

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST SHELBY WATER)
DISTRICT FOR APPROVAL OF INCREASE IN) CASE NO. 2009-00454
RATES FOR WATER SERVICE)

ORDER

On January 28, 2010, West Shelby Water District ("West Shelby District") filed its application for an adjustment of its water rates. Commission Staff has reviewed the application and prepared the attached report containing its findings and recommendations regarding the proposed adjustment.

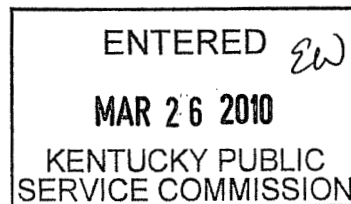
IT IS THEREFORE ORDERED that:

1. All parties shall have 14 days from the date of this Order to file with the Commission written comments regarding the attached Staff Report and any request for hearing or informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings and recommendations 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 its agreement with that finding or recommendation.
4. If West Shelby District accepts Commission Staff's recommended rates and wishes to charge those rates, it shall file with the Commission within 14 days of

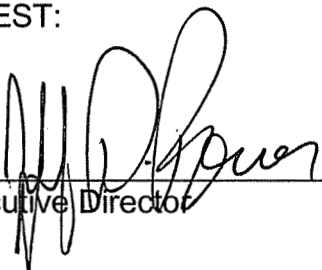
the date of this Order a written statement indicating its agreement with Commission Staff's recommendation and requesting approval to charge the recommended rates.

5. If no request for a hearing or an informal conference is filed with the Commission within 14 days of this Order, this case shall stand submitted to the Commission for decision.

By the Commission



ATTEST:

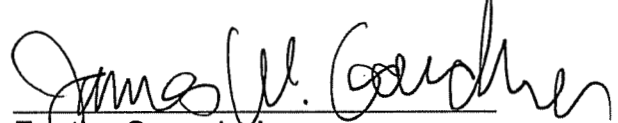


Executive Director

the date of this Order a written statement indicating its agreement with Commission Staff's recommendation and requesting approval to charge the recommended rates.

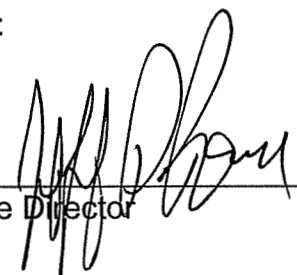
5. If no request for a hearing or an informal conference is filed with the Commission within 14 days of this Order, this case shall stand submitted to the Commission for decision.

PUBLIC SERVICE COMMISSION


For the Commission

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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

STAFF REPORT
ON
WEST SHELBY WATER DISTRICT
CASE NO. 2009-00454

Pursuant to a request by West Shelby Water District ("West Shelby") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited review of West Shelby's test period operations for the calendar year ending December 31, 2008. 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 its limited review, Staff assisted West Shelby in the development and preparation of its rate application, which West Shelby filed with the Commission on January 28, 2010. Staff hereby adopts the contents of West Shelby's application as its recommendation in this report, as set out herein, with the exception of purchased water expense and depreciation expense. Eddie Beavers of the Commission's Division of Financial Analysis is responsible for the pro forma revenue adjustment and the billing analysis. Sam Bryant of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Exhibit three of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test-period operating revenues and expenses that were known and measurable and deemed to be

reasonable. The revenue requirement determination, in Exhibit six of the application and attached hereto as Appendix B, shows that West Shelby's pro forma operations support a revenue requirement from water rates of \$1,228,573, an increase of \$32,398 or 2.7 percent over normalized revenues from water sales of \$1,196,175.

Upon its review of the application, and the documents upon which it is based, Staff finds that the revenue requirement of \$1,228,573 will allow West Shelby to pay its adjusted operating expenses, meet the 1.2x debt service coverage requirements, and provide for future equity growth. The rates contained in Appendix C of this report will generate the revenues from rates found reasonable herein.

West Shelby's proposed rates will generate revenue from water sales of \$1,222,490. Should West Shelby wish to charge the higher rate, it should provide the Commission a written statement indicating its acceptance of staff's recommendation and request approval to implement the recommended rates.



