

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HENDRON WATER ) CASE NO.  
DISTRICT FOR APPROVAL OF INCREASED ) 2009-00148  
RATES FOR WATER SERVICE )

ORDER

On April 9, 2009, Hendron Water District ("Hendron") applied to the Commission for an adjustment of 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 about Staff's findings and recommendations or requests for a hearing or an informal conference no later than 14 days from the date of this Order.

IT IS HEREBY ORDERED that:

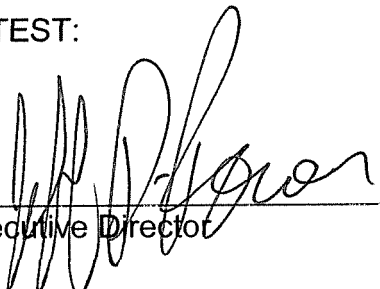
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings set forth in the Staff Report and provide a brief summary of testimony that 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 hearing or an informal conference is received within 14 days, this case shall stand submitted to the Commission for decision.

By the Commission

ENTERED  
NOV 16 2009 *sl*  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

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

STAFF REPORT  
ON  
HENDRON WATER DISTRICT  
CASE NO. 2009-00148

On April 9, 2009, Hendron Water District, ("Hendron"), filed its application with the Public Service Commission ("Commission") for an increase in its water rates. Hendron proposed to increase its revenues by \$85,518 over 2007 normalized revenues of \$792,988. Hendron used the 12-month period ending December 31, 2007, as its test period.

On May 21, 2009, the Commission Staff ("Staff") performed a review of Hendron's operations and the proposals in this case. This report contains the findings and recommendations of that review. Jason Green of the Commission's Division of Financial Analysis is responsible for the revenue adjustment, and Sam Bryant of the same Division is responsible for all pro forma expense adjustments and the revenue requirement determination, found in Appendix B to this report.

Exhibit 4 of the application and Appendix A to this report contain Hendron's pro forma operating statement.

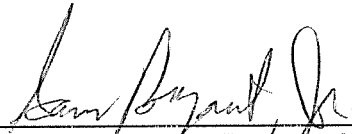
In its filing, Hendron proposed to increase its test-period operating expenses by \$18,392. The proposed adjustments and operating expenses are explained in Exhibit 4 of the application and Appendix A to this report. Staff has reviewed and recommends acceptance of all of the adjustments Hendron proposed with the exception of its Contract Service-Testing.

Hendron proposed no change to the test-period amount of \$2,764 that was expended for water testing. As a result of its review of 2008 invoices, Staff determined that water was tested twice monthly at a cost of \$3,840 per year, an increase of \$1,076. Therefore, Staff made an adjustment to increase Contract Services-Testing from the test amount to \$3,840.

Hendron's adjusted operating expenses of \$809,509 results in a revenue requirement of \$913,938 as calculated in Appendix B to this report and as generated by the rates in Appendix D to this report. The rates proposed by Hendron in its application will not generate the recommended revenue requirement. However, Staff finds that Hendron's proposed rate will generate sufficient revenue to pay its operating expenses and provide for future equity growth. Hendron proposed an across-the-board percentage increase in its current rates. Staff is in agreement with these rates and concurs that this method is appropriate. Therefore, Staff recommends that the Commission accept Hendron's proposed rate as set out in Appendix C to this report.

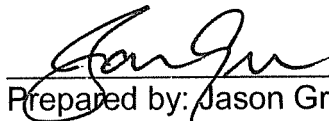
Should Hendron decide to increase its rates to generate the revenue requirement recommended by Staff, it should amend its application to reflect those rates and provide the Commission with confirmation that it has published notice of those rates pursuant to 807 KAR 5:011, Section 8.

