

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTH MANCHESTER WATER)
ASSOCIATION FOR APPROVAL OF INCREASE IN) CASE NO. 2010-00118
RATES FOR WATER SERVICE)

ORDER

On March 15, 2010, North Manchester Water Association (“North Manchester”) filed its application for an adjustment of its water rates. In its application, North Manchester requested a waiver from certain filing requirements of 807 KAR 5:001 Section 10. In addition, North Manchester notified the Commission of its intent to place the rates proposed in its application into effect. The tariff page filed by North Manchester with its notice listed an effective date of May 1, 2010, which provided a 30-day notice period to the Commission as required by KRS 278.180(1).

Commission Staff has reviewed the application and prepared a report containing its findings and recommendations regarding the proposed adjustment.

IT IS THEREFORE ORDERED that:

1. North Manchester’s proposed rates are suspended for a five-month period beginning on May 1, 2010 and ending on September 30, 2010.
2. North Manchester’s requested deviation from 807 KAR 5:001, Sections 10(6)(k), 10(6)(r), and 10(7)(d) is hereby granted for good cause shown.
3. All parties shall have 14 days from the date of this Order to file with the Commission written comments regarding the appended Staff Report and any request for hearing or informal conference in this matter.

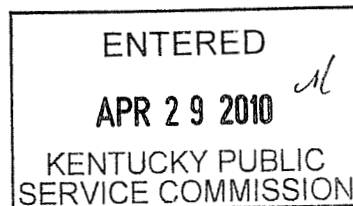
4. Any party requesting a hearing in this matter shall state in its request its objections to the findings and recommendations set forth in the Staff Report and provide a brief summary of testimony that it would present at hearing.

5. 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.

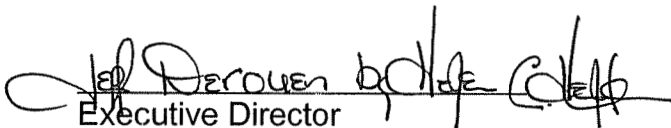
6. If North Manchester accepts Commission Staff's recommended rates and wishes to charge those rates, it shall file with the Commission, within 14 days of the date of this Order, a written statement indicating its agreement with Commission Staff's recommendation and requesting approval to charge the recommended rates.

7. 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

STAFF REPORT
ON
NORTH MANCHESTER WATER ASSOCIATION
CASE NO. 2010-00118

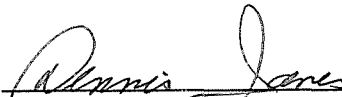
Pursuant to a request by North Manchester Water Association (“North Manchester”) for assistance with the preparation of a rate application, Commission Staff (“Staff”) performed a limited review of North Manchester’s test-period operations for the calendar year ending December 31, 2008. The scope of Staff’s 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 North Manchester in the development and preparation of its rate application, which North Manchester filed with the Commission on March 15, 2010. Staff hereby adopts the contents of North Manchester’s application as its recommendation in this report. Sam Reid of the Commission’s Division of Financial Analysis is responsible for the pro forma revenue adjustment and the billing analysis. Dennis Jones 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 three of the application and attached hereto as Appendix B, shows that North Manchester’s pro forma

operations support a revenue requirement from water rates of \$915,199, an increase of \$62,329, or 7.3 percent, over normalized revenue from water sales of \$852,870. The verification of proposed rates attached hereto as Appendix C shows that North Manchester's proposed rates will produce revenues from water sales of \$914,363. The combined revenue from water sales and other operating revenues of \$868 will produce revenue sufficient to meet the revenue requirement.

Upon its review of the application and the documents upon which it is based, Staff finds that the revenue requirement of \$915,199 will allow North Manchester to pay its adjusted operating expenses, meet the 1.1x debt service coverage requirements, and provide for future equity growth. The rates contained in Appendix D of this report will generate the revenue from rates found reasonable herein.


