

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE OLDHAM COUNTY	)	
WATER DISTRICT FOR (1) A CERTIFICATE OF	)	
PUBLIC CONVENIENCE AND NECESSITY TO	)	
CONSTRUCT THE PROPOSED WATERWORKS	)	
IMPROVEMENT PROJECT; (2) THE APPROVAL	)	CASE NO. 2001-00174
OF THE PROPOSED PLAN TO FINANCE THE	)	
WATERWORKS IMPROVEMENT PROJECT; AND	)	
(3) THE APPROVAL OF THE PROPOSED	)	
INCREASE IN RATES FOR WATER SERVICE	)	

ORDER

On July 3, 2001, the Oldham County Water District ( Oldham County ) submitted its application requesting the Commission to: (1) issue a Certificate of Public Convenience and Necessity to construct a waterworks improvement project; (2) approve the proposed plan of financing; and (3) approve the proposed increase in water rates. The application was considered filed on September 11, 2001, the date the deficiencies in the application were cured.

Commission Staff ( Staff ), having performed a limited financial review of Oldham County's operations, has prepared the attached report containing Staff's 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 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall, no later than 10 days from the date of this Order, submit written comments, if any, regarding the attached Staff

Report or request for hearing or informal conference. If no request for a hearing or informal conference is received by this date, this case shall stand submitted to the Commission for a decision on all issues raised by the application.

Done at Frankfort, Kentucky, this 12<sup>th</sup> day of March, 2002.

By the Commission

ATTEST:

  
Executive Director

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE OLDHAM COUNTY )  
WATER DISTRICT FOR (1) A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY TO )  
CONSTRUCT THE PROPOSED WATERWORKS )  
IMPROVEMENT PROJECT; (2) THE APPROVAL ) CASE NO. 2001-00174  
OF THE PROPOSED PLAN TO FINANCE THE )  
WATERWORKS IMPROVEMENT PROJECT; AND )  
(3) THE APPROVAL OF THE PROPOSED )  
INCREASE IN RATES FOR WATER SERVICE )

STAFF REPORT

Prepared by: Mark C. Frost  
Public Utilities Financial Analyst  
Water and Sewer Revenue  
Requirements Branch  
Division of Financial Analysis

Prepared by: Dennis Brent Kirtley  
Manager  
Tariff Review Branch  
Division of Filings

STAFF REPORT  
ON  
OLDHAM COUNTY WATER DISTRICT  
CASE NO. 2001-00174

On July 3, 2001, the Oldham County Water District ( Oldham County ) submitted its application requesting the Commission to: (1) issue a Certificate of Public Convenience and Necessity to construct a waterworks improvement project; (2) approve the proposed plan of financing; and (3) approve the proposed increase in water rates. The application was considered filed on September 11, 2001, the date the deficiencies in the application were cured.

Since Oldham County requested and received Commission Staff ( Staff ) assistance in preparing its rate application, the limited financial review was conducted prior to the filing of the application. 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.

Mark Frost of the Commission s Division of Financial Analysis and Brent Kirtley of the Commission s Division of Filings performed the limited financial review of Oldham County s test-period operations for the 2000 calendar year. Mr. Frost is responsible for the preparation of this Staff Report except for the determination of normalized operating revenue, Attachment E, and Attachment F, which were prepared by Mr. Kirtley.

At the time of Staff s financial review, Oldham County s audit for the calendar year 2000 had yet to be completed. Oldham County s accountant provided Staff with a

schedule of the preliminary operation and maintenance expense accounts and a trial balance for use in the review. Oldham County accepted the findings and recommendations of Staff's limited financial review and included those as its pro forma operating statement in its application, which is included as Attachment A.

Subsequent to the completion of the application, Oldham County's accountant finished the audit and Oldham County filed its Annual Report for 2000 with the Commission. Several of the preliminary expense account balances used by Staff in its financial review were changed during the audit and are not the balances reported in the 2000 Annual Report. Using the operating revenues and expenses from the 2000 Annual Report and Oldham County's responses to its interrogatories, Staff made several modifications to its original findings and recommendations. Based upon Staff's modifications Oldham County's operating statement would appear as set forth in Attachment B and Attachment C is Staff's discussions on its proposed pro forma adjustments.

Oldham County proposed to finance its waterworks improvement project with a \$8,049,876 loan from the Kentucky Infrastructure Authority ( KIA ). The 3-year average debt service for Oldham County's existing and proposed long-term debt is \$1,362,483.<sup>1</sup> Using the 3-year average debt service, the proposed pro forma operations, and a 1.1x debt service coverage ( DSC ) Oldham County determined that it could support a

---

<sup>1</sup> KIA Loan C 88-10	\$ 288,106
KIA Loan C 89-49	148,609
KIA Loan C 96-01	90,293
Ohio River Oldham Revenue Bonds	81,567
Proposed KIA Loan	+ 753,908
Existing 3-Year Average Debt Service	<u>\$ 1,362,483</u>

revenue requirement from water sales of \$3,396,641, an increase of \$1,209,378 over normalized test-period revenues of \$2,187,263.

