

Original

Lovellaceville Water
P.O. Box 109
Lovellacevill, Ky, 42060
Sept. 17, 2009

Jeff Derouen, Executive Director
Public Service Commission
211 Sower Boulevard
Post Office Box 615
Frankfort, Kentucky 40602

Dear Mr. Derouen:

2009-00381

Please accept for filing the enclosed Alternative Rate Filing ("ARF") application of Lovellaceville Water Company seeking approval to adjust its water service rates. Enclosed you will find the original application and five copies. Due to the expense of producing additional copies, we request a deviation from the requirement of filing 10 copies as stated on page 6 of the ARF application form. A copy of the petition has also been forwarded to the Attorney General's Office.

Sincerely,

Barbara McGowan

RECEIVED
SEP 21 2009
PUBLIC SERVICE
COMMISSION

APPLICATION FOR RATE ADJUSTMENT
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

For Small Utilities
Pursuant to 807 KAR 5:076
(Alternative Rate Filing)

Lovellaceville Water Company
Name of Utility

P.O. Box 109
Lovellaceville, Kentucky 42060
Business Mailing Address

Telephone Number: (270) 816-4193

I. Basic Information

NAME, TITLE, ADDRESS and telephone number of the person to whom correspondence or communication concerning this application should be directed:

Name: Barbara McGowan
Address: Same as above

Telephone Number: Same as above.

- 1) Do you have 500 customers or fewer? Yes No
- 2) Do you have \$300,000 in Gross Annual Revenue or less? Yes No
- 3) Has the utility filed an annual report with this Commission for the past year and the two previous years? Yes No
- 4) Are the utility's records kept separate from any other commonly-owned enterprise? Yes No

NOTICE: To be eligible for consideration of the rate adjustment under this regulation, you must have answered yes to either question 1 or 2 and yes to both questions 3 and 4 above. If you answered no to questions 3 or 4, you must obtain written approval from the Commission prior to filing this Application. If these requirements are not met, you must file under the Commission's procedural rules, 807 KAR 5:001.

NOTICE

Lovellaceville Water Company has filed during September, 2009, a new application with the Public Service Commission to increase its rates for water service. The rates will be effective upon approval by the Public Service Commission.

Monthly Rate:

	<u>Current</u>	<u>Proposed</u>	<u>% Increase</u>
First 3,500 Gallons	\$10.00	\$22.00	120%
Over 3,500 Gallons	2.00 per thou.	4.40 per thou.	120%

The monthly bill for a customer using an average of 5,000 gallons per month will increase \$15.60 from \$13.00 to \$28.60 or 120%.

The rates contained in this notice are the rates proposed by Lovellaceville Water Company. However, the Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates included in this notice.

Any corporation, association, body politic or person may request leave to intervene by motion within 30 days after notice of the proposed rate changes is given. The motion shall be submitted to the Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602, and shall set forth the grounds for the request including the status and interest of the party. Intervenors may obtain copies of the application and testimony by contacting Lovellaceville Water Company at 1287 Hamburg Road, Kevil, KY, (270) 816-4193, or the Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40602, (502) 564-3940. A copy of the application and testimony shall be available for public inspection at the utility's offices.

Lovellaceville Water Company

II. Increased Cost Information

- (1) The most recent Annual Report will be used as the basic test period data in order to determine the reasonableness of the proposed rates. The Annual Report used as the basis for this rate revision is the one filed with the Commission for the 12 months ending December 31, 2008.
- a. If you have reason to believe some of the items of revenue and expense listed in the Annual Report will increase or decrease, please list each item, the expected increase or decrease and the adjusted amount.

<u>Item Per Annual Report</u>	<u>Amount Per Annual Report</u>	<u>Increase/ (Decrease)</u>	<u>Adjusted Amount</u>
<u>Revenue</u>	\$ _____	\$ _____	\$ _____
Total Revenue	\$ _____	\$ _____	\$ _____

Expense

See Attachment A, Page 1.

Total Expense	\$ _____	\$ _____	\$ _____
Revenue Less Expense	\$ _____ =====	\$ _____ =====	\$ _____ =====

- b. Please describe each item that you adjusted on page 2 and how you know it will change. (Please attach invoices, letters, contracts or receipts which will help in proving the change in cost).

See Attachment A, Pages 2-5.

