

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------------|---|------------|
| APPLICATION OF CUNNINGHAM WATER |) | |
| DISTRICT FOR AN ADJUSTMENT OF RATES |) | CASE NO. |
| PURSUANT TO THE ALTERNATIVE RATE |) | 2008-00505 |
| FILING PROCEDURE FOR SMALL UTILITIES |) | |

O R D E R

On December 8, 2008, Cunningham Water District (“Cunningham”) applied to the Commission for an increase in water rates. 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:

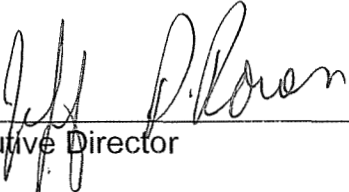
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections 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.

By the Commission

ENTERED
JUN - 3 2009 *M*
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2008-00505

STAFF REPORT
ON
CUNNINGHAM WATER DISTRICT
CASE NO: 2008-00505

Pursuant to a request by Cunningham Water District ("Cunningham") for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Cunningham's test-period operations, the calendar year ending December 31, 2007. 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.

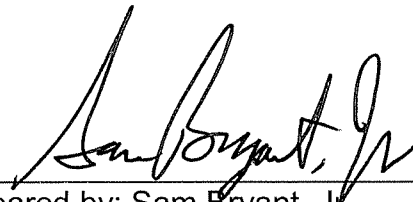
Upon completion of its limited review, Staff assisted Cunningham in the development and preparation of its rate application, which Cunningham filed with the Commission on December 8, 2008. Cunningham requested an increase in rates of \$7561, an increase of 25 percent above normalized revenue. Staff hereby adopts the contents of Cunningham's application as its recommendation in this report as if fully set out herein. Sam Reid of the Commission's Division of Financial Analysis is responsible for the pro forma revenue adjustment and the billing analysis. Sam Bryant of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Attachment A 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, Attachment A of the application and Appendix B of this report, shows that Cunningham's pro forma operations support a revenue requirement from water rates of \$45,518, an increase of \$15,275, or 50.5 percent above the normalized revenue from water rates of \$30,243.

Cunningham's proposed rate increase will not generate the annual revenue requirement supported by Cunningham's pro forma operations. Cunningham's proposed rates will generate revenues of \$37,804, which is 25 percent over normalized revenues of \$30,243. Although Cunningham's proposed increase will not generate the annual revenue requirement of \$45,518, it will provide adequate cash flow to meet its operating expenses. Staff recommends that the proposed rates set forth in Appendix C be approved. If Cunningham decides to further increase rates to generate the revenue requirement determined by Staff, it should amend its application to reflect those rates in Appendix D and should provide the Commission with confirmation that it has published notice of those rates pursuant to 807 KAR 5:011, Section 8.

Signatures



Prepared by: Sam Bryant, Jr.
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis



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

APPENDIX A
STAFF REPORT CASE NO. 2008-00505
PRO FORMA INCOME STATEMENT

| | 2007 Operations | Pro Forma Adjustments | Ref. | Adjusted Operations |
|-----------------------------|--------------------|--------------------------|------|------------------------|
| Operating Revenues: | | | | |
| Water Sales | \$ 28,463 | \$ 1,780 | | \$ 30,243 |
| Total Revenues | <u>\$ 28,463</u> | <u>\$1,780</u> | A | <u>\$ 30,243</u> |
| Operating Expenses: | | | | |
| Purchased Power | 2,555 | (542) | B | 2,013 |
| Chemicals | 494 | (275) | C | 219 |
| Materials/Supplies | 3538 | (1031) | D | 2507 |
| Contractual Serv.-Mgmt Fees | 13,061 | (985) | E | 12,076 |
| Water Testing Expense | 1,866 | 0 | | 1,866 |
| Transportation Expense | 4 | 0 | | 4 |
| Insurance Expense | 1,745 | 291 | F | 2036 |
| Miscellaneous Expense | <u>4836</u> | <u>969</u> | G | <u>5805</u> |
| Total Water Utility Expense | <u>28,099</u> | | | <u>26,526</u> |
| Depreciation Expense | 13,875 | (2356) | H | 11,519 |
| Amortization Expense | 0 | 5,425 | I | 5,425 |
| Taxes Other Than Income | 50 | 0 | | 50 |
| Total Operating Exp. | <u>42,024</u> | <u>1,496</u> | | <u>43,520</u> |
| Net Operating Income | (13,561) | | | |
| Interest Income | 3,937 | | | 3,937 |
| Interest Expense | | | | |
| Net Income | <u>(9,624)</u> | <u>\$</u> | | <u>\$</u> |