The Bluegrass Generation Company, L.L.C. ( Bluegrass ) contributed \$800,000 toward Oldham County s cost to construct the water facilities to serve the Dynegy power generation plant. The \$800,000 contribution will reduce Oldham County s proposed KIA loan and will result in a decrease in the 3-year average debt service of \$61,935. As shown in Attachment D, the revised 3-year average debt service of \$1,300,548, Staff s modified pro forma operations, and a 1.1x DSC, results in a revenue requirements range from water sales of \$2,644,621 to \$3,397,723, respectively.

Oldham County s requested revenue requirement will allow it to meet its adjusted test-period operating expenses including depreciation expense and the minimum debt service requirements of its long-term debt instruments. Therefore, Staff recommends that Oldham County be allowed to increase its rates to generate the requested revenue requirement of \$3,396,641.

Attachment E is the discussion of Staff s cost of service study and Attachment F is Staff s recommended rates, which are the rates Oldham County requested. Therefore, Staff recommends that Oldham County s proposed rates be accepted.

Signatures

---

Prepared by: Mark C. Frost  
Public Utilities Financial Analyst  
Water and Sewer Revenue  
Requirements Branch  
Division of Financial Analysis

---

Prepared by: Dennis Brent Kirtley  
Manager  
Tariff Review Branch  
Division of Filings

ATTACHMENT A  
STAFF REPORT CASE NO. 2001-00174  
OLDHAM COUNTY S REQUESTED  
PRO FORMA OPERATIONS

Account Title	Preliminary Test-Period Operations	Pro Forma Adjustments	Pro Forma Operations
<b>Operating Revenues:</b>			
Revenue from Water Sales	\$ 2,089,746	\$ 97,517	\$ 2,187,263
Other Operating Revenues	73,367	0	73,367
<b>Total Operating Revenues</b>	<b>\$ 2,163,113</b>	<b>\$ 97,517</b>	<b>\$ 2,260,630</b>
<b>Operating Expenses:</b>			
<b>Operation &amp; Maintenance:</b>			
Salaries & Wages Employees	\$ 426,734	\$ 84,767	\$ 511,501
Salaries & Wages Commissioners	27,500	2,500	30,000
Employee Pension & Benefits	125,443	16,461	141,904
Purchased Water	2,301	0	2,301
Purchased Power	222,210	13,545	235,755
Chemicals	33,103	2,043	35,146
Materials & Supplies	112,696	(9,974)	102,722
Contractual Services - Eng.	164	0	164
Contractual Services - Acct.	11,331	0	11,331
Contractual Services Legal	3,047	(3,034)	13
Contractual Services Other	115,079	(17,183)	97,896
Rental - Building/Real Property	1,312	0	1,312
Transportation	26,546	(2,529)	24,017
Insurance Vehicle	7,485	(2,659)	4,826
Insurance - Gen. Liability	10,848	(3,854)	6,994
Insurance Workers Comp.	11,378	(412)	10,966
Insurance Other	3,149	0	3,149
Bad Debt	1,864	0	1,864
Miscellaneous	14,068	0	14,068
<b>Total Operation &amp; Maintenance</b>	<b>\$ 1,156,258</b>	<b>\$ 79,671</b>	<b>\$ 1,235,929</b>
Depreciation	549,802	157,761	707,563
Amortization	0	13,022	13,022
Taxes Other Than Income	40,382	8,469	48,851
<b>Utility Operating Expenses</b>	<b>\$ 1,746,442</b>	<b>\$ 258,923</b>	<b>\$ 2,005,365</b>
<b>Net Utility Operating Income</b>	<b>\$ 416,671</b>	<b>\$ (161,406)</b>	<b>\$ 255,265</b>
<b>Other Income &amp; Deductions:</b>			
Revenues - Merch., Jobbing & Cont.	\$ 21,087	\$ 0	\$ 21,087
Interest Income	35,248	0	35,248
<b>Total Other Income &amp; Deductions</b>	<b>\$ 56,335</b>	<b>\$ 0</b>	<b>\$ 56,335</b>
<b>Net Income Available for Debt Service</b>	<b>\$ 473,006</b>	<b>\$ (161,406)</b>	<b>\$ 311,600</b>



