COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CENTER RIDGE WATER DISTRICT, INC. FOR A RATE ADJUSTMENT PURSUANT TO THE ALTERNATIVE RATE FILING PROCEDURE FOR SMALL UTILITIES	))))	CASE NO. 2001-356

O R D E R

On October 24, 2001, the Center Ridge Water District, Inc. (Center Ridge) filed its application seeking Commission approval to: (1) increase Division 2 s water rate pursuant to Administrative Regulation 807 KAR 5:076; (2) establish and increase several non-recurring charges for Division 2; and (3) revise Division 2 s tariffs. Center Ridge proposed to increase Division 2 s residential flat water rate from $9.00 to $17.25, approximately 91.7 percent. The proposed residential flat water rate will generate annual operating revenues of $25,047, $11,979 above the normalized test period operating revenues of $13,068.

The sole intervenor in this proceeding is the Attorney General s Utility and Rate Intervention Division (Attorney General). Neither Center Ridge nor the Attorney General has requested additional information or sought a hearing in this matter.

BACKGROUND

On July 6, 2001, Nancy Futtrell, the sole shareholder of Cool Waterworks, Inc. (Cool Waterworks) executed an agreement to sell all of the outstanding shares of Cool Waterworks stock to William M. Duncan. Upon execution of the transfer agreement, William M. Duncan began operating the Cool Waterworks system on behalf of Nancy

Futtrell and filed for Commission approval of the transfer.[1] By its Order of October 3, 2001, the Commission granted approval for the transfer of Cool Waterworks stock to William M. Duncan and the subsequent transfer of assets to Center Ridge. Upon receiving Commission approval, Center Ridge began operating the Cool Waterworks system as Division 2.

TEST PERIOD

Center Ridge states that it did not receive the invoices or journals to support Cool Waterworks calendar year 2000 operations at the time of the transfer. In addition, Center Ridge claims that due to the previous owner s inability to provide adequate service, the calendar year 2000 operations do not adequately reflect the future costs that will be incurred in operating Division 2. Given that the financial records are not available for Commission Staff to review, and that the test-period operations do not reflect the future operating costs, the Commission grants Center Ridge s motion to treat its application as an initial rate case.

PROJECTED REVENUES AND EXPENSES

Center Ridge projected annual operating revenues and expenses for Division 2 of $13,068 and $23,762 respectively. Upon review of Center Ridge s projections, the Commission is of the opinion that they are generally proper and reasonable and, therefore, they have been accepted as filed.

[1] Case No. 2001-207, The Transfer of All Outstanding Stock of Cool Waterworks, Inc. to William Duncan and Subsequent Transfer of Utility Assets to Center Ridge Water District, Inc., Order issued October 3, 2001.

REVENUE REQUIREMENT

Center Ridge s requested rates, when combined with the projected operations for Division 2, produce an operating ratio of 94.9 percent.[2] When using the operating ratio method for determining a revenue requirement that is fair, just, and reasonable, the Commission generally allows a ratio of 88 percent. Since Center Ridge does not have an actual full year of operations for Division 2, it is difficult to accurately estimate or project operating revenues and expenses. Given that Center Ridge s requested rates produce a projected positive cash flow of $1,497,[3] the Commission finds that the rates are reasonable.

The Commission is concerned that once Center Ridge has operated Division 2 for a period of time, Division 2 s rates will not provide the surplus necessary to cover operating expenses and equity growth. After one year from the date of this Order, Center Ridge shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rate approved herein for Division 2 is sufficient to meet its operating expenses and to provide a reasonable return to Center Ridge s owner.

---

[2] $8,237 (Operating Expenses) ÷ $9,360 (Operating Revenue) = 88%.

[3]

Requested Revenue Requirement	$	25,047
Less: Pro Forma Operating Expenses	-	23,762
Add: Depreciation Expense	+	212
Net Cash Flow	$	1,497

TARIFF AND NON-RECURRING CHARGES

Center Ridge requested Commission approval of its revised tariff for Division 2, which includes the following non-recurring charges:

Connection Charge	$ 350.00
Reconnection Charge	$ 350.00
Returned Check Charge	$ 20.00
Late Payment Penalty	10%

Upon review of the revised tariff and cost justification provided by Center Ridge in its application, the Commission finds that the revised tariff and non-recurring charges are reasonable.

IT IS THEREFORE ORDERED that:

1. The rate and nonrecurring charges proposed by Center Ridge for Division 2 and contained in Appendix A are approved for service rendered by Center Ridge on and after the date of this Order.

2. The revised tariff proposed by Center Ridge for Division 2 is approved for service rendered by Center Ridge on and after the date of this Order.

3. One year from the date of this Order, Center Ridge shall file for Division 2 an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rate approved herein is sufficient to meet its operating expenses and to provide a reasonable return to Center Ridge s owner.

Done at Frankfort, Kentucky, this 1st day of February, 2002.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2001-356 DATED FEBRUARY 1, 2002

The following rates and charges are prescribed for the customers in the area served by Center Ridge - Division 2.

MONTHLY RATE

Residential Flat Rate	
Water Service	$ 17.25

NONRECURRING CHARGES

Connection Charge	$ 350.00
Reconnection Charge	$ 350.00
Late Payment Penalty	10%
Returned Check Charge	$ 20.00