

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF OVERLAND DEVELOPMENT,) CASE NO.
INC. FOR AN ADJUSTMENT OF RATES) 2010-00366

ORDER

On September 13, 2010, Overland Development, Inc. ("Overland") 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 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

ENTERED *h*
OCT 15 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST



Executive Director

STAFF REPORT
ON
OVERLAND DEVELOPMENT, INC.
CASE NO. 2010-00366

Pursuant to a request by Overland Development, Inc., (“Overland”) for assistance with the preparation of a rate application, Sam Bryant and Sam Reid of the Commission Staff (“Staff”) performed a limited review of Overland’s test year, the calendar year ending December 31, 2009, to determine the reasonableness of the application. The scope of Staff’s review was limited to obtaining information as to whether the test-year operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

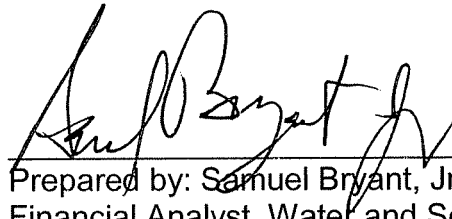
On September 13, 2010, with Staff assistance, Overland filed its application seeking to increase its rates for water service pursuant to 807 KAR 5:076. Overland proposes to increase its current rates to produce additional revenues of \$7,949 or 18.6 percent over test-period normalized sales of \$42,840.

This report summarizes Staff’s findings and recommendations resulting from its review. Mr. Bryant is responsible for all areas of this report concerning revenue requirements and Mr. Reid is responsible for normalized revenues and rate design.

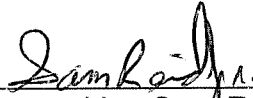
Attachment A of this report details Overland’s reported test-year operations and adjustments thereto. Attachment A also includes narrative explanations for all test-year adjustments proposed by Overland and by Staff.

Attachment B to this report shows the calculation of the revenue requirement of \$50,789 and Attachment C shows the rates that will produce the revenue requirement calculated at Attachment B.

Signatures:



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



Prepared by: Sam Reid, Jr.
Rate Analyst, Water and Sewer
Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
 OPERATING STATEMENT
 CASE NO. 2010-00366

Pro Forma Revenues and Expenses

| | <u>Test Period</u> | <u>Adjustments</u> | | <u>Adjusted</u> |
|------------------------------|----------------------|--------------------|---|----------------------|
| Water Sales | \$ 43,712 | \$ (872) | A | \$ 42,840 |
| Total Water Sales | \$ 43,712 | \$ (872) | | \$ 42,840 |
| Water Expenses | | | | |
| Salaries & Wages | \$ 12,000 | | | \$ 12,000 |
| Contract Labor | 765 | | | 765 |
| Purchased Water | 17,538 | 1,455 | B | 18,993 |
| Water Testing | 809 | 240 | C | 1,049 |
| Office Supplies | 127 | | | 127 |
| Telephone | 1,175 | (588) | D | 587 |
| Equipment | 381 | | | 381 |
| Postage | 712 | 78 | E | 790 |
| Fuel | 820 | | | 820 |
| Meter Labor | 602 | 45 | F | 647 |
| Tools | 38 | | | 38 |
| Accounting Fees | 1,970 | | | 1,970 |
| Maintenance & Repair | 3,596 | (1,000) | G | 2,596 |
| Taxes Other Than Income | 2,621 | | | 2,621 |
| Total Operating Expenses | \$ <u>43,154</u> | \$ <u>230</u> | | \$ <u>43,384</u> |
| Net Operating Income | \$ 558 | \$ (1,102) | | \$ (544) |

Explanation of Pro Forma Adjustments

A. Normalized Operating Revenues - Residential:

Revenue normalization using end-of-period customer level and the current tariffed rate.

| | |
|--|---------------|
| Test-Period Revenues (2009 Annual Report) | \$ 43,712 |
| Less: 3% utility tax included in revenue on \$42,259.42 in water sales | \$ (1,268) |
| Plus: Owner's Personal Use Revenue | <u>\$ 396</u> |
| Normalized Revenues | \$ 42,840 |

B. Purchased Water Expense.

For the test period, Purchased Water Expense was \$17,538. On May 1, 2010, Overland's supplier increased Overland's wholesale rate from \$1.79 per 1,000 gallons to \$1.83 per 1,000 gallons. For 2009 Overland purchased 6,800,000 gallons of water. Overland's annual purchased water expense would be \$18,993:

| | |
|--------------------------------|------------------|
| Minimum amount: \$ 545.75 x 12 | \$ 6,549 |
| 1.83 x 6,800 increase | <u>\$ 12,444</u> |
| Total | \$ 18,993 |
| Less Test Period Expense | <u>\$ 17,538</u> |
| Adjustment | \$ 1,455 |

C. Water Testing Expense

The cost of testing increased from \$10 per test to \$30 during the test period. This results in an increase of \$240 annually.

D. Telephone Expense

Test-period expense is \$1,175. Overland's owner has other business interests and the telephone is not used exclusively by Overland. Allocating 50 percent of phone expense to Overland would result in a reduction in this expense of \$588 to Overland.

E. Postage Expense

The annual postage expense for mailing testing samples increased from \$2.44 to \$8.51 during the test year and from 25 cents to 31 cents for billing post cards. These two changes resulted in a \$78 increase in postage. 6.07 for testing samples and \$72 (\$6.00 x 12 months) for billing cards.

F. Meter Reading Labor.

This expense increased by \$45 during the test period for additional fuel expense for meter reader.

G. Maintenance and Repair.

This expense included \$1,000 for backhoe repair. Since the backhoe is used in other businesses, not the utility, the expense should be removed from Overland's books.

ATTACHMENT B
REVENUE REQUIREMENT
CASE NO. 2010-00366

| | |
|--|--------------------|
| Operating Expenses | 43,384 |
| Divided by: Operating Ratio | <u>88%</u> |
| Revenue Requirement Before Income Tax | 49,300 |
| Less Operating Expenses | <u>43,384</u> |
| Net Income After Taxes | 5,916 |
| Times: Income Tax Gross-up | <u>1.251564456</u> |
| Income Before Taxes | 7,405 |
| Operating Expenses | <u>43,384</u> |
| Revenue Requirement | 50,789 |
| Less: Normalized Revenue | <u>42,840</u> |
| Increase | \$ 7,949 |

ATTACHMENT C

MONTHLY RATES

CASE NO. 2010-00366

5/8" x 3/4" Meter

First 2,000 gallons
Next 8,000 gallons
Next 20,000 gallons
Next 20,000 gallons
Over 50,000 gallons

\$20.14 Minimum Bill
7.34 per 1,000 gallons
5.56 per 1,000 gallons
4.62 per 1,000 gallons
3.72 per 1,000 gallons

James C Taylor
Secretary-Treasurer
Overland Development, Inc.
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Catlettsburg, KY 41129