

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GARRISON-QUINCY-KY-O-)
HEIGHTS WATER DISTRICT FOR A RATE) CASE NO.
ADJUSTMENT PURSUANT TO THE ALTERNATIVE) 2006-00161
RATE FILING PROCEDURE FOR SMALL UTILITIES)

ORDER

On April 19, 2006, Garrison-Quincy-Ky-O-Heights Water District ("Garrison-Quincy") filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Garrison-Quincy'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 25th day of May, 2006.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
CASE NO. 2006-00161

Pursuant to a request by Garrison-Quincy-Ky-O-Heights Water District ("Garrison-Quincy") for assistance with the preparation of a rate application for its water operations, Commission Staff ("Staff") performed a limited financial review of Garrison-Quincy's test year operations for the calendar year ending December 31, 2004. 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 Garrison-Quincy 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, as shown in Attachment B to this report. The rates proposed by Garrison-Quincy were based on the pro forma income statement as shown in the application. Using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for small water utilities, Garrison-Quincy could have justified a revenue requirement of \$381,253 and a revenue increase of \$76,906. However, Garrison-Quincy is proposing to increase its annual revenue from water rates by \$27,252, an increase of 10% over normalized water sales revenue of \$272,521. This

increase would allow Garrison-Quincy to pay its operating expenses and debt service, and produce a positive cash flow.

On April 19, 2006, Garrison-Quincy filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of Garrison-Quincy's application as its recommendation in this report as if fully set out herein. Jess Thompson 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 Garrison-Quincy'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: Jess Thompson
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2006-00161
STAFF'S RECOMMENDED RATES

Monthly Water Rates

5/8" x 3/4" Meter:

First	2,000 gallons	\$12.18 Minimum Bill
Next	3,000 gallons	5.45 per 1,000 gallons
Next	5,000 gallons	4.13 per 1,000 gallons
Over	10,000 gallons	3.47 per 1,000 gallons

1" Meter:

First	10,000 gallons	\$49.18 Minimum Bill
Over	10,000 gallons	3.47 per 1,000 gallons

2" Meter:

First	50,000 gallons	\$187.98 Minimum Bill
Over	50,000 gallons	3.47 per 1,000 gallons

ATTACHMENT B
STAFF REPORT CASE NO. 2006-00161

Garrison-Quincy Attachment B	2004	Adjustments	Ref.	Adjusted
Water Sales Revenue	\$298,599	(\$26,078)		\$272,521
Other Operating Revenue	\$10,407	\$20,735		\$31,142
Water Sales Revenue	\$309,006	(\$5,343)	(a)	\$303,663
Employee Salaries	\$81,129	(\$1,699)	(b)	\$79,430
Officer Salaries	\$6,380	\$220	(c)	\$6,600
Pensions/Benefits CERS	\$8,757	(\$2,022)	(d)	\$6,735
Purchased Water	\$24,793	(\$3,025)	(e)	\$21,768
Purchased Power	\$15,041	(\$1,767)	(f)	\$13,274
Chemicals	\$6,969	(\$819)	(g)	\$6,150
Materials/Supplies	\$21,832	(\$8,763)	(h)	\$13,069
Contractual Services	\$4,224	\$1,422	(i)	\$5,646
Transportation Exp.	\$13,352	(\$8,549)	(j)	\$4,803
Insurance	\$21,511	0		\$21,511
Reg. Com Exp.	\$466	0		\$466
Misc. Exp.	\$35,093	(\$8,806)	(k)	\$26,287
Tot. Water Util. Exp.	\$239,547	(\$33,808)		\$205,739
Depreciation Expense	\$90,974	0		\$90,974
Amortization Expense	0	\$3,320	(l)	\$3,320
Taxes OT Income	\$10,649	(\$4,068)	(m)	\$6,581
Total Op. Expenses	\$341,170	(\$34,556)		\$306,614
<i>Total Operating Income</i>	<i>(\$32,164)</i>	<i>\$29,213</i>		<i>(\$2,951)</i>
Interest Income	684	0		\$684
Interest Expense	(\$45,366)	0		(\$45,366)
Net Income	(\$76,846)	\$29,213		(\$47,633)

Revenue Requirement

\$ 306,614 - Adjusted Op. Expenses

\$ 74,639 - 1.2X Debt Service Coverage of \$62,199

\$ 381,253 - Revenue Requirement

(\$303,663)– Less Normalized Revenues

(\$ 684) - Less Interest Income

\$ 76,906 - Justified Increase (28.2% increase over normalized sales rev. of \$272,521)

\$ 27,252 – Increase of 10% on Sales Revenue of \$272,521 requested by Board.

Debt Service:

\$22,900 - 2006 principal

\$13,000 - 2007 principal

\$14,600 - 2008 principal

\$50,500 – Principal payments 2006-2008

\$16,833 - 3 yr. avg. principal

\$45,366 - 2004 Interest Expense

\$62,199 – Debt Service

Explanatory Notes

(a) Revenue normalization based upon Commission Staff's billing analysis, including reclassifying \$20,735 of surcharge revenue from Sales Revenue to Other Operating Revenue.

(b) Employee Salaries were normalized to reflect wage levels as of:

Employee	Total per Year	Weekly Hours	Pay Rate eff. 9/04	Total per Week	Proforma Total per Year
Manager	\$25,733	40	\$13.50	\$540	\$28,080
Operator \$10.50 Replaced by lower wages of \$8.00	\$23,323	40	\$8.00	\$320	\$16,640
Office Worker	\$11,440	25	\$9.50	\$237.50	\$12,350
Operator	\$20,633	40	\$10.75	\$430	\$22,360
Totals	\$81,129			\$1,527.50	\$79,430

(c) Officers' Salaries were based upon a proforma expense of \$110 per month for each of the five Commissioners.