- c. Please list your present and proposed rates for each class (i.e., residential, commercial, etc.) of customer and the percentage of increase proposed for each class:

<u>Customer Class</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>% Increase</u>
Monthly Water Service			
Rate for 5/8"x 3/4"			
First 3,500 gallons	\$10.00	\$22.00	120%
All over 3,500 gallons, per 1,000	\$ 2.00	\$ 4.40	120%

III. Other Information

a. Please complete the following questions:

- 1) Please describe any events or occurrences which may have an effect on this rate review that should be brought to the Commission's attention (e.g., excessive line losses, major repairs, planned construction).

None

- 2) Total number of customers as of the date of filing: 59

- 3) Total amount of increased revenue requested: \$8,716

- 4) Please circle Yes or No:

- a) Does the utility have outstanding indebtedness? Yes No

If yes, attach a copy of any documents such as promissory notes, bond resolutions, mortgage agreements, etc.

- b) Were all revenues and expenses listed in the Annual Report for 2008 incurred and collected from January 1 to December 31 of that year? Yes No

If no, list total revenue and total expense incurred prior to or subsequent to this period and attach invoices or other analysis which show how amounts were calculated.

- 5) Attach a copy of the utility's depreciation schedule of utility plant in service. Reconcile any differences between total depreciation shown on the Annual Report for 2008 and the amount shown on this schedule. See Attachment A, Page 5, Adjustment Ref. (G).

- 6) If utility is a sewer utility:
 - a) Attach a copy of the latest State and Federal Income Tax Returns. N/A

 - b) How much of the utility plant was recovered through the sale of lots or other contributions? If unknown, state the reason. N/A

b. Please state the reason or reasons why a rate adjustment is requested. (Attach additional pages if necessary).

Current rate is not adequate to fund operations.

IV. Billing Analysis

The billing analysis is the chart reflecting the usage by the customers as well as the revenue generated by a specific level of rates. A billing analysis of both the current and proposed rates is mandatory for analysis of this rate filing.

A typical billing analysis was not performed. In lieu of a billing analysis, Lovelaceville provides a recalculation of reported test year revenues by applying its current rates for water service to the customer usage information provided on page 46 of its 2008 annual report. This calculation is shown on Attachment A, Page 2, Reference Item (A).

V. General Information/Customer Notice

1) Filing Requirements:

a. If the applicant is a corporation, a certified copy of its articles of incorporation must be attached to this application. If the articles and any amendments thereto have already been filed with the Commission in a prior proceeding, it will be sufficient to state that fact in the application and refer to the style and case number of the prior proceeding. .

b. An original and 10 copies of the completed application should be sent to:

Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40601
Telephone: (502) 564-3940

c. One copy of the completed application should also be sent at the same time to:

Office of the Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204
Telephone: (502) 696-5457

2) A copy of the customer notice must be filed with this application. Proper notice must comply with Section 4 of this regulation. See Attachment C.

3) Copies of this form and the regulation may be obtained from the Commission's Office of Executive Director; or by calling (502) 564-3940

4) I have read and completed this application, and to the best of my knowledge all the information contained in this application is true and correct.

Signed

Barbara Mc Gowen
Officer of the Company

Title

Owner

Date

September 17, 2009

Adjusted Operating Statement

	Test Year	Adjustments	Ref.	Pro Forma
Operating Revenues - Sales of Water	\$ 8,248		(A)	
		\$ (985)	(B)	\$ 7,263
Operating Expenses				
Operation and Maintenance Expenses				
Contractual Services and Owner/Manager Fee		11,163	(C)	11,163
Purchased Power	1,217	(145)	(B)	1,072
Chemicals	154	(18)	(B)	136
Materials and Supplies - Field	963			963
Materials and Supplies - Office	339	(339)	(D)	0
Testing	3,212	(1,250)	(E)	1,962
Transportation and Equipment	3,555			3,555
Mileage on Private Automobile	2,569	(2,569)	(F)	-
Total Operation and Maintenance	12,009	6,842		18,851
Depreciation	304	44	(G)	348
Taxes Other Than Income Taxes	150			150
Total Operating Expenses	12,463	6,886		19,349
Net Operating Income	\$ (4,215)	\$ (7,871)		\$ (12,085)

Revenue Requirement Calculation

Operating Expenses	\$ 19,349
Divided by: 88 percent operating ratio	88%
Revenue Requirement	21,987
Less: Pro forma Present Rate Revenues	(7,263)
Required Revenue Increase \$	\$ 14,724
Required Revenue Increase %	202.71%

Calculation of Rate

	Current Rate	Times: 1 + Increase	Calculated Rate
Minimum Bill, up to 3,500 gallons	\$ 10.00	302.714%	\$ 30.27
Over 3,500 gallons, Rate is for each 1,000 gallons	\$ 2.00	302.714%	\$ 6.05

Although the financial exhibits included in this application demonstrate that the rates shown above are the cost based rates of Lovellaceville, Lovellaceville is requesting approval of lower rates, as shown below, to reduce the rate-shock felt by its customers.