ATTACHMENT B  
STAFF REPORT CASE NO. 2001-00174  
COMMISSION STAFF S RECOMMENDED  
PRO FORMA OPERATIONS

Account Title	Actual Test-Period Operations	Pro Forma Adjustments	Adj. Ref	Pro Forma Operations
Operating Revenues:				
Revenue from Water Sales	\$ 2,098,342	\$ 106,935	(a)	\$ 2,205,277
Other Operating Revenues	73,577	0		73,577
Total Operating Revenues	<u>\$ 2,171,919</u>	<u>\$ 106,935</u>		<u>\$ 2,278,854</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages Employees	\$ 422,244	\$ 98,596	(b)	\$ 520,840
Salaries & Wages Commissioners	27,500	2,500	(c)	30,000
Employee Pension & Benefits	129,932	14,067	(d)	143,999
Purchased Water	2,301	0		2,301
Purchased Power	222,209	13,545	(e)	235,754
Chemicals	33,103	2,043	(f)	35,146
Materials & Supplies	115,133	(9,974)	(g)	105,159
Contractual Services - Eng.	164	0		164
Contractual Services - Acct.	11,331	0		11,331
Contractual Services Legal	3,047	(3,034)	(h)	13
Contractual Services Other	115,918	(17,183)	(i)	98,735
Rental - Building/Real Property	1,312	0		1,312
Transportation	26,546	(2,529)	(j)	24,017
Insurance Vehicle	7,050	(2,224)	(k)	4,826
Insurance - Gen. Liability	7,637	(643)	(k)	6,994
Insurance - Workers Comp.	10,519	447	(l)	10,966
Insurance Other	9,806	(6,628)	(m)	3,178
Bad Debt	1,864	0		1,864
Miscellaneous	21,752	13,344	(n)	35,096
Total Operation & Maintenance	<u>\$ 1,169,368</u>	<u>\$ 102,327</u>		<u>\$ 1,271,695</u>
Depreciation	553,367	159,677	(o)	713,044
Amortization	0	40,058	(p)	40,058
Taxes Other Than Income	42,708	6,854	(q)	49,562
Utility Operating Expenses	<u>\$ 1,765,443</u>	<u>\$ 308,916</u>		<u>\$ 2,074,359</u>
Net Utility Operating Income	<u>\$ 406,476</u>	<u>\$ (201,981)</u>		<u>\$ 204,495</u>
Other Income & Deductions:				
Revenues - Merch., Jobbing & Cont.	\$ 19,143	\$ 0		\$ 19,143
Interest Income	74,567	(60,048)	(r)	14,519
Total Other Income & Deductions	<u>\$ 93,710</u>	<u>\$ (60,048)</u>		<u>\$ 33,662</u>
Net Income Available for Debt Service	<u>\$ 500,186</u>	<u>\$ (262,029)</u>		<u>\$ 238,157</u>

ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

(a) Operating Revenues - Water Sales. In its 2000 Annual Report, Oldham County reports annual revenue from water sales of \$2,098,342. The Commission granted Oldham County a Certificate of Public Convenience and Necessity ( Certificate ) to construct a main to supply water to Dynegy, which will also reinforce the water supply to the Allen Lane Booster Station and the City of LaGrange.<sup>2</sup> The contract with Bluegrass sets the rate to be used for water sold to Dynegy and it establishes the minimum and maximum daily water purchases.

Using the Bluegrass contract, Staff determined that it is reasonable to expect Dynegy to purchase 51,100,000<sup>3</sup> gallons on an annual basis. Also, Staff s review of the Annual Reports shows that on average 250 residential customers are added each year and that they use approximately 7,400 gallons per month, which would result in an increase in annual water sales of 22,200,000.

Adjusting Staff s billing analysis to reflect the 73,300,000 gallon increase in water sales results in pro forma revenue from water sales of \$2,205,277, an increase of \$106,935 above the test-period level. Accordingly, revenue from water sales has been increased by that amount.

(b) Salaries & Wages - Employees. In its 2000 Annual Report, Oldham County reports a salaries & wages - employees expense of \$422,244. Oldham County

---

<sup>2</sup> The Application of Oldham County Water District for a Certificate of Public Convenience and Necessity to Construct an Improvements Project, Order dated February 8, 2001.

<sup>3</sup> 140,000 (Daily Water Purchases) x 365-Days = 51,100,000 Gallons.

ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

projected that it would give its employees a 5 percent across the board increase in July 2001. Using Oldham County s projected wage increase, the current staff level of 16 employees, and the actual overtime hours worked during the test-period, Staff calculated a pro forma level of salaries & wages employees expense of \$511,501.<sup>4</sup>

On July 1, 2001, Oldham County granted its employees a wage increase but not the 5 percent across the board increase that was projected. Substituting the actual for the projected wage rates results in a revised pro forma level of salaries and wages expense employees of \$520,840 as shown in Attachment C, Schedule 1. Accordingly, salaries & wages employees expense has been increased by \$98,596 to reflect Staff s revised pro forma level.

