

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE JONATHAN	)	
CREEK WATER DISTRICT FOR APPROVAL	)	CASE NO.
OF THE PROPOSED INCREASE IN RATES	)	2004-00273
FOR WATER SERVICE	)	

ORDER

On July 2, 2004, Jonathan Creek Water District ("Jonathan Creek") submitted its application requesting the Commission to approve its proposed increase in water rates. Commission Staff, having performed a limited financial review of Jonathan Creek'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:

1. 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 requests for a hearing or informal conference.
2. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing.

3. If no request for a formal 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 18<sup>th</sup> day of August, 2004.

By the Commission

ATTEST:



Executive Director

STAFF REPORT  
ON  
JONATHAN CREEK WATER DISTRICT  
CASE NO. 2004-00273

Pursuant to a request by Jonathan Creek Water District (“Jonathan Creek”) for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Jonathan Creek’s test period operations, 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 its limited review, Staff assisted Jonathan Creek in the development and preparation of its rate application, which Jonathan Creek filed with the Commission on July 2, 2004. Staff hereby adopts the contents of Jonathan Creek’s application as its recommendation in this report as if fully set out herein. Jessamyn Thompson of the Commission’s Division of Financial Analysis is responsible for all pro forma revenue adjustments, the billing analysis, and the cost-of-service study. Mark Frost of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Exhibit 3 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, Exhibit 7 of the application and

Appendix B of Staff's Report, shows that Jonathan Creek's pro forma operations support a revenue requirement from water rates of \$867,995, an increase of \$108,369 or 14.27 percent above the normalized revenue from water rates of \$759,626. The rates proposed by Jonathan Creek and developed in Exhibit 11, the cost-of-service study, will increase the average residential bill from \$30.37 to \$34.87, an increase of \$4.50 or 14.8 percent.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$867,995 will allow Jonathan Creek to pay its adjusted operating expenses, meet the debt service coverage requirements of Jonathan Creek's bond ordinances, and provide for future equity growth. Staff further finds that Jonathan Creek's proposed rates, attached hereto as Appendix C, will generate the annual revenue requirement of \$867,995 and are reasonable. Staff recommends the Commission approve Jonathan Creek's proposed rates.

### Signatures

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

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

APPENDIX A  
STAFF REPORT CASE NO. 2004-00273  
PRO FORMA INCOME STATEMENT

	Test-Period Operations	Pro Forma Adjustments	Adj. Ref	Pro Forma Operations
Operating Revenues:				
Revenue - Water Sales	\$ 774,057	\$ (14,431)	(a)	\$ 759,626
Other Operating Revenues	18,889	0		18,889
Total Operating Revenues	<u>\$ 792,946</u>	<u>\$ (14,431)</u>		<u>\$ 778,515</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages - Emp.	\$ 158,462	\$ (49,594)	(b)	\$ 108,868
Salaries & Wages - Com.	24,000	0		24,000
Emp. Pension & Benefits	50,169	(26,246)	(c)	23,923
Purchased Power	60,439	(4,867)	(d)	55,572
Chemicals	5,488	0		5,488
Materials & Supplies	102,238	(20,979)	(e)	81,259
Contractual Services	24,429	0		24,429
Meter Reading	0	14,762	(f)	14,762
Water Testing	6,698	0		6,698
Rent - Building/Real. Property	157	0		157
Transportation	13,106	0		13,106
Insurance	22,868	1,011	(g)	23,879
Regulatory Commission Exp.	1,433	0		1,433
Bad Debt	4,014	0		4,014
Miscellaneous	977	4,116	(h)	5,093
Total Operation & Maint.	<u>\$ 474,478</u>	<u>\$ (81,797)</u>		<u>\$ 392,681</u>
Depreciation	133,517	3,358	(i)	136,875
Amortization	0	0		0
Taxes Other Than Income:				
PSC Assessment	644	0		644
Payroll Taxes	12,286	(3,414)	(j)	8,872
Utility Operating Exp.	<u>\$ 620,925</u>	<u>\$ (81,853)</u>		<u>\$ 539,072</u>
Net Utility Operating Income	<u>\$ 172,021</u>	<u>\$ 67,422</u>		<u>\$ 239,443</u>
Other Income & Deductions:				
Interest Income	11,444	(9,115)	(k)	2,329
Net Inc. Available for Debt Service	<u>\$ 183,465</u>	<u>\$ 58,307</u>		<u>\$ 241,772</u>

**Adj. Ref.**

**Adjustment Description**

- (a) **Revenue from Water Sales:** This adjustment reflects the results of Commission Staff's billing analysis and the current tariffed rate.
- (b) **Salaries & Wages – Employees:** Beginning in 2003, Jonathan Creek switched from paying its employees an hourly rate to a salary. This adjustment reflects the 2003 Staff level and the current salaries.
- (c) **Employee Pensions & Benefits:** This adjustment reflects the impact the pro forma payroll has on the employer retirement contribution and the 2004 employee insurance premiums.
- (d) **Purchased Power:** This adjustment reflects the results of Commission Staff's analysis of the test-period electric invoices.
- (e) **Materials & Supplies:** This adjustment removes a FICA adjustment and misclassified capital expenditures.
- (f) **Meter Reading:** Jonathan Creek has entered into a contract for meter reading. This adjustment reflects the contract fee of \$0.49 per meter.
- (g) **Insurance:** This adjustment reflects the current premiums for general liability, workers compensation, vehicle, and all other insurance coverages.
- (h) **KIA Service Fee:** This adjustment reflects the 3-year average of the fee paid to the Kentucky Infrastructure Authority.
- (i) **Depreciation:** This adjustment reflects the normalization of depreciation of plant placed in service during the test-period and depreciation on capital expenditures removed from expenses.
- (j) **Payroll Taxes:** This adjustment reflects the pro forma payroll and the current payroll tax rates.
- (k) **Interest Income:** This adjustment reflects eliminating the interest income earned on restricted investments.

APPENDIX B  
STAFF REPORT CASE NO. 2004-00273  
REVENUE REQUIREMENT DETERMINATION

3-Year Average Debt Service	\$	291,784
Multiplied by: Debt Service Coverage	x	<u>1.2</u>
Income From Operations	\$	350,141
Add: Operating Expenses		392,681
Depreciation		136,875
Taxes Other Than Income	+	<u>9,516</u>
Total Revenue Requirement	\$	889,213
Less: Other Income & Deductions	-	<u>2,329</u>
Revenue Requirement from Operations	\$	886,884
Less: Other Operating Revenues	-	<u>18,889</u>
Revenue Requirement from Water Sales	\$	867,995
Less: Pro Forma Revenue - Water Sales	-	<u>759,626</u>
<b>Requested/Recommended Increase</b>	<b>\$</b>	<b><u><u>108,369</u></u></b>

APPENDIX C  
STAFF REPORT CASE NO. 2004-00273  
STAFF'S RECOMMENDED WATER RATES

**RATES AND CHARGES**

Customer Charge

5/8Inch Meter	\$	6.12
1Inch Meter	\$	11.83
1 1/2 Inch Meter	\$	21.36
2 Inch Meter	\$	32.78
3 Inch Meter	\$	59.45
6 Inch Meter	\$	129.77

Water Usage

All usage	\$	5.75 per 1,000 gallons
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