	Current Rate	Times: 1 + Increase	Calculated Rate
Minimum Bill, up to 3,500 gallons	\$ 10.00	220.000%	\$ 22.00
Over 3,500 gallons, Rate is for each 1,000 gallons	\$ 2.00	220.000%	\$ 4.40

Explanation of Adjustments

(A)

In lieu of a billing analysis, Lovelaceville provides the following calculation supporting its reported test year revenue from water sales. In the calculation, test year revenues are recalculated by applying the rates of Lovelaceville that were in effect during the test year to the test year average gallons sold to each customer. The average gallons sold were determined using information provided in Lovelaceville's 2008 Annual Report on file with the Commission. As shown below, the difference in reported test year sales and the results of this recalculation are less than 3 percent demonstrating that reported test year revenues are fairly stated in all material respects.

Total water sold in 2008 as stated on 2008 annual report, page 46	2,343,730
Divide by: Average number of customers served on monthly basis	67
Divide by: 12 months	<u>12</u>
Average monthly gallons sold per customer	<u>2,915</u>
Monthly revenue at current rates for monthly sales to average customer	\$ 10.00
Times: Average number of customers served on monthly basis	67
Times: 12 months	<u>12</u>
Recalculated Test Year Revenue	<u>\$ 8,040</u>
Reported Test Year Revenue	<u>\$ 8,248</u>
Difference \$	<u>\$ (208)</u>
Difference %	<u>-2.527%</u>

(B)

Eight customers have left the system since the end of the test year. These customers have developed a permanent, alternative source of water by digging private wells. At Attachment B of this application there is presented a list comparing the names and addresses of the customers served at the end of 2008 to those that were being served on the application filing date.

The loss of customers will reduce the amount of water expected to be sold in the pro forma. Lovelaceville considers this change to its operations to be permanent and proposes the following adjustments to test year revenues and expenses to properly account for the lost sales volume.

	Revenues	Purchased Power for Pumping	Chemicals
Reported test year amount	\$ 8,248	\$ 1,217	\$ 154
Divide by: Total number of bills during test year (67 monthly bills x 12 months)	<u>804</u>	<u>804</u>	<u>804</u>
Average monthly revenue/expense per bill	10.26	1.51	0.19
Times: Total number of bills lost (8 customers x 12 months)	<u>96</u>	<u>96</u>	<u>96</u>
Decrease to test year	<u>\$ 985</u>	<u>\$ 145</u>	<u>\$ 18</u>

Explanation of Adjustments
(C)

Lovellaceville's current owners, the McGowan's, performed all field and administrative duties necessary to operate Lovellaceville during the test year. The McGowans did not report salaries and wages expense or any other type of compensation on the financial statements of Lovellaceville in return for these services.

To properly account for these omitted costs in the pro forma, Lovellaceville proposes to increase test year expenses by \$11,163. This total amount includes \$7,563 in compensation for the performance of all field work necessary to operate Lovellaceville. The field compensation is based on an annual estimate of 302.5 labor hours, as determined below, at a cost of \$25 per hour. The \$25 per hour rate includes a provision for wages and wage overheads costs.

Also included in the total amount of \$11,163 is a provision for a \$3,600 owner/manager fee that is intended to cover all administrative costs to operate Lovellaceville such as office wages, office rent, office supplies, telephone, etc. This level of compensation follows the Commission's traditional practice of limiting the rate recovery of administrative compensation paid to an owner of a small utility to the maximum level of pay allowed to a Water District Commissioner that does not fulfill the training requirements of KRS 74.020.

1/2 hour per day to do daily inspection and chlorine testing	182.50
10 hours per month to read meters and perform non-routine maintenance	<u>120.00</u>
Total annual field hours	302.50
Times: Hourly rate including payroll overhead	<u>\$ 25</u>
Total Field Compensation	7,563
Owner Manager Fee	<u>3,600</u>
Total Increase to Test Year Operations for Compensation to McGowans	<u><u>\$ 11,163</u></u>

(D)

Lovellaceville reported \$339 for office supply expenses during the test year. This amount was eliminated because a provision for all office supply expenses is considered to be included in pro forma operations as a part of the \$3,600 owner/manager fee.