Signatures:



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



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Prepared by: Jason Green  
Rate Analyst, Water and Sewer  
Rate Design Branch  
Division of Financial Analysis

APPENDIX A  
STAFF REPORT  
CASE NO. 2009-00148  
OPERATING STATEMENT

	<u>2007</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues:			
Water Sales Revenue	\$ 775,690	\$ 846	\$ 776,536
Other Operating Revenue	17,530	(1078)	16,452
<b>Operating Revenue</b>	<b>\$ 793,220</b>	<b>\$ (232) A</b>	<b>\$ 792,988</b>
Operating Expenses:			
Employee Salaries	\$ 170,057	\$ 3,015 B	\$ 173,072
Officer Salaries	7,200	0	7,200
Pension Benefits	39,961	0	39,961
Purchased Water	324,845	6,751 C	331,596
Purchased Power	31,849	3,760 D	35,609
Chemicals	2,563	0	2,563
Materials/Supplies	46,819	0	46,819
Contract Services-Eng.	7,318	0	7,318
Contract Services-Acct.	7,410	520 E	7,930
Contract Services-Legal	534	0	534
Contract Services-Testing	2,764	1,076 F	3,840
Contract Services-Other	15,342	0	15,342
Transportation Expenses	20,348	0	20,348
Insurance-General Liability	1,000	0	1,000
Insurance-Workers Comp.	5,495	0	5,495
Insurance-Vehicle	15,999	0	15,999
Bad Debt	1,724	0	1,724
Miscellaneous Expense:	10,529	(688) G	9,841
Total Water Utility Expenses	711,757	14,434	726,191
Depreciation Expense	63,361	4,886 H	68,247
Amortization Expense	282	998 I	1,280
Taxes OT Income	14,641	(850) J	13,791
<b>Total Operating Expenses</b>	<b>\$ 790,041</b>	<b>\$ 19,468</b>	<b>\$ 809,509</b>
Net Operating Income	\$ 3,179	\$ (19,700)	\$ (16,521)
Other Income:			
Interest Income	2,498	(2,023) K	475
Nonutility Income	11,445	(11,445) L	0
Other Expenses:			
Interest Expense	20,971	7,367 M	13,604
<b>Net Income</b>	<b>\$ (3,849)</b>	<b>\$ (25,801)</b>	<b>\$ (29,650)</b>

A. **Operating Revenue** was adjusted downward \$232 to reflect the Staff's adjustment to normalized revenue.

**B. Employee Salaries and Wages** was adjusted to reflect the 2008 wage rates. Hendron calculated its pro forma salaries and wages expense of \$173,072, as shown in Table 1 below.

<b>Table 1: Pro Forma Salaries</b>	
<b>Title</b>	<b>Pro Forma Wages</b>
Field Worker	\$ 32,406
Field Worker	31,346
Field Worker	28,662
Field Worker	23,837
Office Worker	27,061
Office Worker	19,448
Subtotal	\$ 162,760
Part-Time Help	721
Overtime <sup>1</sup>	9,591
<b>Total Pro Forma</b>	<b>\$ 173,072</b>

**C. Purchased Water Expense** was adjusted to \$331,596 to reflect the current purchased water rate of \$1.50 per thousand gallons multiplied by test-year purchases of 221,064 gallons.

**D. Purchased Power Expense** was adjusted by \$3,760 to reflect increased costs of electrical power used for pumping.

**E. Contractual Services – Accounting** was adjusted by \$520 to reflect the current CPA fees of \$7,930 for the annual audit and PSC report.

**F. Contractual Services- Testing** was adjusted by Staff to reflect an increase in the number of tests to twice monthly at a cost of \$160 per test.

**G. Miscellaneous Expense** was reduced by \$688 to remove a charge for an employee Christmas dinner.

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<sup>1</sup> \$162,760 (Regular Pay 2008) ÷ \$155,207 (Regular Pay 2007) = 1.048664 (Regular Pay Ratio) x \$9,146 (Overtime Pay 2007) = \$9,591.

H. **Depreciation Expense** was increased by \$4,886 to include a full year of depreciation expense on 2007 plant additions as shown in Table 2 below.

Table 2: Depreciation				
Plant Account	Plant Balance	Dep. Rates	Annual Depreciation	2007 Depreciation
Distribution System	\$ 92,184	2%	\$ 1,844	\$ 922
Water Tank Upgrades	74,426	10%	7,443	3,721
Other Equipment	2,170	20%	434	217
Telephone Equipment	255	20%	51	26
Totals	\$ 169,035		\$ 9,772	\$ 4,886

I. **Amortization Expense** was adjusted by \$998 to allow for a three-year recovery of rate case expense of \$2,995.

J. **Taxes Other Than Income Tax Expense** was adjusted to include FICA taxes of \$13,791 based upon pro forma salaries of \$180,272 for the employees and Commissioners, at 7.65%.

K. **Interest Income** was reduced by \$2,023 to remove interest income on restricted cash, which was approximately 81% of total cash.