(c) Salaries & Wages Commissioners. Oldham County reports a test-period level of salaries & wages - commissioners expense of \$27,500. In its Order of February 15, 2000, the Oldham Fiscal Court set the annual commissioner salary at \$6,000 contingent upon the completion of 6 hours of water district management training. Paying each of Oldham County s 5 commissioners an annual fee of \$6,000 results in a pro forma level of salaries & wages commissioners expense of \$30,000, an increase of \$2,500 above the test-period level. Accordingly, salaries & wages commissioners expense has been increased by that amount.

---

<sup>4</sup> Application; Exhibit 5; Adjustment (b) Salaries & Wages Employees.

ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

(d) Employee Pensions & Benefits. In its 2000 Annual Report, Oldham County reports employee pension & benefit expense of \$129,932. Oldham County provides its employees with health insurance, retirement, uniforms, and disability insurance.

On April 15, 2001, Anthem Blue Cross & Blue Shield ( Anthem ) increased the premiums charged to Oldham County for its employee health insurance. Anthem bases its health insurance premiums on the age, gender, and physical condition of each employee and for this reason the monthly premium will not be the same for identical coverage levels but will vary from employee to employee. Using the health insurance premiums effective April 15, 2001, and eliminating the health insurance coverage Oldham County provides its Commissioners, Staff determined that the annual cost of this employee benefit is \$98,997, as shown in Attachment C, Schedule 2.

The employer contribution rate for Oldham County's pension plan is 7.17 percent. Applying the 7.17 percent employer contribution rate to the recommended salaries and wages of the full-time employees of \$504,200<sup>5</sup> results in a pro forma pension contribution of \$36,151.<sup>6</sup>

Oldham County provides uniforms for its outside workforce and disability insurance to all full-time employees. Using the fees and premiums Oldham County

---

<sup>5</sup> \$520,840 (Pro Forma Payroll) - \$16,640 (Part-Time Salaries) = \$ 504,200.

<sup>6</sup> \$504,200 (Full-Time Salaries) x 7.17% (Contribution Rate) = \$ 36,151.

ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

currently pays, Staff determined that costs of the uniform and disability benefits are \$6,292<sup>7</sup> and \$2,559,<sup>8</sup> respectively.

Combining the costs of the aforementioned health insurance, pensions, uniforms, and disability insurance benefits results in a pro forma level of employee pension & benefit expense of \$144,214, an increase of \$14,282 above the test-period level. Accordingly, employee pension & benefit expense has been increased by that amount.

(e) Purchased Power. Oldham County reports a test-period level of purchased power expense of \$222,210, which includes \$219,448 of electricity expense that will vary depending upon the amount of water produced and sold. Increasing water sales to reflect adding 250 new residential customers and the water sales to Dynegy will have a corresponding impact on the variable electricity costs. Using test-period line loss of 9.04 percent, the increase in test-period water sales of 73,300,000 gallons, Staff arrived at its purchased power expense increase of \$13,545, as shown in Attachment C, Schedule 3.

(f) Chemicals. Oldham County reports a test-period level of chemical expense of \$33,103. As with purchased power, increasing water sales will have a corresponding impact on the amount of chemicals purchased. By dividing test-period chemical expense by the actual test-period water production of 1,305,627,000 gallons Staff calculated a chemical cost rate of approximately \$0.025354 per 1,000 gallons of water

---

<sup>7</sup> \$572 (Cost per Employee) x 11 (Outside Employees) = \$6,292.

<sup>8</sup> \$213 (Monthly Disability Premium) x 12-Months = \$2,556.

ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

produced. Multiplying the chemical cost rate by the pro forma increase in water production of 80,584,900<sup>9</sup> gallons, Staff arrived at its pro forma increase in purchased chemical expense of \$2,043.<sup>10</sup>

(g) Materials and Supplies. Oldham County reports a test-period level of materials and supplies expense of \$115,133. After reviewing the invoices, Staff determined that Oldham County had expensed the following items:

Meters	\$	6,750
Meter Boxes	\$	1,735
Meter Lids	\$	1,489

The purchase of meters, meter boxes, and meter lids are capital expenditures that should be depreciated rather than expensed. Therefore, the materials and supplies expense has been reduced by \$9,974 to eliminate these items from the test-period operating expenses. A provision for the recovery of the capital expenditures is included in the depreciation expense adjustment.

(h) Contractual Services Legal. Oldham County's contractual services legal expense is \$3,047 for the test-period. Upon review of the invoices, Staff determined that legal fees of \$3,034 are for legal services that will not be provided in the future. Contractual services legal expense has been reduced by \$3,047 to eliminate these fees from Oldham County's test-period operating expenses.

---

<sup>9</sup> 73,300,000 (Increase in Water Sales) ÷ 90.96% (Line Loss Reciprocal) = 80,584,900 Gallons.

<sup>10</sup> \$0.025454 (Chemical Cost per 1,000 Gal.) x 80,584.900 (Increase in Water Production) = \$2,043.

ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

(i) Contractual Services - Other. Oldham County reports a test-period level of contractual services other expense of \$115,918, which includes \$1,899 for a repair to a well pump that was performed prior to the test-period. Also included in this expense is a fee of \$15,284 for an expert to appear before the Oldham County Zoning and Planning Commission to provide testimony on the issue of ground water protection. The cost of the expert testimony is a non-recurring expenditure that should be amortized rather than expensed. The contractual services other expense has been reduced by \$17,183 to eliminate the prior period expense and the cost of the expert testimony. A provision for the recovery of the expert testimony is included in the amortization expense adjustment.

(j) Transportation. The test-period transportation expense of \$26,546 includes \$2,529 for the cost to repair a truck transmission and radiator. The repair of a transmission and radiator will not occur on an annual basis and, therefore, should be amortized rather than expensed. Transportation expense has been reduced by \$2,529 to remove the repair item that is considered non-recurring. A provision for the recovery of the non-recurring expenditure is included in the amortization expense adjustment.

(k) General Liability & Vehicle. In its 2000 Annual Report Oldham County reports insurance general liability expense and insurance vehicle expense of \$7,637 and \$7,050, respectively. In 2001, Oldham County replaced its separate insurance policies for general liability and vehicle with an umbrella policy that has an annual premium of \$11,820, which is an overall decrease in insurance premiums of \$2,867. Accordingly, test-period operating expenses have been decreased by that amount.

ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

- (l) Workers Compensation. Oldham County reports a test-period level of insurance Workers Compensation expense of \$10,519. Using the recommended level of payroll and the current Workers Compensation premiums, Staff determined that the pro forma level of this expense is \$10,966, as shown in Attachment C, Schedule 4. Accordingly, Workers Compensation insurance expense has been increased by \$447.
- (m) Insurance - Other. Oldham County reports a test-period level of insurance other expense of \$9,806. Upon its review of the insurance invoices, Staff determined that the actual insurance other expense is \$3,178,<sup>11</sup> a decrease of \$6,628 below the reported level. Accordingly, insurance other expense has been decreased by \$6,628.
- (n) Miscellaneous. Oldham County reports a test-period level of miscellaneous expense of \$21,752, which includes the \$7,604 loan servicing fee Oldham County paid to the KIA. KIA s loan servicing fee is based on the outstanding loan balance on the date of the scheduled principal and interest payment. Using the amortization schedules for Oldham County s existing and proposed KIA loans, Staff calculated a 3-year average KIA loan servicing fee of \$20,948, an increase of \$13,344 above the test-period level. Accordingly, miscellaneous expense has been increased by \$13,344.
- (o) Depreciation Expense. Oldham County reports a test-period level of depreciation expense of \$157,761. Increasing Oldham County s Utility Plant Investment by the proposed construction projects and the capital expenditures removed from materials &

---

<sup>11</sup> Indemnity Bond	Commissioners	\$	2,700
Commercial Crime			174
Encroachment Bond		+	304
Total Insurance	Other Expense	\$	<u>3,178</u>



ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

supplies expense, Staff calculated a pro forma level of depreciation of \$713,044, as itemized in Attachment C, Schedule 5. Depreciation expense has been increased by \$159,677 to reflect Staff s recommended pro forma level.

(p) Amortization. Oldham County planned to paint and clean the horse park tank on September 1, 2001, and the industrial park tank on October 15, 2001. Staff was provided copies of the bids showing that the combined cost of the proposed tank painting and cleaning is \$118,900.<sup>12</sup> Staff has increased test-period operating expenses by \$40,058 to reflect amortizing the non-recurring items removed from other sections of this attachment and the proposed tank painting and cleaning over their estimated useful lives:

<u>Description</u>	<u>Cost</u>	<u>Amortization</u>	
		<u>Lives</u>	<u>Expense</u>
Expert Groundwater Protection	\$ 77,483	3 Years	\$ 25,828
Rate Case Cost	\$ 18,910	3 Years	\$ 6,303
Clean & Paint Horse Park Tank	\$ 53,500	15 Years	\$ 3,567
Clean & Paint Industrial Park Tank	\$ 65,400	15 Years	\$ 4,360

(q) Payroll Taxes. Oldham County s test-period payroll tax expense is \$37,994. Using the pro forma payroll, Staff calculated a pro forma payroll tax expense of \$44,848, as shown in Attachment C, Schedule 6. Payroll tax expense has been increased by \$6,854 to reflect the pro forma level.

(r) Interest Income. In its 2000 Annual Report, Oldham County reports a test-period level of interest income of \$74,567. In a response to Staff s interrogatories, Oldham

---

<sup>12</sup> \$53,500 (Horse Park Tank) + \$65,400 (Industrial Park Tank) = \$118,900.

ATTACHMENT C  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
PRO FORMA ADJUSTMENTS

County identified \$60,048 of interest income that has a restricted use. For this reason, Staff has reduced interest income by \$60,048 to remove the interest income earned on restricted accounts.

