

North Marshall Letter Head

Date

2010-00247

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

RECEIVED

JUL 19 2010

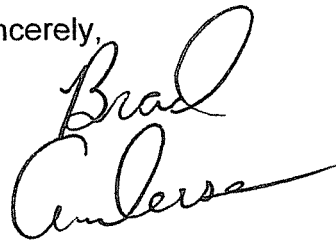
**PUBLIC SERVICE
COMMISSION**

Dear Mr. Derouen:

Please accept for filing the enclosed request for a general rate increase.

Enclosed you will find the original application and ten copies.

Sincerely,

A handwritten signature in black ink, appearing to read "Brad Anderson". The signature is written in a cursive style with a large initial "B" and a long, sweeping underline.

RECEIVED

JUL 19 2010

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF WATER RATES OF)
THE NORTH MARSHALL WATER DISTRICT) CASE NO. 2010-00247

Comes the Applicant, North Marshall Water District, pursuant to KRS 278.180 and 807 KAR 5:001, Sections 8 and 10, gives notice to the Kentucky Public Service Commission ("KPSC") of its intent to increase its water rates so as to raise in total additional annual revenues the principal sum of \$227,149, a 20 percent increase over pro forma present rate revenues in the amount of \$1,135,747. In support of this application, Applicant files the following information as required by the applicable KAR as so stated.

807 KAR 5:001:

Section 8(1)

Pursuant to KRS 278.180, Applicant with the mailing address of North Marshall Water District, P.O. Box 850, Benton, Kentucky 42025, is hereby requesting that the Commission allow it to increase its rates charged for water service.

Section 8(2)

As required, the original and ten (10) copies of the application are included herewith.

Section 10(1)(b)(1)

The rate adjustment is needed to provide financial resources to pay operating costs, service long-term debt, and provide the required debt service coverage.

Section 10(1)(b)(2)

Applicant has filed its 2009 annual report with the KPSC as well as annual reports for all prior years of operation.

Section 10(1)(b)(3)

Applicant is a water district organized pursuant to KRS Chapter 74 and has no articles of incorporation.

Section 10(1)(b)(4) and (5)

Applicant is not a limited partnership.

Section 10(1)(b)(6)

A certified copy of a certificate of assumed name is not necessary in this instance.

Section 10(1)(b)(7)

The proposed tariffs are attached hereto as Exhibit A.

Section 10(1)(b)(8)

A comparison of the present and proposed tariffs is attached hereto as Exhibit B.

Section 10(1)(b)(9)

Applicant has provided notice to its customers as required by 807 KAR 5:001, Section 10 (3) and (4). A copy of the notice is attached hereto as Exhibit C. The publisher's affidavit will be forwarded to the KPSC within 45 days of the application date.

Section 10(2)

30 day prior notice of North Marshall's intent to file this application was completed by letter dated June 18, 2010 to the KPSC. A copy of this letter is provided herewith at Exhibit D.

Section 10(6)(a)

A complete description and quantified explanation for all proposed adjustments to test year operations is included as a part of this application at Exhibit E, North Marshall's Adjusted Operating Statement.

Section 10(6)(b) and (c)

Applicant does not intend to submit pre-filed written testimony. The following individuals would be available to provide oral testimony, if necessary, at any hearing that may be held in this matter.

Brad Anderson, General Manager

B.W. Darnell, Chairman of the Board of Commissioners

Section 10(6)(d)

The proposed rates will produce additional annual revenues of \$227,149.

Section 10(6)(e)

The impact of the requested rates on incremental usages is shown in the public notice as shown in Exhibit C.

Section 10(6)(f)

Applicant is not a local exchange company.

Section 10(6)(g)

A billing analysis at present and proposed rates is shown at Exhibit F of this Application.

Section 10(6)(h)

Applicant's revenue requirement was determined using a 110 percent debt service coverage ratio as required by North Marshall's bondholder, the Kentucky Infrastructure Authority. As shown on Exhibit G, North Marshall's revenue requirement supports a revenue increase of \$266,645, a 23.48 percent increase over pro forma present rate revenues of \$1,135,747; however, to minimize the "rate shock" felt by its customers, North Marshall seeks only to increase revenues by \$227,149, or 20 percent, at this time.

