

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BRONSTON WATER)
ASSOCIATION, INC. FOR AN)
ADJUSTMENT OF RATES PURSUANT TO) CASE NO. 2003-00159
THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On May 12, 2003, Bronston Water Association (Bronston) filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Bronston s operations, 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 20th day of June, 2003.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
BRONSTON WATER ASSOCIATION
CASE NO. 2003-00159

Pursuant to a request by Bronston Water Association (Bronston) for assistance with the preparation of a rate application for its water operations, Commission Staff (Staff) performed a limited financial review of Bronston s test year operations for the calendar year ending December 31, 2001. 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 the review, Staff assisted Bronston in the development and preparation of a rate application. The application included an adjusted pro forma operating income statement wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable. The rates proposed by Bronston were based on the pro forma income statement as shown in the application. The application also includes the calculation of Bronston s revenue requirement using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for small water utilities. To generate the revenue requirement of \$325,611, Bronston is proposing to increase its annual revenue from water rates by \$19,516, an increase of 6.37% over normalized revenue of \$306,095.

In reviewing Bronston's billing analysis and rate structure, the Commission Staff noted several changes that should be made to the rate design and rates for service.

Bronston's existing rates consist of a minimum bill for 1,500 gallons of usage per month and 4 declining block rate steps. Upon a review of the usage patterns of the almost exclusively residential service territory of Bronston, Staff determined that the number of declining block rate steps should be reduced to a minimum bill for 1,500 gallons and 2 usage steps. This reduction in rate steps will make the billing structure somewhat easier to use and will not have a significant impact on the billing to the average customer.

The cost of service study performed by Staff indicated that the customers using in excess of 15,000 gallons of water per month were not paying their portion of the cost of providing water service. The rate in the last usage step was found to be inadequate to cover the wholesale cost of water when taking into consideration the cost associated with line losses and company water usage. Consequently the newly designed rates will result in a larger percentage increase in the rates of the customers using in excess of 15,000 gallons per month.

The existing rate structure of Bronston included a separate charge for customers that had a secondary water user attached to their service line called the double hook-up charge. This charge of \$10.25 per month was added to the customer's bill as a flat rate no matter how many additional users were added to the customer's line. It was determined by Staff that the customer that had secondary water users attached to his service line were not provided any additional services beyond what was provided to customers without a double hook-up. Therefore, Staff recommended that the double

hook-up charge be discontinued. Staff also recommended, and Bronston concurs that the practice of allowing multiple users to attach to a primary customer's service line should be discontinued. While the existing customers will not be required to disconnect these secondary users, the Association will not allow additional customers to provide this service.

Staff concurred with Bronston in its request to keep the rate for service to fire hydrants at the current level. The cost of service study included the investment in hydrants in the customer related costs in order to spread the cost equally among all customers who receive the benefits of having the fire hydrants located in the community.

On May 12, 2003, Bronston filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of Bronston's application as its recommendation in this report as if fully set out herein. Gary Forman is responsible for all revenue adjustments and the calculation of the proposed rates. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the information included in Bronston's application, Staff is of the opinion that the rates as shown in Attachment A of this report are reasonable and should be approved by this Commission.

Signatures

Prepared by: Jack Kaninberg
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Gary Forman
Municipal Rate Specialist
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2003-00159
STAFF S RECOMMENDED RATES

Monthly Water Rates

First	1,500 gallons	\$10.03 minimum bill
Next	13,500 gallons	\$ 3.59 per 1,000 gallons
Over	15,000 gallons	\$ 3.08 per 1,000 gallons