Prepared by: Dennis Jones
Manager
Water and Sewer Revenue Requirements
Branch Division of Financial Analysis


Prepared by: Sam Reid
Manager
Water and Sewer Rate Design Branch
Division of Financial Analysis

APPENDIX A
NORTH MANCHESTER WATER ASSOCIATION
CASE NO. 2010-00118

Pro Forma Income Statement

	<u>2008</u>	<u>ADJ.</u>	<u>REF.</u>	<u>ADJUSTED</u>
<u>OPERATING REVENUE</u>				
Water Sales Revenue	\$726,953	\$125,049	A	\$852,002
Other Revenues	<u>\$868</u>	<u>0</u>		<u>\$868</u>
Total Operating Revenue	\$727,821	\$125,049		\$852,870
<u>OPERATING EXPENSES</u>				
Salary and Wages	\$162,254	\$5,687	B	\$167,941
Purchased Water	\$265,922	\$4,123	C	\$270,045
Pensions/Benefits	\$0	\$35,284	D	\$35,284
Purchased Power	\$20,294	\$0		\$20,294
Chemicals	\$5,482	\$0		\$5,482
Supplies and Expense	\$36,337	\$0		\$36,337
Accounting Services	\$25,592	(\$300)	E	\$25,292
Equipment Rental	\$2,736	\$0		\$2,736
Transportation Expense	\$22,628	\$0		\$22,628
Transportation Insurance	\$23,541	\$0		\$23,541
Insurance Expense	\$37,250	(\$30,433)	F	\$6,817
Worker's Comp. Insurance	\$8,350	\$0		\$8,350
Regulatory Comm. Fee	\$1,008	\$0		\$1,008
Communication Expense	\$8,387	\$0		\$8,387
Payroll Taxes	\$12,329	\$1,912	G	\$14,241
Miscellaneous Expense	<u>\$5,653</u>	<u>(\$1,617)</u>	H	<u>\$4,036</u>
Operating Expenses	\$637,763	\$14,656		\$652,419
Depreciation Expense	<u>\$113,387</u>	<u>\$0</u>		<u>\$113,387</u>
TOTAL EXPENSES	<u>\$751,150</u>	<u>\$14,656</u>		<u>\$765,806</u>
OPERATING INCOME	(\$23,329)	\$110,393		\$87,064

Explanation

- A. Normalized Revenues was increased as determined by Commission Staff's billing analysis of \$125,049.
- B. Officer and Employee Salaries and Wages Expense. Current pay rates x hrs worked during 2008 x current number of employees.
- C. Purchased Water Expense was adjusted to reflect normalized purchases of 180,029,900 gallons at the rate of \$1.50 per thousand.
- D. Employee Pensions and Benefits Expense was adjusted to reclassify the health insurance benefits of \$30,433 that had been accounted for as Insurance Expense and to increase this expense by \$4,851 for the current health insurance charges of \$2,940.35 per month.
- E. Accounting Services was reduced to reflect the actual payments made to Mr. Strivers per the 2008 check register and to reflect a \$21 UPS charge that was reclassified as a miscellaneous expense.
- F. Insurance Expense was adjusted to reclassify employee health insurance from this account to Pensions and Benefits Expense.
- G. Payroll Taxes was adjusted to reflect the increase in pro forma wages and salaries
- H. Miscellaneous Expense was reduced to reflect the removal a \$580 Christmas bonus, \$705 in KRWA dues, and \$353 paid to florists during the test period, and increased by \$21 to include a UPS reimbursement paid to Mr. Strivers.