ATTACHMENT C  
SCHEDULE 1  
STAFF REPORT CASE NO. 2001-00174  
PRO FORMA SALARIES & WAGES -  
EMPLOYEES

Title	Payment Method	07/01/01 Pay Rates		Hours Worked		Regular
		Regular	Overtime	Regular	Overtime	
Asst. Superintendent	Salary	\$ 961.54	\$ 1,442.31	N/A	N/A	\$ 50,0
Office/Acct. Mgr.	Salary	\$ 769.23	\$ 1,153.85	N/A	N/A	40,0
Treat/Distrib. Spec.	Hourly	\$ 18.27	\$ 27.41	2,080	161	38,0
Meter Service Worker	Part-Time	\$ 9.00	\$ 13.50	1,040	0	9,3
Water Meter Spec.	Hourly	\$ 16.68	\$ 25.02	2,080	145	34,6
Meter Service Worker	Hourly	\$ 10.21	\$ 15.32	2,080	10	21,2
Maintenance Mgr.	Salary	\$ 1,007.25	\$ 1,510.88	N/A	N/A	52,3
Meter Service Worker	Part-Time	\$ 7.00	\$ 10.50	1,040	0	7,2
Maint. Tech	Hourly	\$ 15.00	\$ 22.50	2,080	168	31,2
Customer Service	Hourly	\$ 16.92	\$ 25.38	2,080	0	35,1
Cashier/Receptionist	Hourly	\$ 13.07	\$ 19.61	2,080	0	27,1
Meter Service Worker	Hourly	\$ 10.50	\$ 15.75	2,080	91	21,8
Meter Service Worker	Hourly	\$ 10.09	\$ 15.14	2,080	1	20,9
Inventory/C. Connect	Hourly	\$ 14.47	\$ 21.71	2,080	0	30,0
Superintendent	Salary	\$ 1,086.00	\$ 1,629.00	N/A	N/A	56,4
Distribution Tech.	Hourly	\$ 15.14	\$ 22.71	2,080	0	31,4
Pro Forma Salaries & Wages - Employees						

ATTACHMENT C  
SCHEDULE 2  
STAFF REPORT CASE NO. 2001-00174  
PRO FORMA EMPLOYEE PENSION & BENEFITS

Title	Employee Coverage	Dependent Coverage	Monthly Premium	Annual Premium
Asst. Superintendent	\$ 244.31	\$ 777.50	\$ 1,021.81	\$ 12,262
Office/Acct. Mgr.	596.25	601.53	1,197.78	14,373
Treat/Distrib. Spec.	169.52	240.49	410.01	4,920
Meter Service Worker	0.00	0.00	0.00	0
Commissioner	0.00	0.00	0.00	0
Chairman	0.00	0.00	0.00	0
Commissioner	0.00	0.00	0.00	0
Water Meter Spec.	244.31	777.50	1,021.81	12,262
Meter Service Worker	150.46	0.00	150.46	1,806
Maintenance Mgr.	405.91	509.73	915.64	10,988
Meter Service Worker	0.00	0.00	0.00	0
Maint. Tech	150.46	0.00	150.46	1,806
Commissioner	0.00	0.00	0.00	0
Customer Service	0.00	0.00	0.00	0
Cashier/Receptionist	505.63	0.00	505.63	6,068
Commissioner	0.00	0.00	0.00	0
Meter Service Worker	378.63	0.00	378.63	4,544
Meter Service Worker	419.11	0.00	419.11	5,029
Inventory/C. Connect	309.12	758.15	1,067.27	12,807
Superintendent	309.12	457.53	766.65	9,200
Distribution Tech.	244.31	0.00	244.31	2,932
Totals	<u>\$ 4,127.14</u>	<u>\$ 4,122.43</u>	<u>\$ 8,249.57</u>	<u>\$ 98,997</u>

ATTACHMENT C  
SCHEDULE 3  
STAFF REPORT CASE NO. 2001-00174  
PRO FORMA PURCHASED POWER ADJUSTMENT

<b><u>Line Loss Percentage</u></b>	
Water Produced	1,305,627.0
Test Period Water Sales	1,164,093.0
Add: Other Water Used	
Free Customers	14.0
Water Used by District	23,508.1
Unaccounted for Water	118,025.9
Total	<u>1,305,641.0</u>
Percentage of Line Loss	9.040%
Line Loss Reciprocal (1-Percentage)	<u>90.960%</u>

**Variable Cost of Electricity per Gallon of Water Production**

Electricity - Account 6403 Boosters	\$ 91,251
Electricity - Account 6402 Treatment Plant	86,278
Electricity - Account 6401 Well Pumps	41,919
Total Variable Cost of Electricity	<u>\$ 219,448</u>
Divided by: Test Period Water Production	1,305,627
Variable Cost of Electricity per 1,000 Gallons of Water Produced	<u>\$ 0.168079</u>

