

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST DAVIESS COUNTY)
WATER DISTRICT FOR APPROVAL OF A) CASE NO.
PROPOSED INCREASE IN RATES FOR) 2011-00459
WATER SERVICE)

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of December 22, 2011, the attached report containing the findings and recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding.



Jeff Berouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: JAN 30 2012

cc: Parties of Record

STAFF REPORT
ON
WEST DAVIESS COUNTY WATER DISTRICT
CASE NO. 2011-00459

Pursuant to a request by West Daviess County Water District (“West Daviess”) for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of West Daviess’ test period operations, the calendar year ending December 31, 2010. The scope of Commission 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.

Mark Frost and Eddie Beavers of the Commission’s Division of Financial Analysis performed the limited review. This report summarizes Commission Staff’s review and recommendations. Mr. Beavers is responsible for the pro forma revenue adjustment, the Cost-of-Service Study, and the calculation of the recommended rates. Mr. Frost is responsible for all pro forma expense adjustments, and the revenue requirement determination.

Upon completion of its limited review, Commission Staff assisted West Daviess in the preparation of its rate application, which West Daviess filed with the Commission on November 28, 2011. Commission Staff finds that West Daviess’ application accurately reports its test-period operations and the proposed pro forma adjustments meet the ratemaking criteria of known and measurable. Appendix A is West Daviess’s pro forma operating income statement. Appendix B contains an explanation of each pro forma adjustment accepted by Commission Staff.

The Commission has historically used the Debt Service Coverage (“DSC”) methodology to determine the revenue requirement for water districts. This approach is used primarily because a bond ordinance or loan agreement requires the water district to maintain a predetermined DSC level. Commission Staff, however, does not recommend the use of this methodology in this case because West Daviess has no outstanding bonds or loans.

Commission Staff instead recommends that the operating ratio methodology be used to calculate West Daviess’s revenue requirement.¹ This approach is used when there is no basis for a rate-of-return determination, the cost of the utility has fully or largely been funded through contributions, or there is little or no outstanding long-term debt. Commission Staff is of the opinion that an operating ratio of 88 percent will allow West Daviess sufficient revenues to cover its reasonable operating expenses, and provide for reasonable equity growth.

As shown in Table 1, applying an 88 percent operating ratio to West Daviess’ requested pro forma operations produces a revenue requirement from rates of \$1,581,342, an increase of \$265,818 or 20.21 percent above the normalized revenue from rates of \$1,315,524.

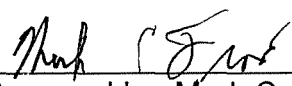
¹ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:


$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

Table I: Revenue Requirement Determination	
Net Pro Forma Operating Expenses	\$ 1,460,253
Divided by: Operating Ratio	÷ 88%
Subtotal	\$ 1,659,378
Add: Interest Expense	+ 1,675
Total Revenue Requirement	\$ 1,661,053
Less: Other Income & Deductions	- 31,210
Revenue Requirement from Operations	\$ 1,629,843
Less: Other Operating Revenues	- 48,501
Revenue Requirement - Water Sales	\$ 1,581,342
Less: Pro Forma Revenue - Water Sales	- 1,315,524
Requested Increase	\$ 265,818

Commission Staff's recommended revenue requirement from water sales will allow West Daviess to cover its pro forma operating expenses, meet its debt service requirements, and provide for future equity growth. The rates proposed by West Daviess, as set forth in Appendix C, were calculated by applying 20.21 percent increase in revenue to each rate. Based upon adjusted test-period water sales, these rates will produce revenues of \$1,581,342. Therefore, Commission Staff recommends that the Commission accept those rates.

Signatures


 Prepared by: Mark C. Frost
 Financial Analyst, Water and Sewer
 Revenue Requirements Branch
 Division of Financial Analysis


 Prepared by: Eddie Beavers
 Rate Analyst, Communications, Water
 and Sewer Rate Design Branch
 Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 2011-00459
PRO FORMA OPERATIONS

