

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CORINTH WATER DISTRICT FOR)
APPROVAL OF INCREASED RATES FOR WATER) CASE NO.
SERVICE.) 2010-00155

ORDER

On April 14, 2010, Corinth Water District ("Corinth") submitted 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 THEREFORE ORDERED that:

1. All parties shall have 14 days from the date of this Order to submit written comments, if any, to the Commission 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 the date 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

ENTERED
JUL 12 2010 *sl*
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

STAFF REPORT
ON
CORINTH WATER DISTRICT
CASE NO. 2010-00155

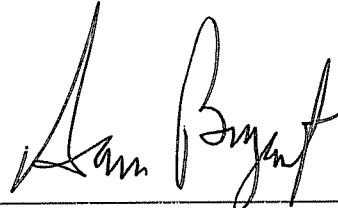
On April 14, 2010, Corinth Water District ("Corinth") submitted its application with the Public Service Commission ("the Commission") for an increase in its water rates. The increase proposed by Corinth would increase its normalize test period operating revenues of \$638,674 by \$158,668 or approximately 24.84 percent.

In its application, Corinth proposed using the year ending December 31, 2009 as its test period in this proceeding.

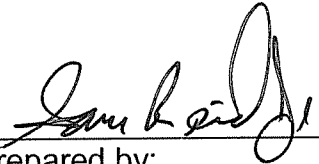
On May 19, 2010, Staff performed a limited review of Corinth's 2009 operations. This report contains the findings and recommendations of that review. Sam Reid of the Commission's Division of Financial Analysis is responsible for normalized revenues and rate design. Sam Bryant, of the same Division, is responsible for all pro forma expense adjustments found in Appendix A of this report and the revenue requirement determination found in Appendix B of this report.

Corinth's adjusted operating expenses of \$687,573 will produce a revenue requirement of \$851,960 as calculated in Appendix B to this report and as generated by the rates in Appendix D. The rates proposed by Corinth in its application will not produce the recommended revenue; however, the Staff finds that the proposed rates will generate sufficient revenue for Corinth to fund its debt, cover its operating expenses and provide for future equity growth. Therefore, the Staff recommends that the Commission accept the rates as set out in Appendix C to this report.

Should Corinth decide to increase its rates to generate the revenue requirement recommended by Staff, it should amend its application to reflect the rates as set out in Appendix D to this report and provide the Commission with confirmation that it has published notice of those rates pursuant to 807 KAR 5:011, Section 8.



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



Prepared by:
Samuel H. Reid, Manager
Water and Sewer Rate
Design Branch
Division of Financial Analysis

APPENDIX A

CASE NO. 2010-00155

	2009	Adjustments	Ref	Adjusted
Water Sales	\$ 550,085	\$ 56,532		\$ 606,617
Forfeited Discounts	28,373	0		28,373
Misc. Service Revenues	3,684	0		3,684
Total Operating Revenues	\$ 582,142	\$ 56,532	a	\$ 638,674
Employee Salaries	\$ 135,652	\$ 624	b	\$ 136,276
Officer Salaries	11,695	0		11,695
Pensions and Benefits	34,506	1,516	c	36,022
Purchased Water	216,443	(1,769)	d	214,674
Purchased Power	1,650	0		1,650
Materials and Supplies	16,483	16,986	e	33,469
Contract Service -Accounting	25,412	0		25,412
Contract Service-Testing	2,253	0		2,253
Contract Service-Other	11,492	0		11,492
Rent-Equipment	301	0		301
Transportation Expense	11,541	0		11,541
Vehicle Insurance	3,296	0		3,296
General Liability Insurance	2,578	0		2,578
Workers' Compensation	2,301	0		2,301
Other Insurance	262	0		262
Advertising Expense	507	0		507
Bad Debt Expense	6,623	0		6,623
Miscellaneous Expense	540	0		540
Total O&M Expenses	\$ 483,535	\$ 17,357		\$ 500,892
Depreciation Expense	172,178	1,483	f	173,661
Amortization Expense		1,225	g	1,225
Taxes Other Than Income	11,748	47	h	11,795
Utility Operating Expenses	\$ 667,461	\$ 20,112		\$ 687,573
Loss From Disposition	\$ (127)	\$ 127	i	\$ 0
Interest Income	717	(717)	j	0
Interest Expense	104,911	0		104,911
Net Income	\$ (189,640)	\$ 35,830		\$ (153,810)

