

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CUNNINGHAM WATER )  
DISTRICT FOR AN ADJUSTMENT OF RATES ) CASE NO.  
PURSUANT TO THE ALTERNATIVE RATE FILING ) 2007-00203  
PROCEDURE FOR SMALL UTILITIES )


ORDER

On May 22, 2007, 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 5th day of July, 2007.

ATTEST:

  
Executive Director

By the Commission

STAFF REPORT  
ON  
CUNNINGHAM WATER DISTRICT  
CASE NO. 2007-00203

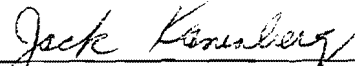
Pursuant to a request by Cunningham Water District ("Cunningham") for assistance with the preparation of a rate application for its water operations, Commission Staff ("Staff") performed a limited financial review of Cunningham's test year operations for the calendar year ending December 31, 2005. The 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 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, as shown in Attachment A. 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 \$36,167, Cunningham is proposing to increase its annual revenue from water rates by \$5,753, an increase of 21.6% over normalized revenue from water sales of \$26,677. This proposal

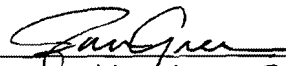
would increase the average monthly bill for 5,000 gallons of usage from \$15.30 to \$18.50, an increase of 20.9 percent.

On May 22, 2007, 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 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: Jason Green  
Rate Analyst, Communications, Water,  
and Sewer Rate Design Branch  
Division of Financial Analysis

ATTACHMENT A  
STAFF REPORT CASE NO. 2007-00203  
STAFF'S RECOMMENDED PRO FORMA OPERATIONS

Cunningham WD Attachment A	2005	Adjustments	Ref	Adjusted
Water Operating Revenue	\$26,552	\$125	A	\$26,677
Purchased Power	\$2,013	0		\$2,013
Chemicals	\$219	0		\$219
Materials/Supplies	\$1,354	0		\$1,354
Contract Services-Management Fees	\$19,154	\$2,085 (\$9,900)	B	\$11,339
Water Testing	\$3,451	(\$1,489)	C	1,962
Insurance	\$1,775	0		\$1,775
Miscellaneous Expense	\$2,425	(\$250) \$1,200	D	\$3,375
<i>Total Water Utility Expense</i>	<i>\$30,391</i>	<i>(\$8,354)</i>		<i>22,037</i>
Depreciation Expense	\$4,444	(\$129)	E	\$4,315
Amortization Expense	0	\$496 \$3,300 \$1,629	F	\$5,425
Taxes OT Income	\$50	0		\$50
<b>Total Operating Expenses</b>	<b>\$34,885</b>	<b>(\$3,058)</b>		<b>\$31,827</b>
<i>Total Operating Income</i>	<i>(\$8,333)</i>	<i>\$3,183</i>		<i>(\$5,150)</i>
Interest Income	\$3,737	0		\$3,737
Net Income	(\$4,596)	\$3,183		(\$1,413)

**Revenue Requirement**

\$31,827 – Total Operating Expenses

\$36,167 – Divided by 88% Operating Ratio

(\$26,677) – 2005 Revenues

(\$ 3,737) – Interest Income

\$ 5,753 - Increase (21.6% increase over normalized revenues)

**Reference Notes:**

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

B. Contract Services Expense was adjusted for two items. First, the monthly fee for plant operations, billing and collection has increased to \$800 per month effective June 2006. Second, nonrecurring charges for tank maintenance and repairs have been removed from expenses, and recovery over a multi-year period has been requested in amortization expense.

C. Water Testing Expense has been adjusted to remove a testing expenditure which occurs only once every three years, and recovery has been requested in amortization expense.

D. Miscellaneous Expense has been adjusted for two items. First, two dues payments were made to the Kentucky Rural Water Association during 2005, and one of these charges has been removed. Second, bookkeeping, accounting, and administrative fees have been increased from \$100 to \$200 per month.

E. Depreciation Expense was adjusted to recognize that certain plant items were fully depreciated during 2005 and 2006.

F. Amortization Expense was adjusted to request a three-year recovery for the Water Testing expenditure of \$1,489, the tank maintenance and repair expenditures totaling \$9,900, and for three significant 2006 nonrecurring plant maintenance and repair expenditures totaling \$4,887.86.

ATTACHMENT B  
STAFF REPORT CASE NO. 2007-00203  
STAFF'S RECOMMENDED RATES

Monthly Water Rates

First 2,000 gallons	\$9.98	Minimum bill
Next 3,000 gallons	2.84	per 1,000 Gallons
Over 5,000 gallons	1.98	per 1,000 Gallons