	2010 Annual Report	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues:				
Revenue - Metered Water Sales	\$ 1,321,803	\$ (6,279)	(a)	\$ 1,315,524
Other Operating Revenues:				
Forfeited Discounts	\$ 17,892	\$ 0		\$ 17,892
Miscellaneous Service Revenues	14,495	0		14,495
Miscellaneous Service Revenues	16,114	0		16,114
Total Other Operating Revenues	\$ 48,501	\$ 0		\$ 48,501
Total Operating Revenues	\$ 1,370,304	\$ (6,279)		\$ 1,364,025
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages - Employees	\$ 243,906	\$ 8,615	(b)	\$ 252,521
Salaries & Wages - Commissioners	9,000	0		9,000
Employee Pension & Benefits	100,224	8,527	(c)	108,751
Purchased Water	701,436	7,239	(d)	708,675
Purchased Power	28,443	0		28,443
Materials & Supplies	62,853	(14,551)	(e)	48,302
Contractual Services - Eng.	360	0		360
Contractual Services - Accounting	6,100	0		6,100
Contractual Services - Testing	4,800	0		4,800
Rental Real Building/Real. Prop	4,348	0		4,348
Transportation	22,888	0		22,888
Insurance - Gen. Liability	14,031	1,601	(f)	15,632
Insurance - Workers Compensation	4,404	(88)	(g)	4,316
Advertising	363	0		363
Bad Debt Expense	3,805	0		3,805
Miscellaneous	10,734	0		10,734
Total Operation & Maintenance	\$ 1,217,695	\$ 11,343		\$ 1,229,038
Depreciation	208,778	1,691	(h)	210,469
Taxes Other Than Income:				
Payroll Taxes	18,957	(160)	(i)	18,797
PSC Assessment	1,949	0		1,949
Utility Operating Expenses	\$ 1,447,379	\$ 12,874		\$ 1,460,253
Net Utility Operating Income	\$ (77,075)	\$ (19,153)		\$ (96,228)
Other Income & Deductions:				
Interest Income	31,210	0		31,210
Interest Expense	1,675	0		1,675
Net Income Available for Debt Service	\$ (47,540)	\$ (19,153)		\$ (66,693)

APPENDIX B
STAFF REPORT CASE NO. 2011-00459
PRO FORMA ADJUSTMENTS

(a) Revenue from Water Sales: This adjustment reflects the results of Commission Staff's billing analysis and the current tariffed rate.

	Customers	Gallons	Revenue
Normalized Revenue Water Sales	4,644	368,049,190	\$ 1,315,524
Annual Report Totals	- 4,673	- 368,050,000	- 1,321,803
Difference	(29)	(810)	\$ (6,279)

(b) Salaries & Wages: As a cost savings measure, West Daviess and Southeast Daviess County Water District ("Southeast Daviess") share staff. Therefore, all payroll related costs are allocated to each District using a 45/55 ratio. The Districts' allocation factors are based upon the ratio of Utility Plant In Service and the ratio of revenues. When the Districts' performed their calculations, both ratios produced similar results. As shown in the calculations below, the 2010 ratios support the 45/55 allocation used in the test period. Commission Staff is applying the 2011 wages to the hours worked during the 2010 test period and applying the 45/55 allocation.

	Utility Plant	Revenues	Averages
Southeast Daviess	\$ 9,242,335	\$ 1,862,018	
West Daviess	+ 9,034,978	+ 1,321,803	
Totals	<u>\$ 18,277,313</u>	<u>\$ 3,183,821</u>	
Southeast Daviess – Ratio	50.567%	58.484%	54.526%
West Daviess – Ratio	<u>49.433%</u>	<u>41.516%</u>	<u>45.475%</u>
Totals – Ratio	<u>100.000%</u>	<u>100.000%</u>	<u>100.000%</u>

Employee		Payment Method	Wage Rates Regular	2010 Overtime Hrs.	Pro Forma Salaries
Perry	Higdon	Hourly	\$ 25.72	225.50	\$ 62,403
Patty	Anderson	Hourly	\$ 24.91	0.00	52,012
Nick	Horsman	Hourly	\$ 16.89	121.00	38,332
Billy	Higdon	Salary	\$ 3,796.08	N/A	91,106
Jeff	Johnson	Hourly	\$ 20.18	37.50	43,271
Adam	Mils	Hourly	\$ 12.56	0.00	26,225
Beth	Frey	Hourly	\$ 13.21	0.50	27,592
Keith	Krampe	Salary	\$ 2,912.67	N/A	69,904
Tommy	Cecil	Hourly	\$ 20.18	72.00	44,315
Teresa	Doyle	Hourly	\$ 12.81	0.00	26,747
Gail	Carlock	Hourly	\$ 12.86	0.00	26,852
Sabrina	Baker	Hourly	\$ 13.20	0.50	27,572
Laura	Broakley	Hourly	\$ 11.89	0.00	24,826
				<u>457.00</u>	<u>\$ 561,157</u>

