

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF REID VILLAGE            )  
WATER DISTRICT FOR APPROVAL OF        ) CASE NO. 2008-00146  
INCREASED RATES FOR WATER SERVICE    )

ORDER

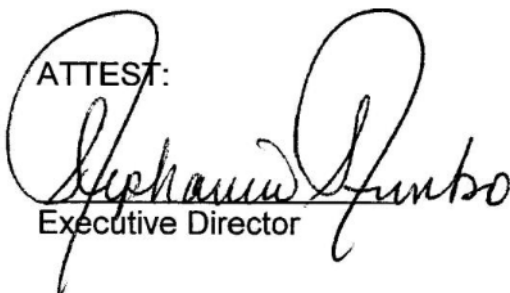
On April 21, 2008, Reid Village Water District (“Reid Village”) filed its application for Commission approval of its proposed water rates. Commission Staff, having performed a limited financial review of Reid Village’s operations, has prepared the attached Staff Report containing Staff’s findings and 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 file with the Commission written comments regarding the attached Staff Report or requests for a hearing or an informal conference. If no request for a hearing or informal conference is received within 10 days of the date of this Order, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 23<sup>rd</sup> day of May, 2008.

By the Commission

ATTEST:

  
Executive Director

STAFF REPORT  
ON  
REID VILLAGE WATER DISTRICT  
CASE NO. 2008-00146

Pursuant to a request by Reid Village Water District (“Reid Village”) for assistance with the preparation of a rate application for its water operations, Commission Staff (“Staff”) performed a limited financial review of Reid Village’s test year operations for the calendar year ending December 31, 2006. 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 Reid Village 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 Reid Village 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, Reid Village justified a revenue requirement of \$447,670 and a revenue increase of \$56,306. This increase would allow Reid Village to pay its operating expenses and debt service, and produce a positive cash flow.

On April 21, 2008, Reid Village filed its rate application with the Commission. Based on the information included in Reid Village's application, Staff is of the opinion that the rates as shown in Attachment A of this report and the utility's calculation of its revenue requirement as shown in Attachment B are reasonable and should be approved by this Commission. Eddie Beavers is responsible for all revenue adjustments and the calculation of the proposed rates. Jack Kaninberg is responsible for the determination of the revenue requirement.

Signatures

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

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

ATTACHMENT A  
STAFF REPORT CASE NO. 2008-00146  
STAFF'S RECOMMENDED RATES

Monthly Water Rates

First	2,000	Gallons	\$17.67	Minimum Bill
Next	1,000	Gallons	5.59	per 1,000 Gallons
Next	2,000	Gallons	5.13	per 1,000 Gallons
Next	5,000	Gallons	4.66	per 1,000 Gallons
Over	10,000	Gallons	4.18	per 1,000 Gallons

**NONRECURRING CHARGES**

Connect Fee	20.00
Deposit	65.00
Re-connection Charge	25.00
Tap On Fee	650.00

ATTACHMENT B  
STAFF REPORT CASE NO. 2008-00146

<b>Reid Village WD Pro Forma</b>	<b>2006</b>	<b>Adjustments</b>	<b>Ref.</b>	<b>Adjusted</b>
Water Sales Revenue	\$367,038	\$7,548		\$374,586
Other Operating Revenue	\$15,781	0		\$15,781
<b>Water Sales Revenue</b>	<b>\$382,819</b>	<b>\$7,548</b>	<b>A</b>	<b>\$390,367</b>
Employee Salaries	\$93,850	\$19,394	<b>B</b>	\$113,244
Officer Salaries	\$3,500	0		\$3,500
Pensions and Benefits	\$22,936	\$2,593	<b>C</b>	\$25,529
Purchased Water	\$137,247	\$11,908	<b>D</b>	\$149,155
Water Testing	0	\$1,068	<b>E</b>	\$1,068
Materials/Supplies	\$11,460	\$38,969 (\$12,106) (\$1,721)	<b>F</b>	\$36,602
Contract Services – Accounting	\$2,300	0		\$2,300
Rental – Building	\$4,800	0		\$4,800
Transportation Expense	\$4,917	0		\$4,917
Insurance Expense - Other	\$8,410	0		\$8,410
Miscellaneous Expense	\$52,520	(\$47,237)	<b>G</b>	\$5,283
<i>Tot. Water Utility Expense</i>	<i>\$341,940</i>	<i>\$12,868</i>		<i>\$354,808</i>
Depreciation Expense	\$22,668	\$242 \$5,163	<b>H</b>	\$28,073
Taxes Other Than Income	\$7,431	\$1,500	<b>I</b>	\$8,931
<b>Total Op. Expenses</b>	<b>\$372,039</b>	<b>\$19,773</b>		<b>\$391,812</b>
<i>Total Operating Income</i>	<i>\$10,780</i>	<i>(\$12,225)</i>		<i>(\$1,445)</i>
Interest Income	\$997	0		\$997
Interest Expense	\$42,184	(\$6,403)	<b>J</b>	\$35,781
Net Income	(\$30,407)	(\$5,822)		(\$36,229)