APPENDIX B
NORTH MANCHESTER WATER ASSOCIATION
CASE NO 2010-00118

Determination of Revenue Requirement

3 Year Average Debt Service

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/1/08	\$38,469	\$29,535	\$68,004
12/1/08	\$39,036	\$28,930	\$67,966
6/1/09	\$39,612	\$28,315	\$67,927
12/1/09	\$40,196	\$27,691	\$67,887
6/1/10	\$40,789	\$27,058	\$67,847
12/1/10	<u>\$41,391</u>	<u>\$26,415</u>	<u>\$67,806</u>
3 yr Total	\$239,493	\$167,944	\$407,437
3 YR Avg. Debt Service	\$79,831	\$55,981	\$135,812

Revenue Requirement Calculation

3 yr. Avg. Principal Payment	\$79,831	\$0	\$79,831
3 yr Avg. Interest Payment	<u>\$55,981</u>	<u>\$0</u>	<u>\$55,981</u>
Total Debt Service	\$135,812	\$0	\$135,812
Plus			
10 % DSC	\$ 13,581	\$0	\$ 13,581
Adjusted Total Expenses	<u>\$751,150</u>	<u>\$14,656</u>	<u>\$765,806</u>
Revenue Requirement From Rates	\$900,543	\$14,656	\$915,199
Less Normalized Revenue	<u>\$727,821</u>	<u>\$125,049</u>	<u>\$852,870</u>
Additional Revenue Required	\$172,722	(\$110,393)	\$ 62,329

APPENDIX C
NORTH MANCHESTER WATER ASSOCIATION
CASE NO 2010-00118

NORTH MANCHESTER WATER ASSOCIATION
Test Period From: JANUARY 1, 2008 THROUGH DECEMBER 31, 2008
VERIFICATION OF PROPOSED RATES

Meter Size	Bills	Gallons Sold	Revenue
5/8 inch	22611	129,917,269	864,061.79
1 inch	60	1,700,460	9,006.21
2 inch	84	4,222,810	21,917.07
3 inch	24	3,721,300	19,377.54
Totals	22,779	139,561,839	\$914,362.61

5/8 INCH X 3/4 INCH METER
REVENUE BY RATE INCREMENT
PROPOSED RATES

		BILLS	GALLONS	RATE	REVENUE
FIRST	2,000	22611	39,636,695	\$18.45	\$417,172.95
OVER	2,000		90,280,574	4.95	446,888.84
TOTAL		22611	129,917,269		\$864,061.79

1 INCH METER
REVENUE BY RATE INCREMENT
PROPOSED RATES

		BILLS	GALLONS	RATE	REVENUE
FIRST	5,000	60	284,660	\$33.30	\$1,998.00
OVER	5,000		1,415,800	4.95	7,008.21
TOTAL		60	1,700,460		\$9,006.21

2 INCH METER
REVENUE BY RATE INCREMENT
PROPOSED RATES

		BILLS	GALLONS	RATE	REVENUE
FIRST	15,000	84	1,200,210	\$82.80	\$6,955.20
OVER	15,000		3,022,600	4.95	14,961.87
TOTAL		84	4,222,810		\$21,917.07

3 INCH METER
REVENUE BY RATE INCREMENT
PROPOSED RATES

		BILLS	GALLONS	RATE	REVENUE
FIRST	30,000	24	568,100	\$157.05	\$3,769.20
OVER	30,000		3,153,200	4.95	15,608.34
TOTAL		24	3,721,300		\$19,377.54

APPENDIX D
NORTH MANCHESTER WATER ASSOCIATION
CASE NO 2010-00118

Monthly Water Rates

5/8" x 3/4" Meter

First	2,000 gallons	\$ 18.45 minimum bill
All Over	2,000 gallons	\$ 4.95 per 1,000 gallons

1" Meter

First	5,000 gallons	\$ 33.30 minimum bill
All Over	5,000 gallons	\$ 4.95 per 1,000 gallons

2" Meter

First	15,000 gallons	\$ 82.80 minimum bill
All Over	15,000 gallons	\$ 4.95 per 1,000 gallons

3" Meter

First	30,000 gallons	\$ 157.05 minimum bill
All Over	30,000 gallons	\$ 4.95 per 1,000 gallons

Jim Mathis
Manager
North Manchester Water Association, Inc.
7362 N. Highway 421
Manchester, KY 40962