	West Daviess	Southeast Daviess
Pro Forma Salaries & Wages - Employees	\$ 561,157	\$ 561,157
Multiplied by: Allocation Factors	x 45%	x 55%
Allocated Pro Forma Salaries & Wages - Emp.	\$ 252,521	\$ 308,636
Less: Reported Salaries & Wages - Employees	- 243,906	- 297,238
Pro Forma Adjustments	<u>\$ 8,615</u>	<u>\$ 11,398</u>

(c) Employee Pension and Benefits: Commission Staff's adjustment based upon the current employer retirement contribution rate, the pro forma salaries and wages, the current employee insurance premiums, and the 45/55 allocation between the two districts.

Employee		Employee Benefits				Totals
		Health Insurance	Dental MO	Life & Disability	Retirement 11%	
Patty	Anderson	\$ 8,552	\$ 444	\$ 359	\$ 6,864	\$ 16,219
Sabrina	Baker	14,004	231	217	5,721	20,173
Laura	Broakley	19,913	231	215	4,217	24,576
Gail	Carlock	7,947	231	175	10,022	18,375
Tommy	Cecil	20,226	695	303	4,760	25,984
Teresa	Doyle	16,796	444	200	2,885	20,325
Beth	Frey	8,398	231	185	3,035	11,849
Billy	Higdon	17,879	695	576	7,689	26,839
Perry	Higdon	14,004	695	386	4,875	19,960
Nick	Horsman	15,482	444	204	2,942	19,072
Jeff	Johnson	4,826	231	232	2,954	8,243
Keith	Krampe	20,226	695	321	3,033	24,275
Adam	Mils	2,649	231	168	2,731	5,779
		<u>\$ 170,902</u>	<u>\$ 5,498</u>	<u>\$ 3,541</u>	<u>\$ 61,728</u>	<u>\$ 241,669</u>

	West Davie's WD	Southeast Davie's WD
Pro Forma Salaries & Wages - Employees	\$ 241,669	\$ 241,669
Less: Reported Salaries & Wages - Employees	x 45%	x 55%
Allocated Pro Forma Salaries & Wages - Emp.	\$ 108,751	\$ 132,918
Less: Reported Salaries & Wages - Employees	- 100,224	- 122,708
Pro Forma Adjustments	<u>\$ 8,527</u>	<u>\$ 10,210</u>

(d) **Purchased Water:** Commission Staff applied the current water rate being charged by the Owensboro Municipal system to the test-period water purchases.

Owensboro Municipal Water & Sewer System

Service		Meter # 31963782	Meter # 31963928	Meter # 70084591	Total
From	To	Gallons	Gallons	Gallons	Gallons
12/30/09	01/29/10	20,420,000	2,240,900	7,236,000	29,896,900
01/29/10	02/26/10	20,575,000	2,254,500	6,205,000	29,034,500
02/26/10	03/31/10	22,021,000	2,397,100	4,896,000	29,314,100
03/31/10	04/30/10	22,059,000	2,390,000	7,111,000	31,560,000
04/30/10	05/28/10	21,526,000	2,069,400	7,275,000	30,870,400
05/28/10	06/30/10	26,869,000	1,677,600	18,037,000	46,583,600
06/30/10	07/30/10	28,976,000	2,653,000	14,680,000	46,309,000
07/30/10	08/31/10	29,608,000	2,323,100	12,430,000	44,361,100
08/31/10	09/30/10	24,445,000	1,850,200	11,974,000	38,269,200
09/30/10	10/29/10	26,133,000	1,519,400	7,644,000	35,296,400
10/29/10	11/30/10	26,248,000	2,128,200	7,983,000	36,359,200
11/30/10	12/30/10	23,271,000	2,248,800	6,126,000	31,645,800
Totals		<u>292,151,000</u>	<u>25,752,200</u>	<u>111,597,000</u>	<u>429,500,200</u>

Current Wholesale Rate per 1,000 Gallons	\$ 1.65
Multiplied by: Total Gallons Purchased	x 429,500,200
Pro Forma Purchased Water Expense	\$ 708,675
Less: Reported Purchased Water Expense	- 701,436
Pro Forma Adjustment	<u>\$ 7,239</u>

(e) **Materials & Supplies:** This adjustment removes capital items that were incorrectly expensed in the test period.

