

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

APPLICATION OF THE R. A. WILLIAMS)
DEVELOPMENT CO., INC. D/B/A)
CEDARBROOK TREATMENT PLANT FOR THE) CASE NO. 2008-00042
APPROVAL OF THE PROPOSED INCREASE IN)
RATES FOR WATER SERVICE)

**COMMENTS TO STAFF REPORT ON
R. A. WILLIAMS DEVELOPMENT CO., INC., D/B/A CEDARBROOK TREATMENT PLANT**

Comes Cedarbrook Utilities, LLC, by counsel, and for its Comments to the Staff Report on

R.A. Williams Development Co., Inc. (sic), d/b/a Cedarbrook Treatment Plant states as follows:

1) The Staff Report incorrectly refers to R.A. Williams Development Co., Inc., d/b/a Cedarbrook Treatment Plant rather than R.A. Williams Construction Co., Inc. (“R.A. Williams Construction”). The Application for Rate Adjustment was filed on behalf of R.A. Williams Construction. Accordingly, the Staff Report should be corrected to refer to R.A. Williams Construction rather R.A. Williams Development Co., Inc. Please note that this correction will also require a revision to the style of the proceeding.

2) The Staff Report appears to reflect that R.A. Williams Construction prepared the Application for Rate Adjustment. To clarify, Mark Frost with the Public Service Commission advised R.A. Williams Construction as to the information to be included in the Application for Rate Adjustment, and he prepared same. R.A. Williams Construction relied on the information and advice provided to it by Mr. Frost. Accordingly, the original Application was prepared pursuant to the specific instructions of Mr. Frost.

3) The Staff Report recommends reducing the proposed monthly rate of \$62.00 to a monthly rate of \$46.40. The recommendation to implement a residential rate of \$46.40 per month rather than the proposed \$62.00 per month should be rejected, as the basis for the reduced rate fails to

consider the actual costs incurred in operating the Cedarbrook WWTP and fails to consider the repair costs that will be incurred at the subject WWTP.

3) The Normalized Operating Revenues section fails to take into consideration either unpaid or delinquent amounts or the possibility of vacancies. It would be reasonable to assume a delinquency rate or bad debt rate of between 10 and 15 percent. This is particularly true where even the rate recommended by Staff will approximately double the current rate.

4) Staff incorrectly deleted \$1,500 from Sludge Hauling Expense section. The cost to clean out the creek has been shown to be a recurring expenditure, because the subject WWTP regularly discharges sludge to the receiving stream due to excess inflow caused by storm events. The Kentucky Division of Water (“DOW”) requires that all sludge discharged into the receiving stream be removed from the stream. As long as the collection system suffers infiltration and inflow, which could be for the foreseeable future due to the substantial cost of the repairs, there will be regular recurring charges to clean the creek. Accordingly, the charge to clean the creek of \$1,500 should not have been deleted from this expense.

5) Staff incorrectly reduced Chemical costs. Chemical costs are going to increase at the subject WWTP, because the plant currently uses a disinfection system consisting of placing tablets in the effluent trough. The Kentucky DOW has indicated that a solution feed system will be required and the chemical cost is expected to increase due to this upgrade. The same concerns holds true for the de-chlorination process. The plant de-chlorination system current consists of placing tablets in the sand filter effluent trough. The Division of Water has requested the installation of a solution feed system, which will also increase the chemical cost.

6) Many of the Staff’s comments are based upon the possible approval of the Application to Transfer the subject WWTP from R.A. Williams Construction to Cedarbrook Utilities, LLC, which application is now pending before the Commission (See Case No. 2008-00040). If the Commission is

going to consider the possible transfer of the subject WWTP to Cedarbrook Utilities, LLC in setting the rate, it should also consider the following expenses which would be incurred by Cedarbrook Utilities, LLC in operating the subject WWTP;

