

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FARMDALE DEVELOPMENT)	
CORPORATION FOR A RATE ADJUSTMENT)	CASE NO. 97-456
PURSUANT TO THE ALTERNATIVE RATE FILING)	
PROCEDURE FOR SMALL UTILITIES)	

ORDER

On December 10, 1997, Farmdale Development Corporation ("Farmdale") applied for Commission approval of a proposed increase in its rates for sewer service. Farmdale determined its pro forma revenue requirement to be \$65,446, an increase of \$13,615 over its normalized revenues of \$51,831.

In April 1998, Commission Staff began a limited review of Farmdale's financial records and issued a Staff Report on June 24, 1998. The report recommended a revenue requirement of \$57,823 or a \$3,175 increase over Staff's normalized revenues of \$54,648.

By Order dated June 24, 1998, Farmdale was advised to file comments on the Staff Report or to request a hearing or informal conference within 10 days of the date of the Order or the case would stand submitted to the Commission for decision. By letter dated July 1, 1998, Farmdale requested an informal conference. At the informal conference held on July 22, 1998, Farmdale stated its disagreement with several aspects of the Staff Report and expressed the intention to file additional supporting evidence. A memorandum summarizing the informal conference was filed into the record on July 28, 1998, giving the applicant 14 days to file written comments.

Since the applicant stated during the informal conference that a hearing would not be requested, the memorandum directed that the case would be submitted to the Commission for decision after the comment period expired. On August 10, 1998, Farmdale filed written arguments with the Commission expressing disagreement with Staff's limitation of the owner-manager fee to \$3,600 and disallowance of the monthly fee paid to Martin & Associates.

Farmdale argued in its August 10 filing that the \$3,600 owner-manager fee and the projected profit combined are not adequate compensation for the duties involved in operating a sewer utility or for the inherent liabilities of owning a sewer system. The utility stated that comparison of an owner-manager to a water district commissioner is not appropriate since there are usually three water commissioners, they have no hands-on day-to-day duties, and are not liable for any losses due to operational problems. Farmdale contends that the background of its owner as a registered professional engineer with 45 years experience justifies a higher fee.

Farmdale's filing stated that the services provided by Martin & Associates are necessary and include recordkeeping, correspondence, and representation at meetings with the Department of Natural Resources ("Natural Resources"). Samples of the computer spreadsheets that compile the discharge monitoring report ("DMR") results and the correspondence prepared by Martin & Associates were provided. Farmdale contends the spreadsheets are necessary in refuting claims of improper operation made by Natural Resources.

The Commission, after considering the record and being otherwise sufficiently advised, finds that:

1. Regarding the matter of the owner-manager fee, the Commission notes that Farmdale is a relatively small utility that should require minimal attention from the owner-manager since routine maintenance, repairs, sludge hauling, billing and collection, and bookkeeping are all contracted services. Although Farmdale argues that the owner-manager fee should not be standardized since the work performed by treatment plant owners varies, there is no way to know how much time any owner-manager, including Farmdale's, devotes to a utility since time records are typically not maintained. None of the information filed in this case compels a change in the limitation of the owner-manager fee to \$3,600.

2. In evaluating the monthly fees paid to Martin & Associates, it should be noted that the preparation of correspondence and attendance at meetings with Natural Resources are considered to be management duties and are compensated by the owner-manager fee. Farmdale argued that the computer worksheets aid in refuting claims of improper operation; however, these appear to be compilations of DMR results and it is not clear why the original DMR documents would not serve the same purpose. Staff's disallowance of the monthly fee paid to Martin & Associates is reasonable.

3. The recommendations and findings of the Staff Report are supported by the record, are reasonable, are adopted as the findings of the Commission in this proceeding, and are incorporated by this reference.

4. The rates in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates for service provided by Farmdale and will produce annual revenues of \$57,823. These rates will allow Farmdale sufficient revenues to meet its operating expenses, service its debt, and provide for future equity growth.

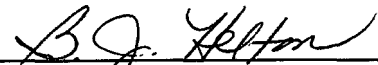
5. The rates proposed by Farmdale will produce revenue increases that are unreasonable and thus inconsistent with KRS 278.030.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Farmdale in its application are hereby denied.
2. The rates contained in Appendix A are approved for service rendered by Farmdale on and after the date of this Order.
3. Within 30 days of the date of this Order, Farmdale shall file with the Commission its revised tariff setting out the rates approved herein.

Done at Frankfort, Kentucky, this 9th day of October, 1998.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-456 DATED OCTOBER 9, 1998

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

Sewer Rates

Single Family Residential

\$19.05 per Month