

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF RATTLESNAKE RIDGE )  
WATER DISTRICT FOR APPROVAL OF AN ) CASE NO.  
INCREASE IN RATES FOR WATER SERVICE ) 2008-00447

ORDER

On October 20, 2008, Rattlesnake Ridge Water District ("Rattlesnake") applied to the Commission for an adjustment in water rates. Commission Staff has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments about Staff's findings and recommendations or requests for a hearing or an informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

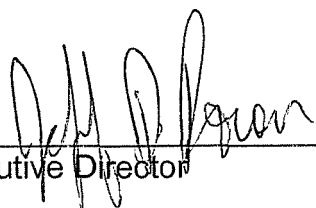
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings set forth in the Staff Report and provide a brief summary of testimony that it would present at hearing.
3. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of this Order shall be deemed as agreement with that finding or recommendation.

4. If no request for a hearing or an informal conference is received within the 14 days, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 27th day of February, 2009.

By the Commission

ATTEST:

  
\_\_\_\_\_  
Executive Director

Case No. 2008-00447

STAFF REPORT  
ON  
RATTLESNAKE RIDGE WATER DISTRICT  
CASE NO. 2008-00447

Rattlesnake Ridge Water District ("Rattlesnake") requested Commission Staff assistance with the preparation of a rate application. In requesting staff assistance, Rattlesnake stated that time was of the essence because cash flow problems could cause it to default on the 2009 debt service payments.

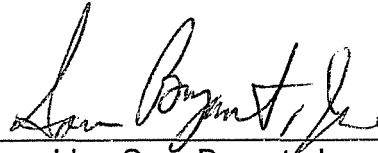
In order to expedite the application, Staff made no adjustments to Rattlesnake's test-period operations for the year ended December 31, 2007. The recommendation is based on the requested rates, which will produce annual revenues from water rates of \$1,858,791, an increase of \$201,839 or 12.5 percent over test-period revenues of \$1,656,952.

Exhibit 4 of the application, attached hereto as Exhibits A and B, is Rattlesnake's pro forma operating statement and revenue requirement determination. The revenue requirement determination shows that Rattlesnake's pro forma operations support a revenue requirement of \$ 2,425,120, an increase of \$ 764,637 or 46.2 percent over the 2007 test period revenues. Although Rattlesnake's proposed rate increase will not generate the annual revenue requirement of \$2,425,120, it will provide adequate cash flow for Rattlesnake to meet its debt payments. Staff recommends that Rattlesnake's proposed rate as set forth in Appendix C be approved. Should Rattlesnake decide to further increase rates to generate the revenue requirement determined by Staff, it should amend its application to reflect those rates and should provide the

Commission with confirmation that it has published notice of those rates pursuant to 807 KAR 5:011, Section 8.

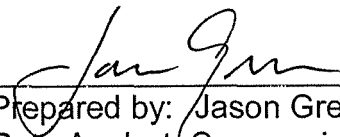
In a letter dated June 26, 2008, USDA Rural Development ("RD") expressed concern over the level of Rattlesnake salaries. RD questions why the salary level was in excess of \$150,000 more than anticipated. Staff is aware of the concern over salaries; however, due to the need for expedited treatment, Staff did not review the salaries.

Given its limited review of Rattlesnake's test-period operating revenues and expenses, Staff recommends the Commission require that, 6 months after the rates are implemented, a review be completed by Staff to examine the salaries and other expenses to ensure that the rates recommended herein are adequate.



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Prepared by: Sam Bryant, Jr.  
Financial Analyst, Water and  
Sewer Revenue Requirements  
Branch Division of Financial Analysis



