

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF OHIO COUNTY WATER )  
DISTRICT FOR (1) ISSUANCE OF A CERTIFICATE )  
OF PUBLIC CONVENIENCE AND NECESSITY FOR )  
CONSTRUCTION OF THE SERIES III WATER )  
SYSTEM IMPROVEMENTS; (2) AUTHORIZATION )  
TO ISSUE SERIES III REVENUE BONDS IN THE )  
AMOUNT OF \$1,890,000; AND (3) AUTHORIZATION )  
TO ADJUST RATES TO PAY FOR THE )  
ADDITIONAL INDEBTEDNESS )

CASE NO.  
2003-00034

ORDER

On April 14, 2003, Ohio County Water District ("Ohio District") submitted an application to the Commission seeking a Certificate of Public Convenience and Necessity to construct a water improvement project labeled as "Series III"; permission to issue revenue bonds in the amount of \$1,890,000 to finance Series III; and an increase in rates to generate funds adequate to retire said bonds. The application was considered filed on May 2, 2003 when all filing deficiencies were cured. Intervention in the case was requested by, and granted to, the Attorney General of the Commonwealth of Kentucky ("Attorney General") and Jacqueline L. Mitchell ("Mitchell"), a customer of Ohio District.

Series III construction consists of approximately 34 miles of water main in Ohio and Daviess counties that will provide service to approximately 65 new customers and enhance the quality and reliability of service to approximately 248 customers. Series III is part of Ohio District's long-range plan of supplying water to Fordsville, providing sufficient water storage facilities in that part of the county, supplying water to parts of

Ohio County that do not have potable water, and closing loops to create a hydraulically sound transmission and distribution system. Ohio District requested that it be allowed to finance Series III with water revenue bonds with an expected average annual interest rate of 4.73 percent. The Commission approved the proposed construction and financing through an Interim Order dated May 15, 2003, so as not to unduly delay the construction and financing of Series III. The Commission's Interim Order continued all portions of the application relating to the proposed rates until such time as adequate and proper review could be performed by the Commission and its Staff.

In its application for rate adjustment Ohio District provided calculations supporting annual revenue requirements from rates in the amount of \$3,090,879. However, Ohio District requested rates that would produce only \$2,909,910, a \$418,558 or 16 percent increase over test-year normalized revenues of \$2,491,352.

On September 19, 2003, after review of Ohio District's test-year operations, Staff issued a report recommending that the Commission approve the requested level of revenue from rates of \$2,909,910. Staff determined that Ohio District could have justified rates that generate \$2,998,966 in annual revenues but recommended that the Commission approve the amount requested by Ohio District. The requested amount will allow Ohio District to cover its debt, pay operating costs, and recover sufficient depreciation for Ohio District to meet its current level of asset extension and replacement.

The Staff Report included a cost-of-service study in which recommended rates were calculated based on Ohio District's pro forma operations as determined by Staff. There, Staff erroneously calculated rates that would produce revenue found justifiable,

\$2,998,966, instead of the recommended amount, \$2,909,910. An Amended Staff Report correcting this error was issued by Commission Order dated October 2, 2003. The rates recommended in the amended report would increase a residential bill of 5,000 gallons from \$39.88 to \$44.78, an increase of 12.29 percent. The Orders issuing the original and amended reports granted all parties 15 days to file comments or request an informal conference or formal hearing.

On October 2, 2003, the Commission received a request for formal hearing from Mitchell. By Order dated October 9, 2003, the Commission scheduled a formal hearing for October 31, 2003, and a preceding informal conference for October 15, 2003, to discuss all issues and any agreements among the parties that could be placed into the record.

The informal conference was held as scheduled, and a memo summarizing the conference was filed into the record on October 21, 2003. All parties were granted five days from receipt of the memo to respond. During the informal conference, Ohio District presented a written statement that it was in agreement with the Staff Report of September 19, 2003, as amended by Order dated October 2, 2003. Ohio District's written statement was filed with the Commission in electronic form on October 21, 2003. Also on October 21, 2003, the Commission received, in electronic form, a statement from Mitchell waiving the request for a formal hearing. The Attorney General did not file written comment to the Staff Reports or informal conference memo. At the informal conference the Attorney General stated that he would attend any hearings that may be held in this matter but would not request one otherwise.

Having considered the Staff Reports, the informal conference memo, and all comments thereto, the Commission issued an Order dated October 23, 2003, canceling the formal hearing scheduled for October 31, 2003, and ordering the case submitted for Commission decision based upon the record.