Section 10(6)(i)

Rate base and weighted cost of capital calculations were not performed as Applicant used a debt service coverage ratio to determine its revenue requirements.

Section 10(6)(j)

Applicant's chart of accounts is not more detailed than those contained in the applicable Uniform Systems of Accounts.

Section 10(6)(k)

An auditor's report with the required reports on internal controls was filed with the Commission along with Applicant's 2009 Annual Report.

Section 10(6)(l)

Applicant does not file with the Federal Energy Regulatory Commission.

Section 10(6)(m)

Applicant does not file with the Federal Energy Regulatory Commission.

Section 10(6)(n)

A formal depreciation study has never been performed by North Marshall. North Marshall reported test year depreciation expense in the amount of \$284,568. A full utility plant in service and accumulated depreciation account detail supporting this amount is shown in North Marshall's 2009 annual report as filed with the KPSC. North Marshall requests a net adjustment decreasing to the test year amount by \$54,148 as shown and discussed at Reference Items (B) and (D) of Exhibit E attached hereto.

Section 10(6)(o)

Microsoft Word and Excel were used to develop this application.

Section 10(6)(p)

No prospectus has even been prepared.

Section 10(6)(q)

All annual reports have been filed with the KPSC.

Section 10(6)(r)

Applicant does not prepare monthly managerial reports.

Section 10(6)(s)

Applicant does not file with the Securities and Exchange Commission.

Section 10(6)(t)

Applicant had no transactions with affiliates during the test year or the two years previous.

Section 10(6)(u)

North Marshall proposes to apply the requested revenue increase evenly to its current rate design and, therefore, did not prepare a cost of service study. The calculation of the new rates is shown in Exhibit G. North Marshall further notes that its gross annual revenues are less than \$5,000,000, thus, relieving it from having to file a cost of service study pursuant to this regulation.

Section 10(6)(v)

Applicant is not a local exchange carrier.

Section 10(7)(a)

A pro forma operating statement is attached hereto as Exhibit E.

Section 10(7)(b)

Applicant has not prepared a capital construction budget.

Section 10(7)(c)

There are no proposed pro forma adjustments reflecting plant additions.

Section 10(7)(d)

Applicant does not prepare monthly operating budgets.

Section 10(7)(e)

All revenue adjustments are detailed in Exhibit E as attached hereto.

Section 10(3)(a)

The amount of revenue collected at present rates during the test year from each meter size and the amount of revenue to be collected at the proposed rates from each meter size is presented in the billing analysis as shown at Exhibit F.

Section 10(3)(b)

See Exhibit B of this Application for a comparison of present and proposed rates.

Section 10(3)(c)

The impact of the requested rates on incremental usages is shown in the public notice as shown in Exhibit C.

Section 10(3)(d)

Applicant is not a local exchange company.

Section 10(4)

A copy of the customer notice is included at Exhibit G.

Wherefore, Applicant asks that the KPSC of the Commonwealth of Kentucky issue an order authorizing Applicant to increase its water rates so as to raise \$ in additional annual revenues.

Respectfully submitted,

X *Bernie W Darnell*

North Marshall Water District
P.O. Box 850
Benton, Kentucky 42025

FOR _____
Community, Town or City

P.S.C. KY. NO. _____

_____ SHEET NO. _____

NORTH MARSHALL WATER DISTRICT
(Name of Utility)

CANCELLING P.S.C. KY. NO. _____

_____ SHEET NO. _____

CONTENTS

Bimonthly Water Rates

Customer Charge

5/8" X 3/4" Meter	\$12.94
1" Meter	20.44
1 1/2" Meter	32.95
2" Meter	47.99
3" Meter	83.03
4" Meter	133.12
6" Meter	258.30