Explanation of Adjustments

(E)

As a public water utility, Lovelaceville is subject to periodic testing requirements imposed by the Division of Water and the Public Health Department. The performance of many of these tests require the use of a professional laboratory while others are performed in the field by utility personnel. The cost of the field personnel testing is included in the field compensation of \$7,563 as shown in adjustment (C) above. A provision for laboratory testing recovery is provided in this adjustment.

The laboratory testing required of Lovelaceville includes various tests to determine the levels of several different water contaminants. Some of these tests are required to be performed as often as semi-monthly while others are required as infrequently as once every nine years.

During the test year Lovelaceville reported laboratory testing expenses in the amount of \$3,212. All test year expenses were paid to McCoy and McCoy Laboratories. The test year amount was decreased by \$1,250 to restate the test year expense to the average annual cost for all testing requirements. This method is appropriate and necessary to properly annualize testing costs since many of the tests do not occur annually.

The average testing costs were determined using the current laboratory testing requirements of the DOW and health department priced at the current testing rates of McCoy and McCoy Laboratories. The calculation of the adjustment is shown below.

Test	Frequency	Cost per Sample	Annual Cost
Bacterial	2 per month	\$ 16.00	\$ 384.00
Lead and Copper	annually	30.50	152.50
TTHM THAA	annually	180.00	180.00
Reg. IOC	every 3 years	214.50	71.50
Reg SOC w/o Dioxin	every 3 years	1,540.00	513.33
Reg VOC	every 3 years	275.00	91.67
Secondary	annually	276.75	276.75
Asbestos	9 years	175.00	58.33
Nitrate	annually	29.00	29.00
Nitrite	9 years	29.00	3.22
Sodium	annually	21.50	21.50
Floride	monthly	15.00	<u>180.00</u>
Annualized Testing Expense			1,962
Less: Test Year			<u>(3,212)</u>
Adjustment			<u><u>\$ (1,250)</u></u>

Explanation of Adjustments

(F)

The test year expenses stated in Lovelaceville's annual report, and the operating statement included in this attached, were compiled from Schedule C of the McGowan's 2008 federal tax return. Included on Schedule C was a mileage allowance expense in the amount of \$2,569 for the use of the McGowan's personal vehicles to conduct Lovelaceville's daily operations. Also, included in the expenses were actual fuel and maintenance expenses for the use of these vehicles. These actual expenses were included in the total test year transportation and equipment expenses reported at \$3,555. Inclusion of both the mileage allowance and actual transportation expenses may be appropriate for tax reporting purposes but it is not appropriate for rate-making purposes as doing so would result in double recovery. For this reason, the mileage allowance was eliminated.

(G)

Currently, Lovelaceville has only one depreciable asset, a new pump with an original cost of \$1,740 that was placed into service on March 31, 2006. Test year depreciation was reported on the pump in the amount of \$304 calculated using a 5-year life and an accelerated tax depreciation method. For rate-making purposes a 5-year life and a straight-line method was used. Accordingly, test year depreciation expense was increased by \$40 as shown below.

Original Cost	\$ 1,740
Divide by: Five years	<u>5</u>
Annual Recovery	348
Less: Test year	<u>(304)</u>
Adjustment	<u><u>\$ 44</u></u>

① Attachment C to application
Sworn statement reading something like this:

I, Barbara McGowan, hereby certify that the public notice, as attached hereto, was delivered by mail on September 30 2009 to each of the recipients listed herein.

Lisa Michelle Welch
Notary



List Names and Addresses of all customers that were provided the public notice.

Attached on back

② Attachment B to application

Provide a list of the names and addresses of all 67 customers to which Lovelaceville Water Company previously served water during 2008. Indicate on this list which customers are no longer served by Lovelaceville and state the current water supply for each of those former customers.

