

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE NEBO WATER)
DISTRICT FOR APPROVAL OF A PROPOSED) CASE NO. 2007-00081
INCREASE IN RATES FOR WATER SERVICE)

ORDER

On February 22, 2007, Nebo Water District ("Nebo") filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Nebo'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 29th day of March, 2007.

By the Commission

ATTEST:


Executive Director *for Beth O'Donnell*

STAFF REPORT
NEBO WATER DISTRICT
CASE NO. 2007-00081

Pursuant to a request by Nebo Water District (“Nebo”) for assistance with the preparation of a rate application for its water operations, Commission Staff (“Staff”) performed a limited financial review of Nebo’s test year operations for 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 Nebo 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 A. The rates proposed by Nebo were based on the pro forma income statement as shown in the application. The application also includes the calculation of Nebo’s revenue requirement using a 1.2 debt service coverage, which is frequently used by the Commission to determine revenue requirements for water districts. Nebo is proposing to increase its annual revenue from water rates by \$94,564, an increase of 13.69 percent over normalized revenues from water sales of \$690,792. This would increase the average bill for 5,000 gallons of usage from \$30.45 to \$33.89, an increase of 11.3 percent.

On February 22, 2007, Nebo filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of Nebo'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 Nebo's application, Staff is of the opinion that the rates as shown in Attachment B 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. 2007-00081
PRO FORMA INCOME STATEMENT

Nebo WD Attachment A	2005	Adjustment	Ref.	Adjusted
Water Sales Revenue	\$646,660	\$29,724	(A)	\$676,384
Other Operating Revenue	\$14,408	0		\$14,408
Total Operating Revenue	\$661,068	\$29,724		\$690,792
Employee Salaries	\$45,854	\$10,306	(B)	\$56,160
Officer Salaries	\$10,800	0		\$10,800
Employee Pensions/Benefits	\$13,651	0		\$13,651
Purchased Water	\$334,911	\$30,090	(C)	\$365,001
Purchased Power	\$10,327	0		\$10,327
Materials/Supplies	\$53,827	(\$18,038)	(D)	\$35,789
Contractual Services-Eng.	\$5,352	(\$2,676)	(E)	\$2,676
Contract Services-Acct.	\$7,000	0		\$7,000
Contract Services-Legal	\$50	0		\$50
Contract Services-Other	\$83,510	\$20,800	(F)	\$73,644
		(\$30,666)		
Rental Equipment	\$6,814	(\$1,384)	(G)	\$5,430
Transportation Exp.	\$9,591	\$600	(H)	\$10,191
Insurance-Gen. Liability	0	0		0
Insurance-Workers' Comp	\$3,389	\$2,945	(I)	\$6,334
Insurance-Other	\$6,924	(\$967)	(J)	\$5,957
Advertising	\$2,368	0		\$2,368
Bad Debt	\$958	0		\$958
Misc. Exp.	\$15,146	(\$951)	(K)	\$14,195
Tot. Water Util. Exp.	\$610,472	\$10,059		\$620,531
Depreciation Expense	\$96,671	(\$734)	(L)	\$96,998
		\$1,061		
Amortization Expense	0	\$317	(M)	\$317
Taxes OT Income	\$10,230	\$339	(N)	\$10,569
Total Op. Expenses	\$717,373	\$11,042		\$728,415
<i>Total Operating Income</i>	<i>(\$56,305)</i>	<i>\$18,682</i>		<i>(\$37,623)</i>
Interest Income	\$13,347	(\$4,004)	(O)	\$9,343
Nonutility Income	\$23,800	0		\$23,800
Debt Amortization Expense	(\$540)	0		(\$540)
Interest Expense	(\$40,575)	\$4,593		(\$35,982)
Net Income	(\$60,273)	\$19,271		(\$41,002)

Revenue Requirement

\$ 728,415 - Proforma Operating Expenses

\$ 540 - Debt Amortization Expense

\$ 89,544 - Debt Service Coverage (1.2 x \$74,620 Debt Service)

\$ 818,499 - Revenue Requirement

(\$690,792) - Less Normalized Revenues

(\$ 9,343) - Unrestricted Interest Income

(\$ 23,800) - Nonutility Income

\$ 94,564 - Justified Increase (13.69% increase over normalized revenues)

Nebo Debt Service Coverage	2007	2008	2009	3-yr. avg.
1979 RD				
Principal	\$28,000	\$30,000	\$32,000	\$30,000
Interest	\$20,100	\$18,600	\$17,000	\$18,567
Total	\$48,100	\$48,600	\$49,000	\$48,567
2001 KRWC				
Principal	\$10,000	\$11,000	\$11,000	\$10,667
Interest	\$15,882	\$15,394	\$14,882	\$15,386
Total	\$25,882	\$26,394	\$25,882	\$26,053
			Total	\$74,620

Explanatory Notes:

A. Normalized Revenues as determined by Commission Staff's billing analysis.

B. Proforma Salaries and Wages Expense for two full-time employees as of July 2006.

Employee Title	Hourly and Weekly Amount	Proforma	2005	Adjustment
1. Office Manager	\$12 x 40=\$480	\$24,960	\$28,551	(\$3,591)
2. Manager	\$15 x 40=\$600	\$31,200	\$17,280	\$13,920
Other Wages		0	\$443	(\$443)
Reported		\$56,160	\$45,854	\$10,306

