

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF WATER RATES OF) CASE NO.
THE KNOX COUNTY UTILITY COMMISSION) 2006-00502

ORDER

On November 30, 2006, Knox County Utility Commission ("Knox") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Knox'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 17th day of January, 2007.

By the Commission

ATTEST:


Executive Director

STAFF REPORT
ON
KNOX COUNTY UTILITY COMMISSION
CASE NO. 2006-00502

Pursuant to a request by Knox County Utility Commission ("Knox") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited financial review of Knox's test year operations, the calendar year ending December 31, 2005. 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 Knox in the development and preparation of a rate application. On November 30, 2006, Knox submitted that application to the Commission for consideration. The application includes 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 Knox are based on the pro forma income statement which is shown in the application at Exhibit B. Exhibit A of the application shows the revenue requirements from rates to be \$1,032,888, an increase of \$171,693 over normalized test year revenues from rates.

To limit the rate shock felt by its customers Knox proposes to increase rates gradually through a three-step rate phase-in plan implemented over a two year period. Through this three-step plan rates will be increased initially to generate \$85,846 in

additional annual revenues and adjusted again at the end of the next two consecutive twelve month periods so as to generate an additional \$42,923 in annual revenues for each of those two year periods. At the end of the phase-in plan rates will be at a level so as to generate the full revenue requirement of \$1,032,888.¹

As a part of the rate phase-in plan Knox proposes to eliminate a \$4 monthly surcharge that is assessed to the approximately 410 customers receiving service through the “Brush Creek Project.”

The proposed rate phase-in plan will increase a residential customer’s bill using 5,000 gallons of water as shown in Table I.

	Cost of 5,000 Gallons to Customers Other Than Brush Creek		Percent Increase	Cost of 5,000 Gallons to Brush Creek Customers		Increase/ (Decrease)	Percent
Current Rates	\$	32.80		\$	36.80		
Phase One Rates		36.40	\$ 3.60	10.98%	36.40	\$ (0.40)	-1.09%
Phase Two Rates		38.06	1.66	4.56%	38.06	1.66	4.56%
Phase Three Rates		39.73	1.67	4.39%	39.73	1.67	4.39%

Staff is hereby adopting the contents of that application as its recommendation in this report as if fully set out herein. Eddie Beavers is responsible for all revenue adjustments and cost of service calculations used to determine the proposed rates. Scott Lawless is responsible for the determination of the revenue requirement. Based

¹ Normalized Test Year Revenues at Current Rates	\$861,196
Additional Revenues From: Phase One	85,846
Phase Two	42,923
Phase Three	<u>42,923</u>
Total	<u>\$1,032,888</u>

on the information included in Knox's application, Staff is of the opinion that the rates included in Knox's proposed phase-in plan, which are shown at Attachment A of this report, are reasonable and should be approved by this Commission.

Signatures

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

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

ATTACHMENT A
STAFF REPORT CASE NO. 2006-00502
STAFF'S RECOMMENDED RATES

Phase 1, 1st Year

Monthly Rate:

5/8 Inch x 3/4 Inch Meter

First	1,000 gallons	\$14.08 Minimum Bill
Over	1,000 gallons	5.58 per 1,000 gallons

1 Inch Meter

First	5,000 gallons	\$36.40 Minimum Bill
Over	5,000 gallons	5.58 per 1,000 gallons

2 Inch Meter

First	20,000 gallons	\$105.35 Minimum Bill
Over	20,000 gallons	5.58 per 1,000 gallons

3 Inch Meter

First	30,000 gallons	\$175.90 Minimum Bill
Over	30,000 gallons	5.58 per 1,000 gallons

4 Inch Meter

First	50,000 gallons	\$287.50 Minimum Bill
Over	50,000 gallons	5.58 per 1,000 gallons

Multiple Meter Connections* \$14.08 per connection

(*See method of calculating as stated in the District's Rules and Regulations)

Phase 2, 2nd Year

Monthly Rate:

5/8 Inch x 3/4 Inch Meter

First	1,000 gallons	\$14.74 Minimum Bill
Over	1,000 gallons	5.83 per 1,000 gallons

1 Inch Meter

First	5,000 gallons	\$38.06 Minimum Bill
Over	5,000 gallons	5.83 per 1,000 gallons

2 Inch Meter

First	20,000 gallons	\$125.51 Minimum Bill
Over	20,000 gallons	5.83 per 1,000 gallons

3 Inch Meter

First	30,000 gallons	\$183.81 Minimum Bill
Over	30,000 gallons	5.83 per 1,000 gallons

4 Inch Meter

First	50,000 gallons	\$300.41 Minimum Bill
Over	50,000 gallons	5.83 per 1,000 gallons

Multiple Meter Connections*

\$14.74 per connection

(*See method of calculating as stated in the District's Rules and Regulations)

Phase 3, 3rd Year and Thereafter

Monthly Rate:

5/8 Inch x 3/4 Inch Meter

First	1,000 gallons	\$15.41 Minimum Bill
Over	1,000 gallons	6.08 per 1,000 gallons

1 Inch Meter

First	5,000 gallons	\$39.73 Minimum Bill
Over	5,000 gallons	6.08 per 1,000 gallons

2 Inch Meter

First	20,000 gallons	\$130.93 Minimum Bill
Over	20,000 gallons	6.08 per 1,000 gallons

3 Inch Meter

First	30,000 gallons	\$191.73 Minimum Bill
Over	30,000 gallons	6.08 per 1,000 gallons

4 Inch Meter

First	50,000 gallons	\$313.33 Minimum Bill
Over	50,000 gallons	6.08 per 1,000 gallons

Multiple Meter Connections*

\$15.41 per connection

(*See method of calculating as stated in the District's Rules and Regulations)