

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH)	
SHELBY WATER COMPANY FOR)	CASE NO.
APPROVAL OF INCREASE)	2009-00484
IN RATES FOR WATER SERVICE)	

ORDER

On January 25, 2010, North Shelby Water Company ("North Shelby") filed its application for Commission approval of proposed 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 HEREBY ORDERED that:

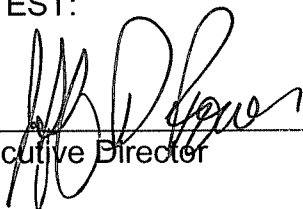
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections 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.

By the Commission

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MAR 22 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

STAFF REPORT
ON
NORTH SHELBY WATER COMPANY
CASE NO. 2009-00484

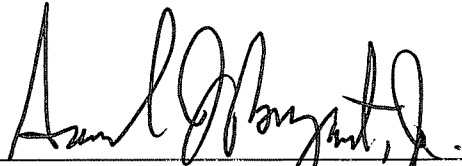
On July 23, 2008, North Shelby Water District (“North Shelby”) requested Commission Staff’s assistance with the preparation of a rate application. Subsequent to its initial request, North Shelby decided to use the 12-month period ending December 31, 2008, as its test period for its rate application. Pursuant to that request, Staff performed a review of North Shelby’s test period operations. The scope of the 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 review, Staff assisted North Shelby in the development and preparation of its rate application, which North Shelby filed with the Commission on January 25, 2010. Staff hereby adopts the contents of North Shelby’s application as its recommendation in this report as it is fully set out herein with the exception of the adjustment for Salaries and Wages-Employees, and Pensions and Benefits. Staff’s adjustments to those expenses are set out in Appendix A to this report. Jason Green 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.

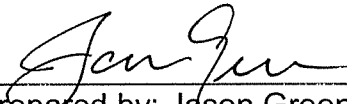
Exhibit 3 of the application, attached hereto as Appendix A, is Staff's adjusted pro forma operating income statement wherein adjustments were made to the test-period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, in Exhibit 6 of the application and attached hereto as Appendix B, shows that North Shelby's pro forma operations support a revenue requirement from water sales of \$2,545,151, an increase of \$438,621 or approximately 20.82 percent over normalized revenues from water sales of \$2,106,530.

During review of the application, Staff discovered a discrepancy in the rates due to rounding. Staff made an adjustment to North Shelby's proposed rates to correct this discrepancy. The rates proposed by North Shelby are an across-the-board percentage increase in their current rates. Staff finds that this is an appropriate method to use in calculating the rates.

Upon its review of the application and the documents upon which it is based, Staff finds that the difference between the proposed revenue requirement of \$2,546,172 and Staff's adjusted revenue requirement of \$2,545,151 is de minimis, and that North Shelby's proposed increase will allow it to pay its adjusted operating expenses, meet the 1.2x debt service coverage requirements and provide for future equity growth. Staff also finds that the rates, attached hereto as Appendix C, will generate the annual revenue requirement of \$2,546,172 and are reasonable. Staff recommends that the rates included in Attachment C be approved.



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



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

APPENDIX A
STAFF REPORT FOR NORTH SHELBY WATER COMPANY
CASE NO. 2009-00484

	Test-Period Operations	Pro Forma Adjustments	Ref	Pro Forma Operations
Operating Revenues	\$ 2,005,342	\$ 101,188	(a)	\$ 2,106,530
Operating Expenses				
Salaries and Wages - Emp	\$ 354,586	\$ 20,800	(b)	\$ 375,386
Salaries and Wages - Officers	30,600	0		30,600
Pension and Benefits	130,179	8,626	(c)	138,805
Purchased Water	868,335	0		868,335
Purchased Power	93,308	0		93,308
Materials and Supplies	192,385	(27,400)	(d)	164,985
Cont. Services - Accounting	19,345	0		19,345
Cont. Services - Legal	35,787	0		35,787
Cont. Services - Water Testing	5,775	0		5,775
Cont. Services - Other	58,689	0		58,689
Equipment Rental	2,023	0		2,023
Transportation Expenses	60,284	0		60,284
Vehicle Ins.	5,755	0		5,755
General Liability Ins.	17,265	0		17,265
Workers' Compensation	6,072	0		6,072
Advertising	1,851	0		1,851
Bad Debt	8,832	0		8,832
Miscellaneous	43,279	0		43,279
Total Water Expenses	\$ 1,934,350	\$ 2,026		\$ 1,936,376
Depreciation Expense	377,299	8,725	(e)	386,024
Taxes other than Income	33,914	0		33,914
Total Operating Expenses	\$ 2,345,563	\$ 10,751		\$ 2,356,314
Utility Operating Income	\$ (340,221)	\$ 90,437		\$ (249,784)