(d) Pensions and Benefits Expense was based upon the District's CERS contribution rate of 8.48% times normalized Salaries Expense of \$79,430.

(e) Normalized Purchased Water Expense was calculated as follows, including an adjustment for excess line loss (the Commission normally allows no more than 15% line loss for ratemaking purposes) :

	2004	Proforma	Purch.	Prod.
Purchased (19.47%)	14,174			
Produced (80.53%)	58,618			
Tot. water purch./prod (100%)	72,792			
Water sold (71.65%)	52,157.0	51,907,887		
Water used by GQ (3.31%)	2,406.5			
Subtotal (74.96%)	54,563.5	54,304,272		
Unacct for loss (25.04%)	18,228.5	18,140,062		
Total (100%)	72,792.0	72,444,334		
Hold to 15% line loss		9,583,106		
Add Sales and Use		54,304,272		
Total if 15% line loss		63,887,378	12,438,873	51,448,505
Actual at 25.04%		18,140,062		
15% line loss		9,583,106		
Excess line loss		8,556,956	1,666,039	6,890,917
			\$1.75/th.	
Line loss Adjustment			\$2,916	

2004 Purchased Water Expense \$24,793 divided by Purchases of 14,174 = \$1.75 average rate.

Proforma purchases of 12,438.873 (including 15% line loss) x \$1.75 = \$21,768
(Remaining \$109 adjustment due to decreased normalized sales)

(f) - Purchased Power Expense was adjusted for excess line loss as follows:

2004 Purchased Power Expense - \$15,041 Divided by 2004 thousand gallons produced and purchased of 72,792 = \$.2066 purchased power cost per thousand x total excess line loss of 8,556.956 thousand gallons = \$1,767 adjustment

(g) Chemicals Expense was adjusted for excess line loss as follows:

2004 Chemicals Expense \$6,969 Divided by 2004 thousand gallons produced of 58,618 = \$.1189 chemicals cost per thousand x Excess proforma production of 6,890.917 thousand gallons = \$819 adjustment

(h) Materials and Supplies Expense was reduced by \$8,763 to remove a nonrecurring expenditure of \$8,763 for replacement of greensand in the filters, an expenditure expected to occur roughly every 10 years.

(i) Contractual Services Expense was increased by \$1,422 to reflect quarterly meter testing by Big Sandy Water District (at \$474 per quarter), which began in the last quarter of 2004.

(j) Transportation Expense was adjusted to remove several items which were capital or nonrecurring in nature, as follows:

Date	Vendor and Item Description	Amount	Annual Amount	Adjustment
2/18/04	Engineered Fluid, Inc. - pump	\$800.00	0	\$800.00
5/10/04	Reynolds, Inc. – Well pump	\$4,036.64	0	\$4,036.64
7/8/04	Dewey Lewis Garage – Dump Truck Repairs	\$954.79	0	\$954.79
9/29/04	Pressure Tech – Tank and Dry Bed Cleaning	\$2,523.65	\$400	\$2,123.65
11/8/04	South Town Specialties – Gas Tank	\$634.18	0	\$634.18
	Adjustment to Transportation Exp.	\$8,949.26	\$400	\$8,549.26

(k) Miscellaneous Expense was adjusted to remove several items which were capital or nonrecurring in nature, as follows:

Item or Vendor Description	Test Year Amount	Proforma Amount	Adjustment
Continuing Education Expenses	\$4,037.28	\$2,500.00	\$1,537.28
Lowes – Camera, Vacuum, A/C	\$676.11	0	\$676.11
Ohio Pest Control – Nonrecurring charge	\$332.50	0	\$332.50
Machine Runner – Bill Burster	\$1,599.00	0	\$1,599.00
Quality Outdoor Products - Building	\$2,866.50	0	\$2,866.50
Rick Kamer – Nonrecurring Charge	\$216.00	0	\$216.00
Rusty Dunigan - NRC	\$80.00	0	\$80.00
Lowes – Pressure Washer	\$999.00	0	\$999.00
Christmas Bonuses	\$500.00	0	\$500.00
Adjustment to Miscellaneous Exp.	\$11,306.39	\$2,500.00	\$8,806.39

(l) Amortization Expense was adjusted to allow recovery over several years for nonrecurring items charged to Materials and Supplies, Transportation, and Miscellaneous Expenses, as follows:

Expense Account	Vendor and Item Description	Amount	Years Amort.	Amount per Year
Materials	CEI Filters – Greensand replacement	\$8,763.00	10	\$876.30
Transportation	Engineered Fluid, Inc.	\$800.00	5	\$160.00
Transportation	Reynolds, Inc	\$4,036.64	5	\$807.33
Transportation	Dewey Lewis Garage	\$954.79	3	\$318.26
Transportation	South Town Specialties	\$634.18	5	\$126.84
Miscellaneous	Lowes – Camera, Vacuum, A/C	\$676.11	3	\$225.37
Miscellaneous	Machine Runner Bill Burster	\$1,599.00	5	\$319.80
Miscellaneous	Quality Outdoor Products Building	\$2,866.50	10	\$286.65
Miscellaneous	Lowes Pressure Washer	\$999.00	5	\$199.80
	Adjustment to Amortization Expense			\$3,320.35

(m) Taxes Other Than Income Expense was adjusted to allow for FICA taxes of \$6,581 based upon normalized Employees' and Commissioners' wages of \$86,030 at a rate of 7.65%.