review of Western Pulaski's test year operations for the calendar year ending December 31, 2004. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.


Upon completion of the review, Staff assisted Western Pulaski in the development and preparation of a rate application. The application included an adjusted pro forma operating income statement wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable, as shown in Attachment A. The rates proposed by Western Pulaski were based on the pro forma income statement as shown in the application. The application also includes the calculation of Western Pulaski's revenue requirement using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for water districts. Western Pulaski is proposing to increase its annual revenue from water rates by \$232,763, an increase of 13.4 percent over normalized revenues from water sales of \$1,737,600. This would increase the

average bill for 5,000 gallons of usage from \$23.50 to \$26.20, an increase of 11.5 percent.

On October 12, 2006, Western Pulaski filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of Western Pulaski's application as its recommendation in this report as if fully set out herein. Eddie Beavers is responsible for all revenue adjustments and the calculation of the proposed rates. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the information included in Western Pulaski's application, Staff is of the opinion that the rates as shown in Attachment B of this report are reasonable and should be approved by this Commission.

Signatures

  
Prepared by: Jack Kaninberg  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis

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

Western Pulaski WD Attachment A	2004	Adjustments	Ref.	Proforma
Metered Sales	\$1,607,074	\$130,526		\$1,737,600
Other Water Revenue	56,225	0		\$56,225
Tot. Op. Revenues	\$1,663,299	\$130,526	(A)	\$1,793,825
Employee Salaries	\$176,788	\$3,652	(B)	\$180,440
Officer Salaries	8,683	0		\$8,683
Pensions/Benefits	27,199	0		\$27,199
Purchased Water	823,358	(\$61,766)	(C)	\$761,592
Materials/Supplies	126,217	\$1,200 (\$26,555)	(D)	\$100,862
Contract Sev. – Eng.	3,723	0		\$3,723
Contract. Serv.-Acct.	6,000	0		6,000
Contract. Serv.-Legal	663	(\$663)	(E)	0
Contract. Serv.-Testing	5,901	0		\$5,901
Contract Serv. - Other	79,481	0		\$79,481
Rental of Bldg/Property	8,400	0		\$8,400
Transportation Exp.	15,176	0		\$15,176
Insurance-Vehicles	3,579	0		\$3,579
Ins.-Gen. Liability	24,453	0		\$24,453
Ins.-Workers Comp	7,206	0		\$7,206
Ins. - Other	2,325	0		\$2,325
Advertising Expense	340	0		\$340
Bad Debt Expense	1,854	0		\$1,854
Misc. Exp.	59,467	0		\$59,467
<i>Tot. Water Util. Exp.</i>	<i>1,380,813</i>	<i>(\$84,132)</i>		<i>\$1,296,681</i>
Depreciation Expense	\$377,704	\$12,944 (\$1,558) \$901	(F)	\$389,991
Taxes OT Income	\$18,325	(\$1,513)	(G)	\$16,812
<i>Total Op. Expenses</i>	<i>\$1,776,842</i>	<i>(73,358)</i>		<i>\$1,703,484</i>
<b>Total Op. Income</b>	<b>(\$113,543)</b>	<b>\$203,884</b>		<b>\$90,341</b>
Interest Income	\$11,855	(\$8,121)	(H)	\$3,734
Interest Expense	\$192,953	\$3,588	(I)	\$189,365
<i>Net Income</i>	<i>(\$294,641)</i>	<i>\$199,351</i>		<i>(\$95,290)</i>

Proforma Expenses	\$1,703,484
Debt Service Coverage	\$326,838
Revenue Requirement	\$2,030,322
Less Normalized Revenue	\$1,793,825
Less Interest Income	\$3,734
<b>Requested Increase (13.4%)</b>	<b>\$232,763</b>

Debt Service(RD Bonds):

1/1/06 - \$79,000 Principal

1/1/07 - \$82,500 Principal

1/1/08 - \$87,500 Principal

Total - \$249,000/3 = \$ 83,000 Average

Interest for 2005 = \$189,365

Total Debt Service = \$ 272,365

**DSC at 1.2x = \$326,838**

**Explanatory Notes**

A. Normalized Revenues based upon Commission Staff's billing analysis.

B. Normalized Salaries Expense based upon salaries and wage rates in effect in January 2006:

Position	weekly	previous	Increase	Proforma
Office Manager hired in 2006			\$24,000	\$24,000
Amy Jo Kelly		\$26,500	\$1,500	\$28,000
Glinda Mathis (\$8.50 to \$9)	\$360		\$1,040	\$18,720
Patricia Marcum (\$7.75 to \$8.50)	\$340		\$1,560	\$17,680
Kevin Marcum (Now \$14.50)	\$580			\$30,160
Sam Hudson (Now \$12.25)	\$490			\$25,480
Joe McClinton (\$8.50 to \$9.50)	\$380		\$2,080	\$19,760
Jaycee Shepherd (\$7.50 to \$8)	\$320		\$1,040	\$16,640
		\$149,220	\$31,220	<b>\$180,440</b>