A. Normalized Revenues as determined by Commission Staff billing analysis.

B. Purchased Power Expense was adjusted for high line loss. In 2007, the District recorded excessive line loss of 44 percent due to unusual maintenance of the water towers as well as leaks. To normalize this expense, Commission Staff used the purchased power expense built into the 2007 rate case of \$2,013, an adjustment of (\$542).

C. Chemicals Expense adjusted to account for high line loss. In 2007, the District recorded excessive line loss of \$\$ percent due to unusual maintenance on the water tower as well as leaks. To normalize this expense, Commission Staff used the chemicals expense built into the 2007 rate case of \$219, an adjustment of (\$275).

D. Materials Supplies Expense was adjusted to remove a nonrecurring expense of \$1,031 which was reimbursed by a contractor.

- E. **Contractual Services-Management Fees** expense was adjusted to remove accounting entries of \$800 and \$185 which will not recur on a pro forma basis.
- F. **Insurance Expense** has been adjusted to account for an increased insurance rate from Grange Mutual of \$291.
- G. **Miscellaneous Expense** has been adjusted for two items totaling \$969. First, postal expense increased slightly in 2008, and the estimated increase on a pro forma basis is \$44. Second, bookkeeping and administrative fees have been increased to \$4200, which consists of \$300 per month effective June 1, 2008, plus \$600 for the preparation of the financial statements and the PSC Annual Report. This is a \$925 increase over the test-period expense of \$3,275.
- H. **Depreciation Expense** has increased substantially from the prior rate case in 2007 due to plant additions of \$66,960 during 2007. Of this amount, \$53,230 was related to tower repairs and painting, which Cunningham depreciated over seven years for an annual expense of \$7,604. Upon examining these plant additions, the Commission Staff's Water Engineering Branch determined ten years rather than seven more accurately reflects their useful, which would result in an annual expense of \$5,323, or a reduction of \$2,281. In addition, depreciation expense was decreased by \$75 to remove the expense associated with three plant items to be fully depreciated in 2008, for a total reduction to depreciation expense of \$2356.
- I. **Amortization Expense** was adjusted by \$5,425 to continue to include the three-year amortization of various expenditures not allowed in the last rate case in 2007. This expense was not recorded in Cunningham's Annual Report.

APPENDIX B
STAFF REPORT, CASE NO. 2008-00505
STAFF'S RECOMMENDED
REVENUE REQUIREMENT DETERMINATION

| | |
|----------------------------|------------|
| Total Operating Expenses | \$ 43,520 |
| 88 percent Operating Ratio | \$ 49,455 |
| Interest Income | (\$ 3,937) |
| Revenue Requirement | \$ 45,518 |
| Normalized Revenues | (\$30,243) |
| Recommended Increase | \$ 15,275 |
| Requested Increase | \$ 7,561 |

APPENDIX C
STAFF REPORT CASE NO. 2008-00505
PROPOSED WATER RATES

RATES AND CHARGES

Monthly Rates:

| | |
|---------------------|------------------------|
| First 2,000 gallons | \$ 12.48 Minimum Bill |
| Next 3,000 gallons | 3.55 per 1,000 gallons |
| Over 5,000 gallons | 2.48 per 1,000 gallons |

APPENDIX D
STAFF REPORT CASE NO. 2008-00505
JUSTIFIED WATER RATES

RATES AND CHARGES

Monthly Rates:

| | |
|---------------------|------------------------|
| First 2,000 gallons | \$ 15.03 Minimum Bill |
| Next 3,000 gallons | 4.27 per 1,000 gallons |
| Over 5,000 gallons | 2.98 per 1,000 gallons |

Denver Hammonds
Treasurer
Cunningham Water District
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