L. **Nonutility Income** was removed as it should not be included as a ratemaking item.

M. **Interest Expense** was adjusted to reflect pro forma interest expense accrued and interest actually paid on long-term debt.



APPENDIX B  
Revenue Requirement and  
Debt Service Calculations  
Hendron Water District  
Case No. 2009-00148

Proforma Operating Expenses	\$ 809,509
Debt Service Coverage (1.2 x \$87,024)	+ 104,429
Revenue Requirement	<u>\$ 913,938</u>
Less: Other Operating Income	16,452
Interest Income	475
Surcharge	- 50,472
Required From Water Sales	<u>\$ 846,539</u>
Test Year Revenues	- 742,516
Justified Increase	<u>\$ 104,023</u>
<b>Requested Increase</b>	<u><b>\$ 85,518</b></u>

Debt Service Calculation			
Year	Revenue Bond P&I	KIA Payment	Total Debt Service
2009	\$ 45,697	\$ 43,232	\$ 88,929
2010	\$ 45,493	\$ 41,596	87,089
2011	\$ 45,182	\$ 39,872	+ 85,054
Total			<u>\$ 261,072</u>
Three-Year Average			<u><u>\$ 87,024</u></u>

APPENDIX C  
STAFF REPORT  
CASE NO. 2009-00148  
REQUESTED RATES

**Schedule No. 1:**

Applicable within the service area of the Hendron Water District, described as project #APW-KL-140CL (PFL-KY-90), a map of which is on file in the utility office.

**5/8" X 3/4" Meter**

First	2,000 gallons	\$	9.40 minimum bill
Next	3,000 gallons	\$	4.58 per 1,000 gallons
Next	5,000 gallons	\$	4.17 per 1,000 gallons
Next	10,000 gallons	\$	3.65 per 1,000 gallons
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**3/4" Meter**

First	3,500 gallons	\$	16.28 minimum bill
Next	1,500 gallons	\$	4.58 per 1,000 gallons
Next	5,000 gallons	\$	4.17 per 1,000 gallons
Next	10,000 gallons	\$	3.65 per 1,000 gallons
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**1" Meter**

First	5,000 gallons	\$	23.14 minimum bill
Next	5,000 gallons	\$	4.17 per 1,000 gallons
Next	10,000 gallons	\$	3.65 per 1,000 gallons
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**1 1/2" Meter**

First	10,000 gallons	\$	44.01 minimum bill
Next	10,000 gallons	\$	3.65 per 1,000 gallons
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**2" Meter**

First	20,000 gallons	\$	80.51 minimum bill
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**4" Meter**

First	50,000 gallons	\$	186.49 minimum bill
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

APPENDIX D  
STAFF REPORT  
CASE NO. 2009-00148  
JUSTIFIED RATE

**Schedule No. 2:**

Applicable within the service area of the Hendron Water District, described as project #PFL-KL-206, a map of which is on file in the utility office.

**5/8" X 3/4" Meter**

First	2,000 gallons	\$	12.40 minimum bill
Next	3,000 gallons	\$	4.58 per 1,000 gallons
Next	5,000 gallons	\$	4.17 per 1,000 gallons
Next	10,000 gallons	\$	3.65 per 1,000 gallons
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**3/4" Meter**

First	3,500 gallons	\$	19.28 minimum bill
Next	1,500 gallons	\$	4.58 per 1,000 gallons
Next	5,000 gallons	\$	4.17 per 1,000 gallons
Next	10,000 gallons	\$	3.65 per 1,000 gallons
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**1" Meter**

First	5,000 gallons	\$	26.14 minimum bill
Next	5,000 gallons	\$	4.17 per 1,000 gallons
Next	10,000 gallons	\$	3.65 per 1,000 gallons
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**1 1/2" Meter**

First	10,000 gallons	\$	47.01 minimum bill
Next	10,000 gallons	\$	3.65 per 1,000 gallons
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**2" Meter**

First	20,000 gallons	\$	83.81 minimum bill
Next	30,000 gallons	\$	3.53 per 1,000 gallons
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

**4" Meter**

First	50,000 gallons	\$	189.49 minimum bill
Next	50,000 gallons	\$	3.30 per 1,000 gallons
All over	100,000 gallons	\$	3.19 per 1,000 gallons

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