

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE GREEN HILLS)	
WATER DISTRICT TO REVISE ITS TARIFF)	
TO ESTABLISH A RATE FOR A)	CASE NO. 2002-00420
WHOLESALE CUSTOMER)	

O R D E R

On October 31, 2002, Green Hills Water District (Green Hills) filed its application for Commission approval of its proposed wholesale water rate. The Commission issued an Order on November 27, 2002 finding that additional review of the filing was necessary and suspending the tariff. Commission Staff, having reviewed the application of Green Hills and the information filed in response to the Commission s data request of May 12, 2003, 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 4th day of August, 2003.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
GREEN HILLS WATER DISTRICT
CASE NO. 2002-00420

Pursuant to a request by Green Hills Water District (Green Hills) for approval of an initial wholesale water rate, The Commission suspended the proposed tariff filing into the above mentioned case. The scope of Staff's review was limited to obtaining information as to whether the utilities proposed calculation of the wholesale rate was a fair, just and reasonable estimation of the wholesale rate.

Leslie County Fiscal Court constructed a water line, connecting customers who were previously not served by a potable water system, to Green Hills existing water line. The cost of the construction was approximately \$446,498. The total cost for the installation of the line was paid for by the Division of Abandoned Mine Lands (AML). AML has also paid for forty-five taps, which was contributed to the aid of the construction. The customers served by this line are to be customers of the Hyden-Leslie Water District.

Green Hills calculated their proposed wholesale rate of \$3.45 per 1,000 gallons by the following calculations based on five estimated costs. First, the purchased water cost of \$1.75 per 1,000 gallons which the City of Pineville (Pineville) charges Green Hills. Second, Green Hills added all electric bills from June 15, 2001 through June 15, 2002 for pump station number one. Green Hills divided the total by 12 equaling \$415.67 per month. Green Hills estimated that approximately 1,800,000 gallons were pumped through pump station one each month. Green Hills divided \$415.67 by

1,800,000 gallons resulting in \$0.23 per 1,000 gallons pumped. Steps three and four were calculated in the same manner as step two, for pump stations two and three. Resulting in \$0.14 per 1,000 gallons for pump station two and \$0.04 per 1,000 gallons for pump station three.

In step five, Green Hills calculated the average cost for mileage, insurance, gas, oil and depreciation of the vehicle for reading the meter. Green Hills estimated that it took 16 miles to drive to the meter which equals 32 miles per day, multiplying 32 miles by 0.365 cents per mile equals \$11.68 per day. Green Hills proposed to read the meter each day Monday through Friday, or 20 times each month. Green Hills estimated that sales to Hyden-Leslie would be 180,000 gallons per month. Green Hills estimated a cost of \$233.60 each month for travel. Again, dividing this number by 180 for each estimated thousand gallon purchased by Hyden-Leslie, the cost would equal \$1.29 per 1,000 gallons.

Finally, Green Hills took the sum of each of the five identified costs to calculate a wholesale rate of \$3.45 per 1,000 gallons.

Green Hills stated that it purchases water at a rate of \$1.75 per 1,000 gallons from Pineville. Green Hills did not request any additional purchased water costs due to line loss. The Commission does not allow line loss above 15% for rate making purposes. Green Hills reported 15% or greater line loss in its 2000 and 2001 annual reports on file with the Commission. The \$1.75 per 1,000 gallons purchased cost of water should be adjusted by 15% to account for the additional costs due to line loss. Resulting in a purchased water cost of \$2.01 per 1,000 gallons. Staff is of the opinion that the estimated calculation of electric pumping cost is reasonable.

Staff questioned Green Hills practice of reading the meter serving Hyden-Leslie 20 times a month. Green Hills stated in its response to the Commission's May 12, 2003 data request that in the event of a line break on Hyden-Leslie's system a storage tank would empty and cause a loss of water service to the entire system. Staff is of the opinion that a leak as described by Green Hills could occur at any time in Green Hills system as well as Hyden-Leslie's system. The need to read the meter 20 times a month is not justified by any credible evidence. Green Hills should read the meter for its wholesale customer once a month the same as its retail customers.

Following Green Hills method of calculating the wholesale rate and making Staff's recommended adjustments Staff recommends a wholesale rate of \$2.49 per 1,000 gallons.

Signature

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

ATTACHMENT A
STAFF REPORT CASE NO. 2002-00420
STAFF S RECOMMENDED RATES

Wholesale Water Rate

\$2.49 per 1,000 gallons