All Water Usage \$2.64 per 1,000 gallons

DATE OF ISSUE July 20, 2010
Month / Date / Year

DATE EFFECTIVE September 1, 2010

ISSUED BY X Bennie W Darrell 7-15-10
(Signature of Officer)

TITLE Chairman

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2010-00247 DATED _____

FOR ENTIRE AREA SERVED
P.S.C. KY. NO. _____ 10 _____

4TH revised SHEET NO. _____ 5 _____

NORTH MARSHALL WATER DISTRICT
(Name of Utility)

CANCELLING P.S.C. KY. NO. _____ 5 _____

3rd revised SHEET NO. _____ 5 _____

RULES AND REGULATIONS

Bimonthly Water Rates

Customer Charge	
5/8" X 3/4" Meter	10.78
1" Meter	17.03
1 1/2" Meter	27.46
2" Meter	39.99
3" Meter	69.19
4" Meter	110.93
6" Meter	215.25

All Water Usage _____ 2.20 per 1,000 gallons

Bimonthly Water Rates

Customer Charge		
5/8" X 3/4" Meter		12.94
1" Meter		20.44
1 1/2" Meter		32.95
2" Meter		47.99
3" Meter		83.03
4" Meter		133.12
6" Meter		258.30

All Water Usage _____ 2.64 per 1,000 gallons

DATE OF ISSUE July 20, 2010
Month / Date / Year

DATE EFFECTIVE September 1, 2010
Month / Date / Year

ISSUED BY *Bonnie W Darnell* 7-15-10
(Signature of Officer)

TITLE Chairman

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2010-00247 DATED _____

NOTICE

North Marshall Water District has filed an application with the Public Service Commission to increase its rates for water service. The proposed effective date of the change is 9-1-2010.

Bi-Monthly Rate:

<u>Current</u>		<u>Proposed</u>	
Customer Charge		Customer Charge	
5/8" X 3/4" Meter	10.78	5/8" X 3/4" Meter	12.94
1" Meter	17.03	1" Meter	20.44
1 1/2" Meter	27.46	1 1/2" Meter	32.95
2" Meter	39.99	2" Meter	47.99
3" Meter	69.19	3" Meter	83.03
4" Meter	110.93	4" Meter	133.12
6" Meter	215.25	6" Meter	258.30
All Water Usage	2.20 per 1,000 gallons	All Water Usage	2.64 per 1,000 gallons

	BI-MONTHLY	BI-MONTHLY	PERCENT
	BILL AT	BILL AT	INCREASE
BI-MONTHLY	CURRENT	PROPOSED	OVER
<u>USAGE</u>	<u>RATE</u>	<u>RATE</u>	<u>CURRENT</u>
0 USAGE	\$10.78	\$12.94	20%
2,000	15.18	18.22	20%
5,000	21.78	26.14	20%
10,000	32.78	39.34	20%
20,000	54.78	65.74	20%
30,000	76.78	92.14	20%
50,000	120.78	144.94	20%
75,000	175.78	210.94	20%
100,000	230.78	276.94	20%
150,000	340.78	408.94	20%
200,000	450.78	540.94	20%
500,000	1110.78	1332.94	20%

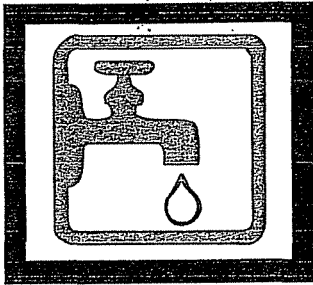
The rates contained in this notice are the rates proposed by the North Marshall Water District. However, the Public Service Commission may order rates to be charged that are higher or lower than the rates proposed in this notice.

Any corporation, association, body politic, or person may request leave to intervene, by motion within thirty (30) days after notice of the proposed rate change is given. A motion to intervene shall be in writing, shall be submitted to the Executive Director, Public Service Commission, Post Office Box 615, Frankfort, KY 40602, and shall set forth the grounds for the motion, including the status and interest of the party movant. Copies of the application may be obtained at no charge from the District office at 56 Frankfort Rd. in Benton, KY 42025. Upon request from an intervenor, the District shall furnish to the intervenor a copy of the application and supporting documents.