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



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

APPENDIX A
STAFF REPORT FOR WEST SHELBY WATER DISTRICT
CASE NO. 2009-00454

Proforma Income Statement

	2008 <u>Annual Report</u>	<u>Adjustments</u>		Proforma <u>Adjusted</u>
Operating Revenues				
Water Sales	\$ 1,200,759	\$ (4,584)		\$ 1,196,175
Total Water Sales	\$ 1,200,759	\$ (4,584)	A	\$ 1,196,175
Other Revenues				
Forfeited Discounts	16,686			16,686
Miscellaneous Revenues	12,681	0		12,681
Total Operating Revenue	\$ 1,230,126	\$ (4,584)		\$ 1,225,542
Water Expenses:				
Salaries and Wages-Employees	190,398	23,245	B	213,643
Salaries and Wages-Officers	17,240			17,240
Pensions and Benefits	54,181	7,167	C	61,348
Purchased Water	469,741	6,849	D	476,590
Purchased Power	27,466			27,466
Materials and Supplies	68,353			68,353
Contract Services-Accounting	16,012			16,012
Contract Services-Legal	6,261			6,261
Rent-Bldg	2,250			2,250
Transportation	25,507			25,507
Vehicle Insurance	2,258			2,258
General Liability	13,866			13,866
Workers' Compensation	4,047	168	E	4,215
Other Insurance	2,825			2,825
Bad Debt Expense	1,055			1,055
Miscellaneous Expense	22,717			22,717
Depreciation Expense	229,232	19,765	F	248,997
Amortization Expense	1,555			1,555
Taxes Other Than Income	13,374	3,099	G	16,473
Total Operating Expenses	\$ 1,168,338	\$ 60,293		\$ 1,228,631
Interest Income	92,907			92,907
Net Income	\$ 154,695	\$ (64,877)		\$ 89,818

Explanation of Adjustments

- A. Revenues were normalized by the Staff per the billing analysis.
- B. Wages and Salaries were adjusted for salary increases for 2009 and the addition of one full-time employee to replace two part-time employees.
 - a. Pay increases for 2009 for hourly employees equal \$6,593.
 - b. Lump sum increases for two managers equal \$4,231.
 - c. One new full-time employee: \$27,067.
 - d. Less: Removal of two part-time employees: (\$14,646.)
- C. Pensions and Benefits are adjusted for an increase in retirement benefits and an increase in health insurance costs. Retirement benefits increased by \$5,085. The test period retirement costs were \$29,488 and the 2009 costs are projected to be \$34,546, the difference being \$5,085. Health insurance costs according to Anthem invoices will increase approximately \$2,082.
- D. Purchased Water Adjustment. In Case No. 2008-00546, In the Matter of: PURCHASED WATER ADJUSTMENT OF WEST SHELBY, issued on January 8, 2009, West Shelby was allowed to increase its cost of purchased water from the Shelbyville Municipal Water and Sewer Commission by \$6,849. This adjustment reflects that increase.
- E. Workers' Compensation was adjusted for an increase in premium per invoices.
- F. Depreciation expense was adjusted to include a full year of depreciation on plant that was added during the test year and plant under construction at the end of the test year and completed in 2009. In its application West Shelby listed this adjustment as \$20,531. Due to a miscalculation for 2009 depreciation expense, this adjustment should have been \$19,765.
- G. Taxes other than income. This account was adjusted to account for changes to salaries and wages.