EXPLANATION OF PRO FORMA ADJUSTMENTS

- a. **Normalization of revenues** is based on the 2009 billing analysis.
- b. **Employee Salaries.** Corinth did not propose an adjustment for employee salaries; however, an employee of the utility received a raise in December 2009. Based on a 40-hr. work week, the test-period salary for this individual would be \$30,805 (\$14.81 /hr x 2,080 hrs.) and the 2010 salary would be \$31,429 (\$15.11/hr. x 2,080 hrs.), resulting in an adjustment to test-period salaries of \$624.
- c. **Pensions and Benefits** were adjusted for the increase in retirement (\$624 x 16.17% = \$100) and for the increase in medical insurance of \$1,410 annually.
- d. **Purchased Water Expense.** In its application, Corinth adjusted purchased water expense to reflect normalized sales revenue. The reported 2009 line loss of 18.24% is expected to decrease because of the near-completion of road work at I-75, which in the past few years has caused unexpected line breaks due to bulldozing. Corinth reduced this loss to 15%, the amount normally accepted by the Commission for ratemaking purposes, resulting in a purchased water expense of \$214,674. Staff has reviewed the calculations for this adjustment and recommends that they be accepted.
- e. **Materials and Supplies Expense.** Corinth adjusted this expense to reflect the materials cost of new automated meters. Corinth will (subject to this rate increase) replace its old meters with automated meters which can be more easily and accurately read. With approximately 1,137 metered customers, replacing these meters over a ten-year period at a cost of \$149 per meter (based on an invoice from Hayes Pipe Supply) results in an annual cost of \$16,986 (114 meters x \$149/meter). Since Commission regulations require a utility to test each of its meters every ten years (807 KAR 5:066, Section 16) and given Corinth's assertion that the automated meters will be more accurate and efficient, Staff recommends that this adjustment be accepted.
- Corinth also proposed the following adjustments which Staff has reviewed and recommends accepting:
- f. **Depreciation Expense** was adjusted to reflect a full year's depreciation on capitalized items purchased during the test period.
- g. **Amortization Expense** was adjusted to reflect amortizing rate case expenses of \$3,675 over a three-year period.
- h. **Taxes Other Than Income.** Payroll taxes were adjusted by \$47 for the increase in salaries.
- i. **Loss from Disposition** was removed for ratemaking.

j. **Interest Income** was reduced to reflect current cash reserves and to remove restricted interest income.

APPENDIX B

REVENUE REQUIREMENT AND DEBT SERVICE COVERAGE
CASE NO. 2010-00155

REVENUE REQUIREMENT

Pro forma Operating Expenses	\$ 687,573	
Debt Service	136,989	
X .20 Coverage	<u>27,398</u>	
Revenue Requirement	\$ 851,960	
Normalized Revenue	<u>638,674</u>	
Justified Increase	\$ 213,289	33.39%
Requested Increase	\$ 158,668	24.84%

DEBT SERVICE COVERAGE

<u>Year</u>	<u>Series 1998</u>	<u>Series 2002</u>	<u>Series 2005</u>	<u>Totals</u>
2011	29,660	27,251	80,003	136,914
2012	30,280	27,245	79,658	137,183
2013	<u>29,853</u>	<u>27,226</u>	<u>79,791</u>	<u>136,870</u>
Totals	89,793	81,722	239,452	410,967
3-year avg.				136,989

APPENDIX C

CASE NO. 2010-00155

Monthly Water Rates

First	1,000	Gallons	\$ 17.84	Minimum Bill
Next	4,000	Gallons	\$ 12.99	Per 1,000 Gallons
Next	5,000	Gallons	\$ 11.57	Per 1,000 Gallons
All Over	10,000	Gallons	\$ 10.14	Per 1,000 Gallons
Bulk Loading Station			\$ 7.00	Per 1,000 Gallons

APPENDIX D

CASE NO. 2010-00155

Monthly Water Rates

First	1,000	Gallons	\$ 19.01	Minimum Bill
Next	4,000	Gallons	\$ 14.36	Per 1,000 Gallons
Next	5,000	Gallons	\$ 12.36	Per 1,000 Gallons
All Over	10,000	Gallons	\$ 10.36	Per 1,000 Gallons
Bulk Loading Station			\$ 7.75	Per 1,000 Gallons

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