North Marshall Water District

Exhibit D

Case No. 2010-00247



NORTH MARSHALL WATER DISTRICT

• P.O. Box 850 • Benton, Kentucky 42025

Telephone (270) 527-3208 • Fax (270) 527-3039 • 1-800-491-3209 (area code 270 only)

June 18, 2010

Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

JUN 21 2010

PUBLIC SERVICE
COMMISSION

Dear Mr. Derouen:

Please take notice that the North Marshall Water District intends to file on or after July 26, 2010, an application requesting to increase its water service rates. The application will be supported by the historic test year ending December 31, 2009.

Sincerely,

A handwritten signature in cursive script, appearing to read "Brad Aule".

	Test year from 2009 Annual Report	Adjustments	Ref.	Pro forma
Operating Revenue				
Sales of Water	\$ 1,135,747			\$ 1,135,747
Other Operating Revenue	88,226	\$ (43,670)	(A)	44,556
Total Operating Revenue	1,223,973	(43,670)		1,180,303
Operating Expenses				
Operation and Maintenance				
Salaries and Wages - Employees	388,857	(6,203)	(B)	394,134
		11,480	(C)	
Salaries and Wages - Officers	32,700			32,700
Employee Pensions and Benefits	156,351	(2,494)	(B)	153,857
Purchased Power	126,930			126,930
Chemicals	19,012			19,012
Materials and Supplies	152,408			152,408
Contractual Services - Acct.	5,300			5,300
Contractual Services - Management Fees	3,000			3,000
Contractual Services - Water Testing	8,198			8,198
Contractual Services - Other	70,105			70,105
Rental of Bld./Real Prop	600			600
Transportation Expenses	25,974			25,974
Insurance - Vehicle	5,664			5,664
Insurance - General Liability	4,805			4,805
Insurance - Workers Comp	9,001			9,001
Insurance - Other	19,150			19,150
Advertising	196			196
Bad Debt Expense	2,554			2,554
Miscellaneous	13,491			13,491
Total Operation and Maintenance	1,044,296	2,783		1,047,079
Depreciation	284,568	229	(B)	
		(54,377)	(D)	230,420
Taxes Other Than Income Taxes	32,347	(464)	(B)	
		858	(C)	32,742
Total Operating Expenses	1,361,211	(50,971)		1,310,240
Net Operating Income	(137,238)	7,301		(129,937)
Nonoperating Income	49,289	(39,431)	(E)	9,858
Income Available to Service Debt	\$ (87,949)	\$ (32,130)		\$ (120,079)

(A)

Erroneously included in test year other operating revenues was \$37,646 in federal grant receipts and \$6,023 in state grant receipts. These amounts should have been initially recorded in account 432, Proceeds from Capital Contributions, and closed to account 215.2, Donated Capital, at the end of the year. Accordingly, these contributions have been removed from other operating revenue in the pro forma to correct this accounting error on the income statement.

(B)

During the test year North Marshall employees constructed 41 meter installations. Although the material costs for these assets were properly capitalized, the labor and labor overhead costs were not capitalized and instead included in test year operating expenses. This adjustment was made to remove the labor and labor overhead costs from operating expenses and depreciate them over the estimated useful lives of the assets.

Wages to install 41 meters; 3 men for 3 hours at total hourly rate of \$50.43.				<u>\$ (6,203)</u>
Labor Capitalized				\$ 6,203
Divide by: Total Labor				388,857
Capitalization Percentage				<u>1.595%</u>
Labor Overheads Capitalized	Pensions/ Benefits	Payroll Taxes	Total Overhead	
Test year	\$ 156,351	\$ 29,075	\$ 185,426	
Times: Capitalization Percentage	-1.595%	-1.595%	-1.595%	
Labor Overhead Head Costs	<u>\$ (2,494)</u>	<u>\$ (464)</u>	<u>\$ (2,958)</u>	
Depreciation on Labor and Labor Overheads Capitalized for 41 in-house meter installations:				
Salaries				\$ 6,203
Labor Overheads				<u>2,958</u>
Total				9,161
Divided by: 40 years				<u>40</u>
Adjustment				<u>\$ 229</u>

(C)

Subsequent to the test year all employees recieved a 3 percent pay increase. The following adjustment increases employee salaries and wages expense to account for the employee pay raises. Also, payroll tax expense was increased.

