

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF COOLBROOK) CASE NO. 2010-00314
UTILITIES, LLC)

ORDER

Pursuant to 807 KAR 5:076, Coolbrook Utilities, LLC ("Coolbrook"), has applied for an adjustment of rates for sewer service provided to its customers in Franklin County, Kentucky. By this Order, the Commission establishes rates that will produce additional annual revenues of \$41,374, an increase of 35.7 percent.

Coolbrook, a Kentucky limited liability company, owns and operates sewage treatment facilities that serve approximately 435 customers in the Coolbrook Subdivision of Franklin County, Kentucky.

On August 4, 2010, Coolbrook filed with the Commission its application for an adjustment of its monthly rate from \$22.22 to \$35, an increase of 57.5 percent.¹ On February 14, 2011, while its application was still undergoing review, Coolbrook advised the Commission of its intent to place the proposed rates into effect subject to refund. On February 23, 2011, the Commission directed Coolbrook to maintain its records in such a manner as to determine any amounts to be refunded in the event we ordered a refund.

¹ The Attorney General is the only person that sought leave to intervene in this matter. The Commission granted his motion for intervention on December 14, 2010.

On February 25, 2011, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and Coolbrook's operations during the test period. It found that, based upon Coolbrook's test-period operations, Coolbrook required total revenues of \$155,265 to meet its reasonable operating expenses and earn a reasonable rate of return. It further found that, to reach this level of revenue, Coolbrook required a rate adjustment to generate additional annual revenue of \$39,277, or 33.8 percent, over normalized revenue from rates of \$115,988. Commission Staff recommended that Coolbrook be authorized a monthly rate of \$29.74.²

Considering the recommended rates to be inadequate, Coolbrook filed objections to Commission Staff's findings and recommendations. After extended discussions between the parties and Commission Staff, Commission Staff and Coolbrook entered into a stipulation regarding the principal issues in this matter. The Attorney General, while not a signatory to the stipulation, has reviewed the stipulation and noted no objections to its contents. The Parties filed the Stipulation with the Commission on May 16, 2011. Coolbrook and the Attorney General have notified the Commission that they do not wish a hearing in this matter.

Having considered the Stipulation and the other evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The calendar year ending December 31, 2009, should be used as the test period to determine the reasonableness of Coolbrook's existing and proposed rates.
2. Based upon pro forma test-period operations, Coolbrook's pro forma annual revenues are \$115,988.

² In determining Coolbrook's revenue requirements, Commission Staff considered the effects of state and federal income taxes.

3. Based upon pro forma test-period operations, Coolbrook's pro forma total operating expenses, after adjusting for known and measurable changes, is \$138,478. Appendix A provides a breakdown of Coolbrook's pro forma operating expenses. No provision should be made for Interest on Long-term Debt or Other Interest Expense.

4. Coolbrook's pro forma amortization expense of \$1,232 includes the amount of legal expenses that Coolbrook had incurred as of March 31, 2011 to pursue its rate adjustment application. These expenses are amortized over a three-year period.

5. Coolbrook's pro forma depreciation expense of \$3,842 includes depreciation on post-test period capital expenditures for two pumps, a duplex control panel, and a flowmeter.

6. As Coolbrook is a limited liability company and is not taxed as a corporation, no provision should be made for income taxes on its net income.

7. Given that no basis exists to determine an appropriate rate of return for Coolbrook, the use of an operating ratio³ to determine its total revenue requirement is appropriate.⁴

8. An operating ratio of 0.88 will permit Coolbrook to meet its reasonable operating expenses and provide a fair and reasonable return for equity growth and should be used to determine Coolbrook's total revenue requirements.

³ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

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

⁴ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

9. Applying an operating ratio of 0.88 to Coolbrook's pro forma total operating expenses of \$138,478 produces a total revenue requirement of \$157,362, or \$41,374 in additional annual revenue than Coolbrook's current rates produce.

10. Given Coolbrook's end of test-period customer level of 435 customers and considering the effects of rounding, a monthly rate of \$30.15 will produce the required total revenue requirement.

11. Coolbrook's proposed rate will produce revenues in excess of those found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that:

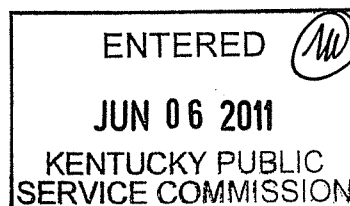
1. Coolbrook's proposed rates for sewer service are denied.
2. Coolbrook is authorized to assess a monthly fee of \$30.15 for sewer service provided on and after February 16, 2011.
3. Within 60 days of the date of this Order, Coolbrook shall refund to its customers with interest all amounts collected for service rendered from February 16, 2011 through the date of this Order that are in excess of the rate set forth in this Order.
4. Coolbrook shall pay interest on the refunded amounts at the average of the Three-Month Commercial Paper Rate as reported in the Federal Reserve Bulletin and the Federal Reserve Statistical Release on the date of this Order. Refunds shall be based on each customer's usage while the proposed rates were in effect and shall be made as a one-time credit to the bills of current customers and by check to customers that have discontinued service since February 16, 2011.

5. Within 75 days of the date of this Order, Coolbrook shall submit a written report to the Commission in which it describes its efforts to refund all monies collected in excess of the rates that are set forth in the Appendix to this Order.

6. Within 20 days of the date of this Order, Coolbrook shall file a revised tariff sheet with the Commission setting forth the rates approved in this Order.

7. Any documents filed pursuant to ordering paragraph 5 herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2010-00314 DATED JUN 06 2011

The following rates and charges are prescribed for the customers in the area served by Coolbrook Utilities, LLC. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

\$30.15 per month

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