**Pro Forma Increase in Electricity**

Sales to Dynergy	51,100.0
Add: New Residential	<u>22,200.0</u>
Subtotal	<u>73,300.0</u>
Divided by: Line Loss Reciprocal	90.960%
Pro Forma Increase Water Sales	80,584.9
Multiplied by: Variable Cost of Electricity per 1,000 Gal. of Water Produced	\$ 0.168079
Pro Forma Adjustment	<u>\$ 13,545</u>

ATTACHMENT C  
 SCHEDULE 4  
 STAFF REPORT CASE NO. 2001-00174  
 PRO FORMA INSURANCE WORKERS  
 COMPENSATION

Description		Pro Forma Payroll	Rate per \$100	Premium
Waterworks Operation	W	\$ 411,655	\$ 3.76	\$ 15,478
Clerical	C	129,846	\$ 0.24	312
Total Manual Premium		<u>\$ 541,501</u>		<u>\$ 15,790</u>
Add:				
Employers' Liability Limits			3.00%	474
Premium Subtotal				<u>\$ 16,264</u>
Experience Modification			101.00%	\$ 16,427
Less:				
Rate Adjustment/Premium Discount			40.00%	6,506
Add:				
Expense Constant				140
Total Pro Forma Premium				<u>\$ 10,061</u>
Kentucky Special Fund Assessment			9.00%	<u>905</u>
Total Pro Forma Annual Cost				<u>\$ 10,966</u>
Less: Actual Ins. Workers Comp.				<u>10,519</u>
Pro Forma Adjustment				<u>\$ 447</u>

ATTACHMENT C  
SCHEDULE 5  
STAFF REPORT CASE NO. 2001-00174  
PRO FORMA DEPRECIATION EXPENSE

Acct #	Account Title	Pro Forma Depreciation Expense
301.10	ORGANIZATIONS	\$ 104
303.20	LAND & LAND RIGHTS	0
303.30	LAND & LAND RIGHTS	0
303.40	LAND & LAND RIGHTS	0
303.50	LAND & LAND RIGHTS	0
307.20	WELLS & SPRINGS	29,422
309.20	SUPPLY MAINS	10,236
310.20	POWER GENERATION EQUIPMENT	5,281
320.30	WATER TREATMENT EQUIPMENT	30,638
330.40	RESERVOIRS & STANDPIPES	126,221
331.40	DISTRIBUTION MAINS	281,309
333.40	SERVICES	5,843
334.40	METERS & INSTALLATIONS	95,401
335.40	HYDRANTS	7,259
339.40	OTHER PLANT MISC. EQUIPMENT	21
340.50	OFFICE EQUIPMENT	7,212
341.50	TRANSPORTATION EQUIPMENT	28,266
344.50	LABORATORY EQUIPMENT	566
346.50	COMMUNICATION EQUIPMENT	495
347.50	MISCELLANEOUS EQUIPMENT	900
347.90	TOOLS, SHOP & GARAGE EQUIPMENT	152
304.20	STRUCTURE & IMPROVEMENTS	14,036
304.30	WATER TREATMENT PLANT	6,193
304.50	STRUCTURE & IMPROVEMENTS - OFFICE	6,546
311.20	PUMPING EQUIPMENT	56,943
Pro Forma Depreciation Expense		\$ 713,044

ATTACHMENT C  
SCHEDULE 6  
STAFF REPORT CASE NO. 2001-00174  
PRO FORMA PAYROLL TAXES

Title	Pro Forma Payroll	Pro Forma Payroll Taxes			Total Payroll Taxes
		St. Unemp. \$ 7,000 0.80%	Fed. Unemp \$ 8,000 1.00%	FICA \$ 76,000 7.65%	
Asst. Superintendent	\$ 50,000	\$ 56	\$ 80	\$ 3,825	\$
Office/Acct. Mgr.	40,000	56	80	3,060	
Treat/Distrib. Spec.	42,415	56	80	3,245	
Meter Service Worker	9,360	56	80	716	
Water Meter Spec.	38,322	56	80	2,932	
Meter Service Worker	21,390	56	80	1,636	
Maintenance Mgr.	52,377	56	80	4,007	
Meter Service Worker	7,280	56	73	557	
Maint. Tech	34,980	56	80	2,676	
Customer Service	35,194	56	80	2,692	
Cashier/Receptionist	27,186	56	80	2,080	
Meter Service Worker	23,273	56	80	1,780	
Meter Service Worker	21,002	56	80	1,607	
Inventory/C. Connect	30,098	56	80	2,302	
Superintendent	56,472	56	80	4,320	
New Position	31,491	56	80	2,409	
Chairman	6,000	48	60	459	
Commissioner	6,000	48	60	459	
Commissioner	6,000	48	60	459	
Commissioner	6,000	48	60	459	
Commissioner	6,000	48	60	459	
Pro Forma Totals	\$ 520,840	\$ 1,136	\$ 1,573	\$ 42,139	\$