	Salaries and Wages	Payroll Taxes
Test year expense reported in General Ledger	\$ 388,857	\$ 29,075
Less: Amount capitalized for meter installations	<u>(6,203)</u>	<u>(464)</u>
Amount remaining in expense	382,654	28,611
Times: 3 percent	<u>3%</u>	<u>3%</u>
Adjustment	<u>\$ 11,480</u>	<u>\$ 858</u>

(D)

Recognizing that the Kentucky Public Service Commission uses the 1979 National Association of Regulatory Utility Commissioner's (NARUC) depreciation study for small water utilities as a guide for establishing the appropriate depreciable lives of water district assets, North Marshall has revised the depreciable lives assigned to mains and meters. During the test year North Marshall depreciated mains over a 50-year life while meters and meter installations were depreciated over a 20-year life. These lives have been extended to 75 year and 40 years, respectively.

The new 75-year life for mains is the longest life found reasonable by the NARUC study. North Marshall believes that a 75-year life better represents the life expectancy of its mains than the current 50 year life. With regard to the adjustment for meters, North Marshall notes that the NARUC study separates meters from meter installations. NARUC finds an appropriate life range for meters to be 35-45 years and that of meter installations to be 40-50 years. North Marshall does not separate the cost of meters from meter installations in its plant ledger making it impossible to depreciate these assets separately. The current 20 year life assigned to meters and meter installations is below the life ranges found reasonable by NARUC for either meters or meter installations. North Marshall proposes a 40 year life for its meters and meter installations noting that this life is within the life ranges found reasonable by NARUC for both meters and meter installations. Based on its experience with meter and meter installation replacements, North Marshall is of the opinion that the proposed 40-year life is reasonable and appropriate.

North Marshall has made its auditors aware of this change in accounting estimate and this change will be recognized in North Marshall's 2010 annual report to be filed with the Kentucky Public Service Commission in 2011, and each annual report filed thereafter, with no retroactive restatement of the accumulated depreciation reserve.

Original Cost of Mains	2,270,849	
Divided by: 75 years	<u>75</u>	
Annual Recovery	30,278	
Less: Test year	<u>(44,773)</u>	
Adjustment for Mains		(14,495)
Original Cost of Meters and Meter Installations	1,820,511	
Divided by: 40 years	<u>40</u>	
Annual Recovery	45,513	
Less: Test year	<u>(85,395)</u>	
Adjustment for Meters and Meter Installations		<u>(39,882)</u>
Total Adjustment to Depreciation		<u><u>(54,377)</u></u>

(E)

During the test year North Marshall recognized a non-recurring gain on the sale of an office building in the amount of \$49,289. Pursuant to the Uniform Systems of Accounts, this gain would normally be accounted for as a net increase to the accumulated depreciation reserve; however, North Marshall proposes to recognize the gain on the income statement by amortizing it over a five-year period, the anticipated life of the rates requested in this case, to provide its customers with the immediate rate benefit of the gain.

Total Gain on Sale of Office Building	49,289	
Divided by: Five Years	<u>5</u>	
Annual Recognition	9,858	
Less: Test year	<u>(49,289)</u>	
Adjustment		<u><u>(39,431)</u></u>

NORTH MARSHALL WATER DISTRICT			
BILLING ANALYSIS SUMMARY			
Meter Size	Bills	Useage	Revenue
3/4 Inch Meter	29,647	270,611,460	\$914,939.87
1 Inch Meter	1597	33,879,600	\$101,732.03
1.5 Inch Meter	154	14,459,900	\$36,040.62
2 Inch Meter	120	12,152,000	\$31,533.20
3 Inch Meter	44	12,110,500	\$29,687.46
4 Inch Meter	6	2,579,400	\$6,340.26
6 Inch Meter	6	5,835,500	\$14,129.60
Totals	31,574	351,628,360	\$1,134,403.04