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

APPENDIX A  
 STAFF REPORT, CASE NO. 2008-00447  
 STAFF'S RECOMMENDED  
 PRO FORMA OPERATING STATEMENT

	2007 Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Water Sales Revenue	\$ 1,614,717	\$ 0	\$ 1,614,717
Other Op. Revenue	41,735	0	41,735
Total Operating Revenues	<u>\$ 1,656,452</u>	<u>\$ 0</u>	<u>\$ 1,656,452</u>
Operating Expenses:			
Employee Salaries	\$ 518,807	\$ 0	\$ 518,807
Officer Salaries	15,986	0	15,986
Pensions/Benefits	170,885	0	170,885
Purchased Water	3,893	0	3,893
Purchased Power	189,695	0	189,695
Chemicals	14,892	0	14,892
Materials/Supplies	211,279	0	211,279
Contractual Services-Acct	7,500	0	7,500
Contractual Services-Legal	1,702	0	1,702
Contractual Services-Other	120	0	120
Transportation Expense	28,798	0	28,798
Insurance -Other	49,946	0	49,946
Miscellaneous Expense	27,302	0	27,302
Total Water Utility Expense	<u>\$ 1,240,805</u>	<u>\$ 0</u>	<u>\$ 1,240,805</u>
Depreciation Expense	696,570	0	696,570
Taxes OT Income	50,604	0	50,604
Total Operating Expenses	<u>\$ 1,987,979</u>	<u>\$ 0</u>	<u>\$ 1,987,979</u>
Net Operating Income	<u>\$ (331,527)</u>	<u>\$ 0</u>	<u>\$ (331,527)</u>
Interest Income	4,031	0	4,031
Interest Expense	303,828	0	303,828
Extraordinary Deductions	4,472	0	4,472
Net Income	<u>\$ (635,796)</u>	<u>\$ 0</u>	<u>\$ (635,796)</u>

APPENDIX B  
STAFF REPORT, CASE NO. 2008-00447  
STAFF'S RECOMMENDED  
REVENUE REQUIREMENT DETERMINATION

2007 Principal Payments – RD Loans	\$ 60,456
Add: 2007 Interest Expense – RD Loans	+ 303,828
Annual Debt Service	<u>\$ 364,284</u>
Multiplied by: Debt Service Coverage	x 1.2
Required Debt Service Coverage (“DSC”)	<u>\$ 437,141</u>
Actual Operating Expenses	\$ 1,987,979
Add: DSC	+ 437,141
Revenue Requirement	<u>\$ 2,425,120</u>
Less: Actual Unadjusted Revenues	1,656,452
Unadjusted Interest Income	- 4,031
Justified Increase in Revenues from Water Sales	<u>\$ 764,637</u>
Percentage Increase Over 2007 Revenues	<u>46.2%</u>

APPENDIX C  
STAFF REPORT, CASE NO. 2008-00447  
REQUESTED RATES AND CHARGES

**5/8" X 3/4" Meter**

First	1,000 gallons	\$ 14.06 minimum bill
Next	4,000 gallons	8.89 per 1,000 gallons
Next	5,000 gallons	7.65 per 1,000 gallons
Next	10,000 gallons	6.53 per 1,000 gallons
Next	20,000 gallons	4.50 per 1,000 gallons
Over	40,000 gallons	3.49 per 1,000 gallons

**3/4" Meter**

First	5,000 gallons	\$ 49.50 minimum bill
Next	5,000 gallons	7.65 per 1,000 gallons
Next	10,000 gallons	6.53 per 1,000 gallons
Next	20,000 gallons	4.50 per 1,000 gallons
Over	40,000 gallons	3.49 per 1,000 gallons

**1" Meter**

First	10,000 gallons	\$ 87.75 minimum bill
Next	10,000 gallons	6.53 per 1,000 gallons
Next	20,000 gallons	4.50 per 1,000 gallons
Over	40,000 gallons	3.49 per 1,000 gallons

**1 1/2" Meter**

First	30,000 gallons	\$ 196.88 minimum bill
Next	10,000 gallons	4.50 per 1,000 gallons
Over	40,000 gallons	3.49 per 1,000 gallons

**2" Meter**

First	50,000 gallons	\$285.75 minimum bill
Over	50,000 gallons	3.49 per 1,000 gallons

**3" Meter**

First	100,000 gallons	\$460.13 minimum bill
Over	100,000 gallons	3.49 per 1,000 gallons

**4" Meter**

First	200,000 gallons	\$808.75 minimum bill
Over	200,000 gallons	3.49 per 1,000 gallons

**6" Meter**

First	500,000 gallons	\$1855.13 minimum bill
Over	500,000 gallons	3.49 per 1,000 gallons



Honorable Delores Woods Baker  
Counsel  
134 West Third Street  
Maysville, KY 41056

Christopher Stamper  
Assistant Office Manager  
Rattlesnake Ridge Water District  
P. O. Box 475  
Grayson, KY 41143-0475