Depreciation Adjustment

<u>Plant</u>	<u>Acquired</u>	<u>Cost</u>	<u>Life</u>	<u>2008 Dep.</u>	<u>2009 Dep.</u>	<u>Adjustment</u>
Tank Painting	7/31/2008	\$ 272,975	15	\$ 7,583	\$ 18,198	\$ 10,615
Services	7/1/2008	20,810	30	347	694	347
Meters	7/1/2008	37,253	30	621	1,241	620
Hydrants	5/31/2008	3,164	50	37	63	26
Variable Drive	7/1/2008	5,589	30	93	186	93
Computer Equipment	7/18/2008	2,392	7	156	341	185
Trailer	8/31/2008	3,850	10	128	385	257
Meter Reading Equipment	1/15/2008	2,260	10	217	226	9
Hammer Drill	2/7/2008	299	10	28	30	2
Cutquick	8/31/2008	771	10	26	77	51
Distribution Mains	12/31/2008	<u>378,000</u>	50	<u>0</u>	<u>7,560</u>	<u>7,560</u>
Total		<u>\$ 727,363</u>		<u>\$ 9,236</u>	<u>\$ 29,001</u>	<u>\$ 19,765</u>

APPENDIX B
 STAFF REPORT FOR WEST SHELBY WATER DISTRICT
 CASE NO. 2009-00454

Revenue Requirement Calculation

Adjusted Operating Expense	\$	1,228,631
Debt Service Coverage		101,847
20% DSC		<u>20,369</u>
Revenue Requirement	\$	1,350,847
Less:		
Other Revenues	\$	29,367
Interest Income		<u>92,907</u>
	\$	122,274
 Revenue Required From Rates	 \$	 1,228,573
Less:		
Normalized Revenues		<u>1,196,175</u>
Increase Required	\$	32,398

Debt Service Calculation

<u>Year:</u>	<u>Bonds</u>	<u>KRWA Financing</u>	<u>Total</u>
2009	\$ 22,250	\$ 47,845	\$ 70,095
2010	68,800	47,741	116,541
2011	<u>70,400</u>	<u>48,505</u>	<u>118,905</u>
	\$ 161,450	\$ 144,091	305,541
		3 yr average.	\$ 101,847

APPENDIX C
STAFF REPORT FOR WEST SHELBY WATER DISTRICT
CASE NO. 2009-00454

5/8" Meters

First	2,500 gallons	\$16.62 per 1,000 gallons
Next	7,500 gallons	4.82 per 1,000 gallons
Next	20,000 gallons	4.50 per 1,000 gallons
Next	200,000 gallons	4.09 per 1,000 gallons
Over	230,000 gallons	3.68 per 1,000 gallons

3/4" Meters

First	3,500 gallons	\$21.44 per 1,000 gallons
Next	6,500 gallons	4.82 per 1,000 gallons
Next	20,000 gallons	4.50 per 1,000 gallons
Next	200,000 gallons	4.09 per 1,000 gallons
Over	230,000 gallons	3.68 per 1,000 gallons

1" Meters

First	5,000 gallons	\$28.67 per 1,000 gallons
Next	5,000 gallons	4.82 per 1,000 gallons
Next	20,000 gallons	4.50 per 1,000 gallons
Next	200,000 gallons	4.09 per 1,000 gallons
Over	230,000 gallons	3.68 per 1,000 gallons

1 1/2" Meters

First	10,000 gallons	\$52.77 per 1,000 gallons
Next	20,000 gallons	4.50 per 1,000 gallons
Next	200,000 gallons	4.09 per 1,000 gallons
Over	230,000 gallons	3.68 per 1,000 gallons

2" Meters

First	16,000 gallons	\$79.77 per 1,000 gallons
Next	14,000 gallons	4.50 per 1,000 gallons
Next	200,000 gallons	4.09 per 1,000 gallons
Over	230,000 gallons	3.68 per 1,000 gallons

3" Meters

First	30,000 gallons	\$142.77 per 1,000 gallons
Next	200,000 gallons	4.09 per 1,000 gallons
Over	230,000 gallons	3.68 per 1,000 gallons

4" Meters

First 50,000 gallons
Next 180,000 gallons
Over 230,000 gallons

\$224.57 per 1,000 gallons
4.09 per 1,000 gallons
3.68 per 1,000 gallons

6" Meters

Next 100,000 gallons
Next 130,000 gallons
Over 230,000 gallons

\$429.07 per 1,000 gallons
4.09 per 1,000 gallons
3.68 per 1,000 gallons

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