- a) The Application for Rate Adjustment prepared by Mr. Frost's assistant failed to include an amount for the cost of mailing bills to customers each month. At a minimum, the amount of \$250 should be included for this expense based on mailing bills to 51 customers 12 times per month at .41¢ per stamp. Additionally, approximately 50% of the customers would be required to receive a late notice for an additional cost of \$125. The total expected postage for Cedarbrook would be \$375 per year.
- b) The proposed office supply cost of \$34 is clearly inadequate. Staff failed to take into consideration the cost of invoices, stationery, envelopes and computer and printer supplies. These costs are estimated to be \$1,000 per year.
- c) Staff proposed an annual cost of \$78 per year. Due to the increase in rates, Cedarbrook anticipates having to resort to legal action to collect the amount due in a number of cases. Legal assistance will also be required in discussions with the DOW and the Commission concerning the repair of the collection system and other needed repairs. The estimated annual legal expense is \$4,500 per year.
- d) Staff failed to include any amount for insurance. An insurance cost of \$1,200 per year is estimated.
- e) Staff failed to include any amount for the cost of renting office space. A cost of \$800 per year is estimated for office space.
- f) Staff failed to include any amount for the cost of billing and collections. This cost is estimated to be \$3,000 per year. Depending upon the amount allocated to

office supply and legal supply, the amount allocated for collection may be reduced.

- g) Staff failed to include any amount to pay the accountant to prepare the annual reports to be submitted to the Commission, the Revenue Department and to prepare local, state and federal tax forms. This cost is estimated to be \$2,400 per year.
- h) Staff failed to include any amount for the cost of telephone service. A cost of \$600 per year is estimated.
- i) Staff failed to include any amount for bookkeeping. This cost is estimated to be \$3,000 per year.
- j) The repair of the WWTP collection system is a major concern and Staff failed to address this in any manner. The estimated possible cost to repair the collection system is \$150,000 to \$200,000.
- k) The Kentucky DOW has indicated that the installation of an approved chlorination and de-chlorination system is required. Staff failed to include any amount for this repair. The estimated cost of the installation of this new system is \$4,500.
- l) The Kentucky DOW has called for the installation of a backup blower/motor/control assembly. Staff failed to include any amount for this item. The estimated cost of this item is \$3,000.
- m) The Kentucky DOW has indicated that the remote lift station and control panel will need to be replaced. Staff failed to include the cost to replace the lift station and control panel. The estimated cost is \$7,000.
- n) The Kentucky DOW has indicated that a backup effluent pump will need to be

installed at the subject WWTP. Staff failed to include the cost of the installation of the backup effluent pump, and the estimated cost of this item is \$400.

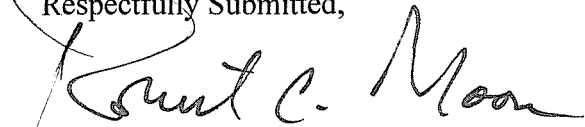
o) Staff failed to include any amount to pay for the cost of KPDES permit fees.

7) Staff proposes removing the \$12,000 annual management fee from the rate as prepared by Mr. Frost, and replacing it with a \$3,600 per year owner/management fee. The subject WWTP requires an extraordinary amount of time to operate, manage and maintain. The cost to operate and manage the subject WWTP will be more than the \$150 per month provided by the annual management fee. This fee is based upon the salary of an individual water district commission, and the Commission has failed to determine the fee based upon a facility such as Cedarbrook Utilities which requires substantial repairs and constant attention. Accordingly, the amount of the owner/management fee should not be reduced.

8) Staff removed any depreciation expense, indicating that the subject WWTP should have been fully depreciated in 2005. Of course, Cedarbrook Utilities will not receive any of the benefits of this depreciation. Accordingly, the depreciation amount should not be deducted. Additionally, the useful life of the used blower, used blower motor and diffusers should be no more than 5 years.

9) An informal conference is requested in this matter to discuss the items set forth above. Testimony would be presented concerning the preparation of the Application for Rate Adjustment, the recommended items and amounts to include in the Application for Rate Adjustment, the difficulties encountered in operating the subject WWTP, the repairs needed at the WWTP and the estimated cost of same and the normal costs that were not included in the Application for Rate Adjustment.

Respectfully Submitted,



Robert C. Moore
Hazelrigg & Cox, LLP
415 West Main Street
P.O. Box 676
Frankfort, Kentucky 40602-0676

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was filed by hand delivery on Stephanie Stumbo, Executive Director, Public Service Commission, P.O. Box 615, Frankfort, Kentucky 40602, and Todd Osterloh, Public Service Commission, P.O. Box 615, Frankfort, Kentucky 40602, and by first class mail on David Edward Spenard, Assistant Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Ky., 40601-8204 and Ronald J. Osborne, R. A. Williams Company, Inc., 153 Prosperous Way, Suite 1A, Lexington, Kentucky 40509 on this the ~~20th~~ ^{21st} day of April, 2008.



Robert C. Moore