BILLING ANALYSIS FOR: NORTH MARSHALL W.D			
TEST PERIOD FROM: DECEMBER 2002			
USAGE TABLE			
METER SIZE: 1 1/2"			
CLASS:			
USAGE	BILLS	GALLONS	8000000
	154	14,459,900	

TOTAL	154	14,459,900	0

REVENUE TABLE			
REVENUE BY RATE INCREMENT			
	BILLS	GALLONS	RATE REVENUE
Monthly Meter Charge	154	14,459,900	\$27.46 \$4,228.84
			2.20 31,811.78

TOTAL	154	14,459,900	\$36,040.62

TOTAL			
			0

BILLING ANALYSIS FOR: NORTH MARSHALL W.D.			
TEST PERIOD FROM: DECEMBER 2002			
USAGE TABLE			
METER SIZE: 2"			
CLASS:			
USAGE	BILLS	GALLONS	8000000
	120	12,152,000	

TOTAL	120	12,152,000	0

REVENUE TABLE			
REVENUE BY RATE INCREMENT			
Monthly Meter Charge	BILLS	GALLONS	RATE REVENUE
	120		\$39.99 \$4,798.80
		12,152,000	2.20 26,734.40

TOTAL	120	12,152,000	\$31,533.20

BILLING ANALYSIS FOR: NORTH MARSHALL W.D.			
TEST PERIOD FROM: DECEMBER 2002			
USAGE TABLE			
METER SIZE: 4"			
CLASS:			
USAGE	BILLS	GALLONS	2000000
	6	2,579,400	
TOTAL			
	6	2,579,400	0
REVENUE TABLE			
REVENUE BY RATE INCREMENT			
Monthly Meter Charge	BILLS	GALLONS	RATE REVENUE
	6	2,579,400	\$110.93 \$665.58
			2.20 5,674.68
TOTAL			
	6	2,579,400	\$6,340.26

North Marshall Water District
Calculation of Revenue Requirement
 TYE 12/31/09

Exhibit G

Pro forma Operating Expenses	\$ 1,310,240
Plus: 5-year Average Debt Payments*	169,088
10 Percent Debt Coverage, Required by KIA	<u>16,909</u>
 Total Revenue Requirement	 \$ 1,496,237
Less: Other Operating Revenue	(44,556)
Nonoperating Income	<u>(49,289)</u>
 Revenue Required from Rates	 1,402,392
Less: Normalized Revenue at Present Rates	<u>(1,135,747)</u>
 Required Revenue Increase from Rates \$	 <u>\$ 266,645</u>
Required Revenue Increase from Rates %	<u>23.48%</u>

* Calculation of 5-year average principal and interest payments on long-term debt.

Year	First Kentucky		Total
	KIA C92-06	Bank	
2011	\$ 119,896	\$ 99,167	\$ 219,063
2012	122,205	99,167	221,373
2013	84,243	99,167	183,410
2014	23,260	99,167	122,427
2015		99,167	99,167
 Total	<u>349,604</u>	<u>495,836</u>	<u>845,440</u>
5-year avg	<u>\$ 69,921</u>	<u>\$ 99,167</u>	<u>\$ 169,088</u>

North Marshall Water District
Calculation of Rates
 TYE 12/31/09

	Present Rates Present	Plus: Increase at 20.00%	Requested Rates
Customer Charge:			
5/8" x 3/4" meter	\$ 10.78	\$ 2.16	\$ 12.94
1" meter	17.03	3.41	20.44
1 1/2" meter	27.46	5.49	32.95
2" meter	39.99	8.00	47.99
3" meter	69.19	13.84	83.03
4" meter	110.93	22.19	133.12
6" meter	215.25	43.05	258.30
 All Water Usage, per thousand	 2.20	 0.44	 2.64