**Revenue Requirement:**

\$ 391,812 - Adjusted Operating Expenses

\$ 55,858 – Debt Service (see below)

\$ 447,670 - Revenue Requirement

(\$390,367) - Less Normalized Revenues

(\$ 997) - Less Interest Income

**\$ 56,306 - Proposed Increase (14.42% increase over normalized revenue)**

**Debt Service:**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Total</b>
Principal - RD \$400,000 issued 2006	\$4,400	\$4,600	\$4,800	
Principal - RD \$411,000 issued 1997	\$6,000	\$6,000	\$6,500	
Total Principal	\$10,400	\$10,600	\$11,300	\$32,300
			3-yr. avg. principal	\$10,766.67
			Plus Interest	\$35,781.25
			Total	\$46,547.92
			X 1.2 DSC =	<b>\$55,858</b>

**Reference Notes:**

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

**B. Employee Wages and Salaries Expense** was adjusted to reflect current salaries.

**C. Employee Pensions and Benefits Expense** was adjusted to reflect current health insurance rates.

**D. Purchased Water Expense** was adjusted to reflect normalized purchases of 72,055.856 gallons at the current purchased water rate of \$2.07 per thousand gallons.

**E. Water Testing Expense** of \$1,068 was reclassified from Miscellaneous Expense.

**F. Materials and Supplies Expense** was adjusted for three items. The first was to reclassify various materials and supplies expenses totaling \$38,969 from Miscellaneous Expenses to this account. The second was to remove various capital or nonrecurring expenditures totaling \$12,106 from the account and to allow for their recovery in Depreciation Expense, as follows:

Date	Amount	Account and Vendor	Item
Feb. 9	\$1,212.76	Maint. Supplies - Utility Service	Meters, etc.
July 12	\$902.92	Maint. Supplies - Utility Service	Meters, etc.
July 12	\$1,480.00	Maint. Work - Keath Plumbing	Set meters, replace line
Aug. 15	\$1,992.54	Maint. Supplies - Utility Service	Meters, etc.
Aug. 15	\$1,625.20	Maint. Supplies - USA Bluebook	Pressure recorder and chemical fee pump
Sept. 15	\$751.86	Maint. Supplies - Utility Service	Gate valve and 2" hydrant
Sept. 15	\$600.00	Maint. Work - Keath Plumbing	Set meter
Oct. 18	\$3,540.32	Maint. Work - Wilson Equipment	Backhoe; power shuttle and torque conv.
	<b>\$12,105.60</b>	<b>Total – Depreciate at 2%</b>	

The third was to remove a charge of \$1,721 that was incurred in 2005 but not paid until 2006.

**G. Miscellaneous Expense** was adjusted for three reasons. The first was to reclassify Materials and Supplies expenses of \$38,969 to that account; the second was to reclassify water testing expenses of \$1,068 to that account; and the third was to remove \$7,200 of compensation paid to employees in 2006 that is now reflected in pro forma salaries expense.

**H. Depreciation** was adjusted for two items. The first was an adjustment of \$242 to allow depreciation expense at a 2% rate on the \$12,106 of capital items removed from Materials and Supplies Expense. The second was to allow increase depreciation expense by \$5,163 to reflect a full year's depreciation on plant added in 2006.

**I. Taxes Other Than Income Expense** was adjusted to include FICA tax at a 7.65% rate on proforma salaries of \$116,744.

**J. Interest Expense** was adjusted to reflect pro forma Interest Expense on two Rural Development loans.