

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CUNNINGHAM)	
WATER DISTRICT FOR AN ADJUSTMENT)	
OF RATES PURSUANT TO THE)	CASE NO.
ALTERNATIVE RATE FILING PROCEDURE)	2003-00374
FOR SMALL UTILITIES)	

O R D E R

On September 29, 2003, Cunningham Water District (Cunningham) filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Cunningham'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 30th day of October, 2003.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
CUNNINGHAM WATER DISTRICT
CASE NO. 2003-00374

Pursuant to a request by Cunningham Water District (Cunningham) for assistance with the preparation of a rate application for its water operations, Commission Staff (Staff) performed a limited financial review of Cunningham's test year operations for the calendar year ending December 31, 2002. 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 Cunningham 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 Cunningham were based on the pro forma income statement as shown in the application. The application also includes the calculation of Cunningham's revenue requirement using an 88 percent Operating Ratio, which is frequently used by the Commission to determine revenue requirements for small water utilities. To generate the revenue requirement of \$27,936, Cunningham is proposing to increase its annual revenue from water rates by \$3,804, an increase of 17.9% over normalized revenue from water sales of \$21,254. This proposal would increase the

average monthly bill for 5,000 gallons of usage from \$12.60 to \$15.30, an increase of 21.4 percent.

On September 29, 2003, Cunningham filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of Cunningham's application as its recommendation in this report as if fully set out herein. Jason Green 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 Cunningham'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: Jason Green
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A

STAFF REPORT CASE NO. 2003-00374

STAFF S RECOMMENDED RATES

Monthly Water Rates

First	2,000	gallons	\$7.32	Minimum bill
Next	3,000	gallons	2.66	per 1,000 Gallons
Over	5,000	gallons	1.85	per 1,000 Gallons