

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LEDBETTER WATER	)	CASE NO.
DISTRICT FOR APPROVAL OF AN INCREASE	)	2008-00498
IN RATES FOR WATER SERVICE	)	

ORDER

On December 3, 2008, Ledbetter Water District ("Ledbetter") applied to the Commission for an increase in water rates. Commission Staff has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

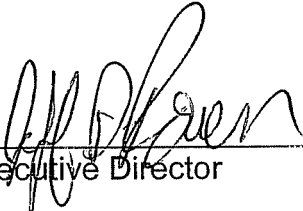
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings set forth in the Staff Report and provide a brief summary of testimony it would present at hearing.
3. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation.

4. If no request for a formal hearing or an informal conference is received within 14 days, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 17th day of March, 2009.

By the Commission

ATTEST:

  
\_\_\_\_\_  
Executive Director

Case No. 2008-00498

STAFF REPORT  
ON  
LEDBETTER WATER DISTRICT  
CASE NO. 2008-00498

Pursuant to a request by Ledbetter Water District (“Ledbetter”) for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Ledbetter’s test period operations for the calendar year ending December 31, 2006. 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 its limited review, Staff assisted Ledbetter in the development and preparation of its rate application, which Ledbetter filed with the Commission on December 3, 2008. Staff hereby adopts the contents of Ledbetter’s application as its recommendation in this report as it is fully set out herein. Eddie Beavers of the Commission’s Division of Financial Analysis is responsible for the pro forma revenue adjustment, the billing analysis, and the cost-of-service study. Sam Bryant of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

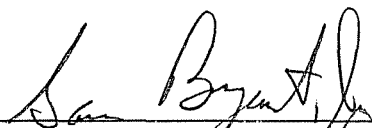
Exhibit 4 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test-period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, in Exhibit 4 of the application and


attached hereto in Appendix B, shows that Ledbetter's pro forma operations support a revenue requirement from water rates of \$455,999, an increase of \$71,024 or 18.5 percent above the normalized revenue from water rates of \$383,920.

Upon its review of the application, and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$455,999 will allow Ledbetter to pay its adjusted operating expenses, meet the 1.2x debt service coverage requirements, and provide for future equity growth. Staff also finds that Ledbetter's proposed rates, attached hereto as Appendix C, will generate the annual revenue requirement of \$455,999 and are reasonable. Staff recommends that Ledbetter's proposed rates be approved.

In its application, Ledbetter sought to increase its returned check charge. Staff has reviewed the cost justification information provided for the proposed increase. The proposed charge is equal to the costs associated with the provision of the requested service. Staff recommends the Commission approve the increase in the non-recurring charge.

Signatures

  
Prepared by: Sam Bryant, Jr.  
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

APPENDIX A  
STAFF REPORT, CASE NO. 2008-00498  
PRO FORMA INCOME STATEMENT

	Revised 2006 Operations	Pro Forma Adjustments	Ref.	Adjusted Operations
Operating Revenues:				
Water Sales	\$ 354,828	\$ 7,536		\$ 362,364
Other Op. Rev.	42,760	(21,204)		21,556
Total Revenues	<u>\$ 397,588</u>	<u>\$ (13,668)</u>	A	<u>\$ 383,920</u>
Operating Expenses:				
Employee Salaries	\$ 143,684	\$ (16,379)	B	\$ 127,305
Officer Salaries	3,900	(840)	C	3,060
Employee Benefits	39,722	6,077	D	45,799
Purchased Water	85,320	680	E	86,000
Purchased Power	17,456	701	F	18,157
Chemicals	18,662	750	G	19,412
Materials/Supplies	34,459	(9,112)	H	25,347
Contractual Serv.-Eng.	5,396	(350)	I	5,046
Contractual Serv. – Acct.	1,200	350	J	1,550
Contractual Serv. – Other	10,812	(10,812)	K	0
Contract. Serv. - Testing	2,360	0		2,360
Transportation Expense	3,371	0		3,371
Insurance-Vehicle	625	0		625
Insurance-Gen. Liability	4,576	0		4,576
Insurance-Workers Comp.	3,292	0		3,292
Insurance-Vehicle - Other	2,638	0		2,638
Miscellaneous Exp.	1,901	0		1,901
Util. Op. Exp.	<u>\$ 379,374</u>	<u>\$ (28,935)</u>		<u>\$ 350,439</u>
Depreciation Expense	45,920	440	L	46,360
Amortization Expense	0	8,517	M	8,517
Taxes Other Than Inc.	0	9,973	N	9,973
Total Operating Exp.	<u>\$ 425,294</u>	<u>\$ (10,005)</u>		<u>\$ 415,289</u>
Net Operating Income	<u>\$ (27,706)</u>	<u>\$ (3,663)</u>		<u>\$ (31,369)</u>
Interest Income	1,055	0		1,055
Interest Expense	11,990	2,065	O	(8,925)
Net Income	<u><u>\$ (38,551)</u></u>	<u><u>\$ (688)</u></u>		<u><u>\$ (39,239)</u></u>

- A. Normalized Revenues as determined by Commission Staff's billing analysis.
- B. Employee Salaries were adjusted to reflect proforma salaries allocated 60% to water operations and 40% to sewer operations, calculated In Table 1 below.