ATTACHMENT D  
 STAFF REPORT CASE NO. 2001-00174  
 DETERMINATION OF MINIMUM AND OPTIMUM  
 REVENUE REQUIREMENTS

	Determination of Revenue Requirements	
	Minimum	Optimum
3-Year Average Debt Service	\$ 1,300,548	\$ 1,300,548
Multiplied by: Debt Service Coverage	1.1	1.1
Income From Operations	\$ 1,430,603	\$ 1,430,603
Add: Operating Expenses	1,271,695	1,271,695
Depreciation	0	713,044
Amortization	0	40,058
Taxes Other Than Income	49,562	49,562
Total Revenue Requirement	\$ 2,751,860	\$ 3,504,962
Less: Other Income & Deductions	33,662	33,662
Revenue Requirement from Operations	\$ 2,718,198	\$ 3,471,300
Less: Other Operating Revenues	73,577	73,577
Revenue Requirement from Water Sales	\$ 2,644,621	\$ 3,397,723
Less: Pro Forma Revenue - Water Sales	2,205,277	2,205,277
<b>Requested/Recommended Increase</b>	<b>\$ 439,344</b>	<b>\$ 1,192,446</b>

ATTACHMENT E  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
COST OF SERVICE STUDY

In calculating the cost of service study for Oldham County, Commission Staff used the commodity demand methodology as set out in the American Water Works Association s ( AWWA ) Manual M-1 in determining fair, just, and reasonable rates for the customers of Oldham County.

Commission Staff first performed a billing analysis that verified the revenues collected from water sales, and provided a summarization or tabulation of customer bills which provided a useful basis for identifying and analyzing customer usage patterns, selecting water-usage rate blocks, and determining revenue under any rate schedule. The difference between the amount listed in the 2000 Annual Report and the amount calculated in the Billing Analysis was less than one percent, thus making the amount of in the annual report acceptable to Commission Staff.

Following completion of the Billing Analysis, a sound analysis of the adequacy of charges required allocation of costs among the customers commensurate with their service requirements in order to recognize differences in costs of furnishing service to different types of customers. For example, a customer with a high peak rate of use as compared with an average rate of use requires larger capacity pumps, pipes, and certain other system facilities than a customer that has an equal total volume of use but takes water at a uniform rate. Accordingly, cost allocation procedures should recognize the particular service requirements of the customers for total volume of water, peak rates of use, along with other factors.

The expenses of the utility were allocated according to the three different classifications: Commodity, Demand, and Customer.

ATTACHMENT E  
STAFF REPORT CASE NO. 2001-00174  
STAFF S DISCUSSIONS ON THE  
COST OF SERVICE STUDY

Commodity costs are those costs that vary directly with the quantity of water produced and/or purchased by the utility. These costs include chemicals, purchased water, and purchased power. Demand costs are associated with providing facilities to meet the peak demands placed on the system. These costs include transmission and distribution costs. Customer costs are those costs attributable to serving the customers, regardless of the amount of water used. These costs include billing, collecting, and meter reading.

The analysis showed that \$386,176 of the \$3,390,641 in revenues required from rates should be collected from the wholesale customers. The remaining \$3,010,465 is allocated to the retail customers with \$209,996 collected from the commodity category, \$2,115,591 collected from the demand category, and \$684,878 collected from the customer category. These amounts were then divided by their respective divisors to determine the proposed rates.

In order to verify that the rates recommended by Staff will produce the revenue requirement determined reasonable herein, they were applied to the information obtained in the billing analysis to project revenues. The verification showed that the recommended rates produce revenues to within 0.005 percent of the revenue requirement, which is an acceptable difference. Therefore, Staff recommends that the rates as shown in Attachment F be approved by the Commission.

ATTACHMENT F  
STAFF REPORT CASE NO. 2001-00174  
STAFF S RECOMMENDED RATES

The following rates are recommended for customers of the Oldham County

Water District:

Monthly Rates

First 40,000 Gallons	\$	3.05	per 1,000 Gallons
Over 40,000 Gallons	\$	1.63	per 1,000 Gallons

Monthly Customer Charge

5/8 Inch Connection	\$	8.03
3/4 Inch Connection	\$	8.83
1 Inch Connection	\$	20.08
1 1/2 Inch Connection	\$	40.15
2 Inch Connection	\$	80.30
3 Inch Connection	\$	120.45

WHOLESALE RATE	\$	1.35	per 1,000 Gallons
----------------	----	------	-------------------

INDUSTRIAL RATE	\$	1.63	per 1,000 Gallons
-----------------	----	------	-------------------