Attached on back

Avita Abdo 1211 Cunningham Rd, Kevil, 4205
Gina Anderson 878 Cunningham Rd, Kevil, 4205
ARMOUR Small Eng. 122 Hamburg Rd, Kevil, Ky 4205
ERIC Benson, P.O. Box, Lovelaceville, Ky 4206
Brad McGowan, P.O. Box 114 Lovelaceville, Ky 4206
Joe Byerly, 916 Cunningham Rd, Kevil, Ky 4205
James Byerly
Lucious Carter, P.O. Box 83, Lovelaceville, 42060
40 Tony Cissel, 429 B. Hutchinson Ave, Paducah, 42001
40 Billy Bob Cice, P.O. Box 480, Cunningham Ky, 42035
Van Cline, P.O. Box 301, Lovelaceville, 42060
Evalie DeJarratt, P.O. Box 505, Lovelaceville, Ky 4206
Chester Dewese, P.O. Box 116, Lovelaceville, 42060
Tracy Draper, 1157 Cunningham Rd, Kevil 4205
Jimmy Fleming, P.O. Box 604, Lovelaceville, Ky 4206
Nancy Fleming, P.O. Box 702, Lovelaceville, Ky, 42060
Tammy Freeman, 357 Hamburg Rd, Kevil 42053
Troy Garner P.O. Box 401, Lovelaceville, Ky 42060
Lindsay Gray, P.O. Box 306, Lovelaceville, 42060
Brandi Green, P.O. Box 75, Lovelaceville, 42060
Roy Green, ~~to~~ P.O. Box 75, Lovelaceville, 42060
Jenny Griffen, 788 Cunningham Rd, Kevil, 42053
Danielle Grimes, P.O. Box 402, Lovelaceville, 42060
Matt Grimes, P.O. Box 91, Lovelaceville, 42060
Brian Hauger, P.O. Box 406, Lovelaceville, Ky, 42060
Ben Hawes, P.O. Box 41, Lovelaceville, Ky 42060
John Hawes, P.O. Box 706 Lovelaceville, Ky 42060
Richard Hawes, 297 W. Walnut St, Kevil, Ky 42053
W. F. Hawes, P.O. Box 103, Lovelaceville, Ky 42060
Joann Heath, 808 Cunningham Rd, Kevil, 42053

- Frank Holcamp, P.O. Box 104, Lovelaceville, Ky 42060
- Gary Logsdon, P.O. Box 144, Paducah, 42001
- Lovelaceville Baptist Ch., P.O. Box 108, Lovelaceville ⁴²⁰⁶⁰
- 40 Lovelaceville Meth. Ch., Bruce Partin, 275 Gholson Rd. Pad ⁴²⁰⁶⁰
- Lovelaceville Post Office - Postmistress collects -
- Low Cost Trans. 1211 Cunningham Rd, Keuil, 42053
- Phyllis Maxwell, 165 W. Walnut St, Keuil, 42053
- David McCall, P.O. Box 108, Lovelaceville, 42060
- Cary McIntosh 1106 Cunningham Rd, Keuil 42053
- Brand Miller, P.O. Box 118, Lovelaceville, Ky 42060
- Hillman Moore, P.O. Box 44, Lovelaceville, 42060
- 2 Dwayne Morris, P.O. Box 89, Lovelaceville, Ky 42060
- 3 Gene Morris, P.O. Box 71, Lovelaceville, Ky. 42060
- 4 Larry Morris, P.O. Box 89, Lovelaceville, Ky, 42060
- 5 D.J. Morris, P.O. Box 55, Lovelaceville, Ky 42060
- 6 Phillip Morris, P.O. Box 43, Lovelaceville, 42060
- 7 Gina Anderson, 878 Cunningham Rd, Keuil, 42053
- 8 Marty Paris, P.O. Box 76, Lovelaceville, 42060
- 9 Marilyn Parker, P.O. Box 501, Lovelaceville, 42060
- Ryan Pillow 221 W. Walnut St, Keuil, Ky 42053
- 1 David Poole, P.O. Box 47, Lovelaceville, 42060
- 2 Jerry Raines, P.O. Box 98, Lovelaceville, 42060
- 3 Gene Richards, P.O. Box 62, Lovelaceville, 42060
- 4 Karen Roeller, P.O. Box 107, Lovelaceville, Ky 42060
- 5 Kenny Bundles, P.O. Box 303, Lovelaceville, Ky 42060
- 6 Charles Solomon, P.O. Box 42, Lovelaceville, 42060
- 7 Charles Stevenson, P.O. Box 95, Lovelaceville, 42060
- 8 States R. Bycock, P.O. Box 406, Lovelaceville, Ky 42060
- 9 Sonny Rogers, Lovelaceville, 42060

Moved David Crass, 257 Hamburg Rd, Keuil, Ky 42053
Moved Brandon Seabold, 1146 Cunningham Rd, Keuil, 4205.
(deceased) Zanna Hawes 357 Hamburg Rd, Keuil, Ky 42053
moved J. R. Malone, P.O. Box, Lovelaceville, Ky 42060
(deceased) Jeremy Lee, P.O. Box Lovelaceville, 42060
moved Michael Pollard, ~~P.O.~~ P.O. Box, Lovelaceville, 42060
moved Angie House, P.O. Box, Lovelaceville, Ky. 42060
moved Joe Allen, P.O. Box, Lovelaceville, Ky, 42060