Table 1: Pro Forma Salaries				
Employee	Total 2006	½ of 2008	Annualized 2008 (2x)	Proforma
Field Staff:				
Field Tech		\$ 19,028.37	\$ 38,056.74	\$ 38,056.74
Assistant Distrib. Mgr.		18,316.97	36,633.94	36,633.94
Field Tech (gone)		3,729.08	0	0
Field Tech (hired 4/08)		5,493.00		30,160.00
Distribution Manager		21,725.46	43,450.92	43,450.92
Total Payroll Field Staff	<u>\$150,995.30</u>	<u>\$ 68,292.88</u>		<u>\$ 148,301.60</u>
Office Staff:				
Office Manager		\$ 17,283.40		
Office Clerk		14,653.06		
Total Payroll Office Staff	<u>\$54,932.46</u>	<u>\$ 31,936.46</u>	<u>63,872.92</u>	<u>\$ 63,872.92</u>
Total Payroll	<u>\$205,927.76</u>	<u>\$ 100,229.34</u>	<u>\$ 200,458.68</u>	<u>\$ 212,174.52</u>
Water allocation 60%				<u>\$ 127,305</u>
Sewer allocation 40%				<u>\$ 84,869</u>

- C. Officers' Salaries were adjusted to allocate \$5,100 of proforma expense 60% to water operations (or \$3,060) and 40% to sewer operations.
- D. Employee Benefits Expenses were adjusted to reflect a proforma expense level of \$76,331.64 at September 2008, which when allocated 60% to water operations equals \$45,799.
- E. Purchased Water Expense was adjusted to reflect normalized purchases of 39,090,838 gallons at the current purchased water rate of \$2.20 per thousand gallons.
- F. Purchased Power Expense was adjusted to reflect increased expense based upon increased proforma volumes of water produced based upon normalized sales, at a factor of 1.0401674.
- G. Chemicals Expense was adjusted to reflect increased expense based upon increased proforma volumes of water produced based upon normalized sales, at a factor of 1.0401674.
- H. Materials and Supplies Expense was adjusted to remove four nonrecurring or capital items totaling \$9,112 from expenses. Recovery of these expenditures has been allowed over a multi-year period in amortization or depreciation expense, as shown in Table 2 below.

Vendor	Date	Amount	Est. Life	Amortization	Depreciation
McKeel Equip.	01/05/2006	\$ 4,259.20	50		\$ 85.18
G&C Supply	04/21/2006	905.00	5		181.00
Midwest Meter	10/09/2006	1,948.00	10		194.80
Yates Tank	11/10/2006	2,000.00	3	\$ 666.67	
Total		\$ 9,112.20		\$ 666.67	\$ 460.98

- I. Contractual Services Engineering Expense was adjusted to reclassify \$350 of expense from this account to Contractual Services Accounting Expense.
- J. Contractual Services Accounting Expense was adjusted to reclassify \$350 of expense to Contractual Services Accounting Expense from Contractual Services Engineering Expense.
- K. Contractual Services Other Expense was adjusted to remove contractual meter reading expense payments of \$10,812. That work is now being performed by district employees.
- L. Depreciation Expense was adjusted for two items totaling \$440. First, this expense was reduced by \$21 to reflect normalized expense based on plant at the end of 2006. Second, expense recovery of \$461 was allowed over a multi-year period for three expenditures removed from Materials and Supplies Expense.
- M. Amortization Expense was increased for two items. The first was to include \$667 for amortizing the \$2,000 tank inspection expenditure removed from Materials and Supplies Expense. The second was a 10-year amortization of \$7,850 to allow recovery of an expenditure to do interior painting of two water storage tanks.
- N. Taxes Other Than Income Expense was adjusted to reflect FICA tax of 7.65% on the employees' and officers' salaries allocated to water operations of \$130,365.
- O. Interest Expense was adjusted to reflect proforma expense due in 2009.

APPENDIX B  
STAFF REPORT, CASE NO. 2008-00498  
REVENUE REQUIREMENT DETERMINATION

Adjusted Operating Expenses	\$ 415,289
Add: Debt Service Coverage (1.2 x \$33,925 Debt Service)	+ 40,710
Revenue Requirement	\$ 455,999
Less Adjusted Revenue	383,920
Less Unrestricted Interest Income	- 1,055
Recommended Increase - 18.5 Percent	<u>\$ 71,024</u>



APPENDIX C  
STAFF REPORT, CASE NO. 2008-00498  
STAFF'S RECOMMENDED WATER RATES

**RATES AND CHARGES**

All Customers

Customer Charge	\$6.59 monthly rate
First 25,000 gallons	5.42 minimum bill
Over 25,000 gallons	3.59 per 1,000 gallons

**NONRECURRING CHARGES**

Returned Check Charge	\$35.00
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Phillip Dae  
Chairman  
Ledbetter Water District  
P. O. Box 123  
Ledbetter, KY 42058-0123

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