

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING)
OF THE VILLAS OF WOODSON BEND) CASE NO. 2012-00040

ORDER

Pursuant to 807 KAR 5:076, Citizens National Bank of Somerset, Kentucky (“Citizens National Bank”) has applied to the Commission for authority to assess a monthly rate of \$50.50 for sewer service that it provides to the residents of The Villas of Woodson Bend. Having considered the evidence of application¹ and being otherwise sufficiently advised, the Commission finds that:

1. Citizens Bancshares, Inc., a Kentucky corporation organized pursuant to KRS Chapter 271B,² is a nationally chartered bank that is headquartered in Pulaski County, Kentucky. It operates as Citizens National Bank.

2. On April 28, 2011, Citizens National Bank acquired through a judicial sale a no-discharge waste water treatment system that consists of 6,151 linear feet of 8-inch polyvinylchloride sewer main, two aerated treatment lagoons, and one polishing,

¹ On February 2, 2012, Citizens Nation Bank filed its application for initial rates with the Commission. At the time of filing its application, Citizens Nation Bank mailed notice to the residents of The Villas of Woodson Bend of the proposed rate. On February 8, 2012, the Attorney General (“AG”), through his Utility and Rate Intervention Division, moved for intervention in this proceeding. On February 13, 2012, the Commission granted the AG’s motion for intervention. On February 16, 2012, the AG advised the Commission by letter that he had no objection to the submission of the application for a decision based upon the existing record. On March 8, 2012, the Commission ordered that all parties would have 20 days in which to submit comments or request a hearing on the application and that, in the absence of any requests for hearing, the matter would stand submitted for decision. The Commission did not receive any requests for hearing or comments on the proposed rates. The AG has filed no objection to the proposed rate.

² See <https://app.sos.ky.gov/ftshow/%28S%28v1rvcvmvfuza5j45zp0wxffr%29%29/default.aspx?path=ftsearch&id=0083393&ct=09&cs=99999> (last visited June 9, 2012).

evapo-transpiration pond that is located in Pulaski County, Kentucky.³ This waste water treatment system is designed to serve 65 condominium owners in The Villas of Woodson Bend development.

3. The previous owner of the waste water treatment facility provided sewer service, but did not assess a specific charge for sewer service.

4. Upon its acquisition of the waste water treatment facility, Citizens National Bank continued to operate the facility without assessing a fee or charge for sewer service.

5. On January 20, 2012, the Commission granted a Certificate of Public Convenience and Necessity to Citizens National Bank to provide sewer service to The Villas of Woodson Bend and directed Citizens National Bank to apply for and receive approval of sewer rates before providing sewer service for compensation.⁴

6. Citizens National Bank has requested a deviation from 807 KAR 5:076, Section 2(2), that requires a utility to have on file with the Commission fully completed annual reports for the immediate past year and for the two prior years if the applicant has been in existence that long.

7. Since Citizens National Bank has not previously provided sewer service or otherwise met the statutory definition of a "utility"⁵ and as sufficient financial information in the record exists to determine the reasonableness of Citizens National Bank's proposed rates for initial service, a deviation from 807 KAR 5:076, Section 2(2), should

³ For a history of the construction and Citizens National Bank's acquisition of the waste water treatment system, see Case No. 2011-00302, *Application of Citizens National Bank of Somerset, Kentucky for an Order Approving a Transfer of Ownership and Control*, (Ky. PSC Jan. 20, 2012).

⁴ Case No. 2011-00302, Order of Jan. 20, 2012 at 8.

⁵ See KRS 278.010(3).

be granted. Citizens National Bank estimates the cost of providing sewer service to The Villas of Woodson Bend in Pulaski County, Kentucky for one calendar year of normal operations to be \$32,997.

8. Except for the purchased power cost, which is based upon actual bills for electric service to the waste water treatment facility, Citizens National Bank has projected expenses for one year of operation. These projections are set forth in the Appendix to this Order.

9. Citizens National Bank's expense projections are reasonable and should be used to establish initial rates for service.

10. Given its small size and the limited nature of its sewer operations, no basis exists to establish rates for Citizens National Bank based upon a rate of return methodology. Moreover, as Citizens National Bank has no outstanding loans or debt obligations related to the waste water facility, the use of the debt service methodology is inappropriate. The operating ratio methodology, therefore, is the appropriate methodology to determine Citizens National Bank's revenue requirement.⁶

11. An operating ratio of 0.88 will permit Citizens National Bank to meet its reasonable operating expenses and provide for equity growth and should be used to determine Citizens National Bank's total revenue requirement.

12. Applying an operating ratio of 0.88 to Citizens National Bank's projected operating expenses of \$32,997, produces a total revenue requirement of \$37,497.⁷

⁶ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC June 25, 1982); 1 A.J.G Priest, *Principals of Public Utility Regulation* (Michie 1969) 220-224.

⁷ $\$32,997$ (Pro Forma Operating Expenses) \div 0.88 = $\$37,497$.

13. Citizens National Bank projects that its waste water facility will serve approximately 62 customers.

14. Citizens National Bank's customer projection is reasonable and should be used to determine the rate that Citizens National Bank charges for service.

15. A monthly rate of \$50.50 will produce total annual revenues of \$37,572,⁸ will allow Citizens National Bank to meet its reasonable operating expenses, and will provide for equity growth.

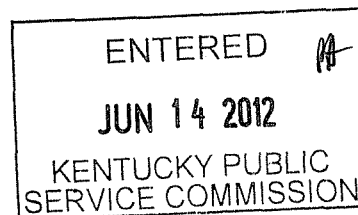
IT IS THEREFORE ORDERED that:

1. Citizens National Bank is granted a deviation from 807 KAR 5:076, Section 2(2), and is permitted to the procedures set forth in 807 KAR 5:076 to apply for initial rates for service.

2. Citizens National Bank is authorized to assess a monthly rate of \$50.50 for sewer service rendered on and after the date of this Order.

3. Within 20 days of the date of this Order, Citizens National Bank shall file a revised tariff sheet with the Commission setting forth the rates approved in this Order.

By the Commission



ATTEST:

[Signature]
Executive Director

⁸ \$50.50 (Requested Flat Monthly Rate) x 62 (Number of Customers) x 12 Months = \$37,572.

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00040 DATED JUN 14 2012

**PROJECTED OPERATING EXPENSES
CITIZENS NATIONAL BANK SEWER OPERATIONS**

Operation and Maintenance	
Owner/Manager	\$ 3,600
Fuel & Power	4,195
Insurance	688
Routine Maintenance Fee	11,400
Office Supplies	<u>2,604</u>
Total Operation & Maintenance Expense	\$22,487
Depreciation	9,730
Property Taxes	730
PSC Assessment	<u>50</u>
Total Operating Expenses	<u>\$32,997</u>

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