Vendor	Description	Amount
Hayden Electric	Parrish Avenue Station - 2 Water Pumps	\$ (6,311)
ITM Inc.	Meter Change Out - 294 Meters at \$10	(2,940)
ITM Inc.	Meter Change Out - 243 Meters at \$10	(2,430)
ITM Inc.	Meter Change Out - 287 Meters at \$10	+ (2,870)
Total Capital Expenditures		<u>\$ (14,551)</u>

(f) **Insurance:** Commission Staff is adjusting general liability insurance expense to reflect the current premium.

KACo All Lines Fund 07/01/11 - 07/01/12	\$ 15,632
Less: Reported Expense	- 14,031
Pro Forma Adjustment - General Liab.	<u>\$ 1,601</u>

(g) Workers' Compensation Insurance: Commission Staff is adjusting workers' compensation insurance expense to reflect the current premium.

KACo Workers Compensation Fund 07/01/11 - 07/01/12	\$	9,590
Multiplied by: Allocation Factors	x	45%
Allocated Workers Compensation Premium	\$	4,316
Less: Reported Workers Compensation Premium	-	4,404
Pro Forma Adjustment - Workers Comp.	\$	<u>(88)</u>

(h) Depreciation: Commission Staff's adjustment reflects a full year of depreciation for items capitalized in 2010; the removal of a Chevy truck that is fully depreciated, and depreciating items that were incorrectly expensed.

	Test Period		Depreciation			
	Dep. Exp.	Cost	Life	Expense	Adjustment	
(1) Normalized Depreciation (Full Year):						
Meters	\$ 1,737	\$ 69,480	20	\$ 3,474	\$ 1,737	
Meter Ins.	\$ 1,242	\$ 49,671	20	\$ 2,484	1,242	
Touch Read	\$ 535	\$ 4,013	5	\$ 803	268	
Ice Maker	\$ 71	\$ 1,193	7	\$ 170	99	
(2) Items Fully Depreciated in Test-Period						
Chevy Truck	\$ 2,384	\$ 11,922	5		(2,384)	
(3) Items Expensed in Test-Period:						
2 Water Pumps		\$ 6,311	20		316	
Change Out - 294 Meters		\$ 2,940	20		147	
Change Out - 243 Meters		\$ 2,430	20		122	
Change Out - 287 Meters		\$ 2,870	20		144	
Pro Forma Adjustment					<u>\$ 1,691</u>	

(i) Payroll Taxes: Commission Staff is applying the payroll tax rate to the normalized salaries and wages expense, and the 45/55 allocation between the two districts.

Employee		Pro Forma Payroll	FICA
			\$ 76,000 7.65%
Perry	Higdon	\$ 62,403	\$ 4,774
Patty	Anderson	52,012	3,979
Nick	Horsman	38,332	2,932
Billy	Higdon	91,106	5,814
Jeff	Johnson	43,271	3,310
Adam	Mils	26,225	2,006
Beth	Frey	27,592	2,111
Keith	Krampe	69,904	5,348
Tommy	Cecil	44,315	3,390
Teresa	Doyle	26,747	2,046
Gail	Carlock	26,852	2,054
Sabrina	Baker	27,572	2,109
Laura	Broakley	24,826	1,899
Pro Forma Totals		<u>\$ 561,157</u>	<u>\$ 41,772</u>

	West Davies	Southeast Davies
Pro Forma Payroll Taxes	\$ 41,772	\$ 41,772
Multiplied by: Allocation Factors	45%	55%
Allocated Pro Forma Payroll Taxes	\$ 18,797	\$ 22,975
Less: Reported Payroll Taxes	18,957	23,037
Pro Forma Adjustments	<u>\$ (160)</u>	<u>\$ (62)</u>

APPENDIX C
STAFF REPORT CASE NO. 2011-00459
STAFF'S RECOMMENDED
RATES

Customer Charge:

5/8"x3/4" Meter	\$ 3.25
1" Meter	\$ 4.55
1 1/2" Meter	\$ 5.85
2" Meter	\$ 9.43
3" Meter	\$35.75
4" Meter	\$45.50
6" Meter	\$68.25
8" Meter	\$94.25

Volumetric Rate:

First 20,000	\$4.08 per 1,000 gallons
Over 20,000	\$3.00 per 1,000 gallons

Wholesale Rate	\$2.42 per 1,000 gallons
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Mr. Keith J Krampe
West Daviess County Water District
3400 Bittel Road
Owensboro, KY 42301