- a. Operating Revenue. Staff's normalized revenue from billing analysis.
- b. Salaries and Wages – Employees. North Shelby anticipates no pay increases in 2009 or 2010; however, it will add another employee. North Shelby has determined the new employee's hourly rate will be \$10.00 per hour. In the Application, the rate used was \$9.82. Using \$10.00 per hour times 2080 hours the adjustment would be \$20,800.
- c. Pensions and Benefits. This adjustment reflects the increase in retirement costs. In its Application, North Shelby increased its pensions and benefits expense by \$10,013. Adjusting this expense to reflect the new employee at \$10.00 per hour and the new rate of 16.16 percent, this adjustment should have been \$8,626. (\$375,386 x 16.16%) minus the test period expense of \$52,036.
- d. Materials and Supplies. North Shelby included as an operating expense the costs of two projects that should have been capitalized. Cost from Cruse Excavating of \$12,600 for lowering a water line and \$14,800 for replacing a section of a distribution main.
- e. Depreciation. This adjustment was made to allow for a full year of depreciation expense for plant that was added in 2008 and to include depreciation for capital expenditures that were removed from operating expenses. See Table 1 below.

Description	Life	Basis	2008 Depreciation	Additional Depreciation
Distribution Mains	50yr	\$86,975.00	\$ 869.75	\$ 869.75
Meters	30 yr	\$10,800.00	\$ 180.00	180.00
Meter Installation	30 yr	\$10,800.00	\$ 180.00	180.00
Pumping Equipment	7 yr	\$93,894.00	\$6,706.75	6,706.75
Meter Services	30 yr	\$14,400.00	\$ 240.00	240.00
Capitalized Expenses	50 yr	\$27,400.00	\$ 548.00	548.00
Pro Forma Adjustment				\$8,724.50

APPENDIX B
 STAFF REPORT FOR NORTH SHELBY WATER COMPANY
 CASE NO. 2009-00484

3 Year Average Debt Service		\$	157,364
Multiplied by: Debt Service Coverage		x	1.20
Required Debt Service & Coverage		\$	188,837
Add: Pro Forma Operating Expenses		+	2,356,314
Total Revenue Requirement		\$	2,545,151
Less: Pro Forma Operating Revenue		-	2,106,530
Recommended Increase		\$	438,621

<u>Debt Service Calculation</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 102,479	\$ 65,959	\$ 168,438
2010	\$ 107,562	\$ 60,876	168,438
2011	\$ 79,677	\$ 55,538	135,215
Total			\$ 472,091
Divided by: 3 Years			3
3 Year Average Debt Service			\$ 157,364

APPENDIX C
STAFF REPORT FOR NORTH SHELBY WATER COMPANY
CASE NO. 2009-00484

Monthly Water Rates

5/8" X 3/4" Meter

First	2,000 gallons	\$14.87 minimum bill
Next	3,000 gallons	6.05 per 1,000 gallons
Next	5,000 gallons	4.67 per 1,000 gallons
Next	40,000 gallons	3.98 per 1,000 gallons
Over	50,000 gallons	3.30 per 1,000 gallons

1" Meter

First	5,000 gallons	\$33.02 minimum bill
Next	5,000 gallons	4.67 per 1,000 gallons
Next	40,000 gallons	3.98 per 1,000 gallons
Over	50,000 gallons	3.30 per 1,000 gallons

1 1/2" Meter

First	10,000 gallons	\$56.37 minimum bill
Next	40,000 gallons	3.98 per 1,000 gallons
Over	50,000 gallons	3.30 per 1,000 gallons

2" Meter

First	15,000 gallons	\$76.27 minimum bill
Next	35,000 gallons	3.98 per 1,000 gallons
Over	50,000 gallons	3.30 per 1,000 gallons

3" Meter

First	35,000 gallons	\$155.87 minimum bill
Next	15,000 gallons	3.98 per 1,000 gallons
Over	50,000 gallons	3.30 per 1,000 gallons

Darrell Dees
Manager
North Shelby Water Company
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