C. Purchased Water Expense was adjusted to restrict allowable purchased water expense including 15% line loss rather than the 20% line loss experienced in 2005, as follows:

Nebo WD Purchased Water	2005
Purchases (Th. Gallons)	154,632,000
%	100%
Purchased Water Expense	\$334,911
Sales (Gallons) (%)	123,376,000
Other Use	230,000
Subtotal	123,606,000
Line Loss (20.06%)	31,026,000
Total	154,632,000
Rate \$2.51 per thousand	\$2.51
Total if 15% line loss (123,606/85%)	145,418,820
Purchased Water Expense	\$365,001
2005 Purchased Water Exp.	\$334,911
Proforma Increase	\$30,090
Adjustment for excess line loss \$2.51 x 9,213,180	(\$23,125)

D. Materials and Supplies Expense was adjusted to remove several items that were capital in nature and to allow their recovery in depreciation expense, as follows:

Date	Item	Amount	Life (yrs.)	Depreciation Exp.
5/6	Ditch Witch-Trencher Parts	\$854.42	5	\$170.88
9/15	Sullivan Constr.-Road Bore	\$2,400.00	40	\$60.00
9/21	Sullivan Constr.-Road Bore	\$2,400.00	40	\$60.00
1/26	Wemhoener-54 meters @ \$31.85	\$1,719.90	10	\$171.99
3/9	Wemhoener-24 meters @ \$31.85	\$764.40	10	\$76.44
4/6	Wemhoener-10 meters @ \$71.78	\$717.80	10	\$71.78
6/14	Wemhoener-10 meters @ \$71.78	\$717.80	10	\$71.78
9/12	Wemhoener-Line Extension	\$6,247.85	40	\$156.20
9/21	Wemhoener –Dotiki Mine Tap	\$1,963.63	10	\$196.36
“	“	\$136.34	10	\$13.63
“	“	\$116.00	10	\$11.60
	Total	\$18,038.14		\$1,060.66

E. Contractual Services – Engineering Expense was adjusted to allow for a two-year average of engineering services related to line extensions.

F. Contractual Services – Other Expense was adjusted to reflect the wages of certain water district employees whose salaries and wages were classified in Contract Services – Other expense as of July 2006.

Employee Title	Notes	Pro forma	2005	Difference
3. Field Worker	None–Hired 4/06	\$20,800	0	\$20,800
4. Field Worker	T&D	\$36,000	\$55,171	(\$19,171)
5. Field Worker	T&D – no longer employed	0		
6. Meter Reader	Meter Reader	\$14,400	\$14,500	(\$100)
		\$71,200	\$69,671	\$1,529
Other Contract Services		\$2,444		
Total Pro Forma Amount		\$73,644		

G. Rental Equipment Expense was adjusted to take a two-year average for backhoe rentals.

H. Transportation Expense was adjusted to allow the Office Manager \$1,800 per year vs. \$1,200 paid in 2005 for gas expense related to miscellaneous duties.

I. Workers Compensation Insurance Expense was adjusted to reflect pro forma costs.

J. Other Insurance Expense was adjusted to reflect pro forma costs.

K. Miscellaneous Expense was adjusted to remove a nonrecurring charge for a \$951 trash pump.

L. Depreciation Expense was increased by \$1,061 to allow for recovery of the capital items removed from Materials and Supplies Expense, and decreased to remove items that will be fully depreciated at the end of 2006, as follows

Date	Item	Cost	2005 Deprec.	Proforma Deprec.	Adjustment
7/96	Office Shelves	\$912.00	\$91.20	0	\$91.20
7/01	Telephone	\$129.00	\$25.80	0	\$25.80
7/96	Carpet	\$1,030.00	\$103.00	0	\$103.00
7/99	Meters	\$3,600.00	\$514.29	0	\$514.29
				Total	\$734.29

M. Amortization Expense was adjusted to allow a three-year recovery period for the \$951 Trash Pump removed from Miscellaneous Expense.

N. Taxes Other Than Income Expense was adjusted to allow for pro forma FICA taxes at 7.65% x Salaries of \$138,157 for the employees and Commissioners.

O. Interest Income was adjusted for ratemaking purposes to remove the interest earned on restricted cash, which was 30% of total cash.

ATTACHMENT B
STAFF REPORT CASE NO. 2007-00081
STAFF'S RECOMMENDED RATES

Monthly Water Rates

First	2,000 Gallons	\$15.89	Minimum Bill
Next	2,000 Gallons	6.15	Per 1,000 Gallons
Next	6,000 Gallons	5.70	Per 1,000 Gallons
Next	10,000 Gallons	5.27	Per 1,000 Gallons
Over	20,000 Gallons	4.82	Per 1,000 Gallons

Minimum Bills

5/8 Inch X 3/4 Inch	\$15.89	First 2,000 Gallons
1 Inch	28.19	First 4,000 Gallons
1-1/2 Inch	62.39	First 10,000 Gallons
2 Inch	115.09	First 20,000 Gallons
3 Inch	163.29	First 30,000 Gallons
4 Inch	259.69	First 50,000 Gallons