C. Purchased Water Expense based upon normalized sales and an adjustment to reflect allowable line loss.

100% Purchases at \$2 per thousand	2004	Normalized
100% Purchases (Th. Gallons)	411,663	393,958.390
Purch. Water Expense	\$823,358	\$787,917
Sales (Gallons) (82.16%)	338,206,000	323,676,226
Line Loss (17.84%)	73,457,000	70,282,164
Total	411,663,000	393,958,390
Total if 15% line loss	397,889,410	380,795,550
Excess line loss gallons	13,773,590	13,162,840
X \$2 per thousand	\$2.00	\$2.00
Line Loss Adjustment	\$27,548	\$26,325



Purchased Water Expense	\$823,358	\$787,917
Line Loss Adjustment	\$27,548	\$26,325
Allowable Purchased Water Expense	\$795,810	<b>\$761,592</b>

D. Materials and Supplies Expense adjusted to increase postage expense by \$1,200 per year based on recent increases in postage rates, and to exclude the following nonrecurring capital expenditures:

Date		Amount
9/20/04	Wilson & Roy-Coldwater Creek Repair	\$15,465
10/7/04	Neptune Equipment - Meters	\$3,150
11/19/04	Wilson & Roy-Tick Ridge Fire Dept.	\$7,940
	Total Reduction	\$26,555

E. Legal Expense removed because the District will now use the County Attorney for legal work.

F. Depreciation expense was adjusted to normalize for plant added during 2004, an adjustment of \$12,944, as follows:

Plant Item- 2004 Additions & Date	Cost	Life	Full Yrs. Deprec.	2004 Deprec.	Adjustment
Line Extension-6/30	\$584,406	40	\$14,610	\$7,305	\$7,305
Meters, Etc.-6/30	\$113,805	25	\$4,552	\$2,276	\$2,276
Office Equipmt.-6/30	\$11,873	5	\$2,375	\$1,187	\$1,188
Copier-12/15	\$4,250	5	\$850	\$425	\$425
Truck – 6/30	\$17,500	5	\$3,500	\$1,750	\$1,750
<b>Total Adj.</b>				<b>Total</b>	<b>\$12,944</b>

In addition, Western Pulaski's 2004 depreciation schedule reflected depreciation expense of \$376,146 rather than the \$377,704 reported in the 2004 annual report, a reduction of \$1,558. Finally, depreciation expense was increased by \$901 to allow recovery of the capital expenditures excluded from Materials and Supplies Expense, as follows:

Date		Amount	Life (Years)	Adjustment
9/20/04	Coldwater Creek Repair	\$15,465	40	\$387
10/7/04	Neptune Meters	\$3,150	10	\$315
11/19/04	Tick Ridge Fire Dept. Extension	\$7,940	40	\$199
	Total	\$26,555		\$901

G. Proforma Taxes Other than Income based upon a PSC Assessment Fee of \$3,008 and normalized FICA tax of \$13,804 (7.65% x salaries and wages of \$180,440).

H. Interest Income reduced because 68.5% of cash assets were restricted at year-end.

I. Interest Expense reduced by \$3,588 to reflect more current Interest Expense.

ATTACHMENT B  
STAFF REPORT CASE NO. 2006-00370  
STAFF'S RECOMMENDED RATES

Monthly Water Rates

5/8" x 3/4" Meter

First	2,000	gallons	\$12.70 Minimum Bill
Over	2,000	gallons	4.50 per 1,000 gallons

1" Meter

First	10,000	gallons	\$48.70 Minimum Bill
Over	10,000	gallons	4.50 per 1,000 gallons

1 1/2" Meter

First	15,000	gallons	\$71.20 Minimum Bill
Over	15,000	gallons	4.50 per 1,000 gallons

2" Meter

First	20,000	gallons	\$93.70 Minimum Bill
Over	20,000	gallons	4.50 per 1,000 gallons

Leak Adjustment			3.20 per 1,000 gallons
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