The Commission, having considered the evidence of record, and all comments of the public, and being otherwise sufficiently advised, finds that:

1. The recommendations and findings contained in the Staff Report, as amended on October 2, 2003, are supported by the evidence of record, are reasonable, and are hereby adopted as the findings of the Commission in this proceeding and are incorporated by reference as if fully set out herein.

2. The rates in Appendix A of this Order are fair, just and reasonable for water sales by Ohio District and will produce annual operating revenue from water sales of \$2,909,910.

3. A review of Ohio District's water statistic summary as included at page 30 of its 2002 Annual Report raises concern of annual water loss. The summary states the water loss percentage at 10.6 percent, which is below that allowed by 807 KAR 5:066, Section 6(3), or 15 percent. However, not included in that calculation is other water used of 113,402,000 gallons. In Ohio District's annual report this amount is designated as construction, flushing, disinfection, etc., but no specific detail of the amounts or its

uses is provided. The amount appears to be inordinately high and, if included as lost water, the resulting water loss percentage is 29.54 percent.<sup>1</sup>

4. Ohio District shall submit to the Commission a written statement that specifically details the use of all water produced and/or purchased during 2002. Where estimates were made, fully explain how the estimates were determined, state why it is reasonable, and provide all assumptions and the basis for such assumptions used to determine the estimates. This statement shall be more detailed than, but reconciled to, the water statistic table provided in Ohio District's 2002 Annual Report. Also, for each category of water used or lost included on this statement, list and explain all past and current efforts by Ohio District to try and control, minimize, or eliminate lost water.

5. Ohio District's application for rate adjustment in this case can and shall be closed while the Commission continues to investigate Ohio District's reported water loss. Any reduction in pro forma operations imposed by the Commission to account for excessive water loss would have to exceed \$89,056 (\$2,998,966 justifiable revenue requirement - \$2,909,910 recommended revenue requirement) before the rates approved herein would be affected. If all 113,402,000 gallons noted at finding 3

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<sup>1</sup>	All information taken from 2002 Annual Report	
	Water Loss	63,217,000.00
	Plus: Other (construction, flushing, disinfection, etc.)	<u>113,402,000.00</u>
	Total Water Lost	176,619,000.00
	Divide by: Gallons Produced	<u>597,954,000.00</u>
	Percent Lost	<u>29.54%</u>

are determined to be water lost, the resulting expense adjustment would be only \$25,469.<sup>2</sup>

IT IS THEREFORE ORDERED that:

1. The rates proposed by Ohio District in its application are hereby denied.
2. The rates set out in Appendix A are approved for services rendered by Ohio District on and after the date of this Order.
3. Within 30 days of the date of this Order, Ohio District shall file with the Commission its revised tariff setting out the rates approved herein.
4. Within 60 days of the date of this Order, Ohio District shall file a schedule as found necessary by this Commission detailing the uses of all water produced and/or purchased in 2002.
5. Three years from the date of this Order, Ohio District shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

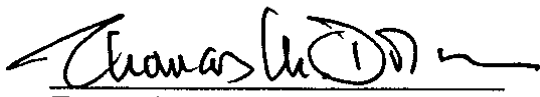
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<sup>2</sup>	All information taken from 2002 Annual Report	
	Purchased Pumping Expense	\$136,885.00
	Chemical Expense	<u>38,249.00</u>
	Total Direct Costs	\$175,134.00
	Divide by: Gallons produced	<u>597,954,000.00</u>
	Direct Costs per Gallon	\$.000293
	Times: Gallons disallowed over 15% loss	<u>86,925,900.00</u>
	Disallowed Expense	<u>\$25,469.29</u>

Done at Frankfort, Kentucky, this 12<sup>th</sup> day of November, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Thomas H. [unclear]", written over a horizontal line.

Executive Director

Case No. 2003-00034

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2003-00034 DATED November 12, 2003

The following rates and charges are prescribed for the customers in the area served by Ohio County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

First	2,000 gallons	\$19.93	Minimum bill
Next	18,000 gallons	8.28	per 1,000 gallons
Next	30,000 gallons	7.16	per 1,000 gallons
Next	50,000 gallons	6.03	per 1,000 gallons
All Over	100,000 gallons	4.91	per 1,000 gallons
Leak Adjustment Rate		2.53	per 1,000 gallons
Wholesale Rate		2.53	per 1,000 gallons