

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF AIRVIEW ESTATES, INC.)	
FOR AN ADJUSTMENT OF RATES)	CASE NO.
PURSUANT TO THE ALTERNATIVE RATE)	2003-00494
FILING PROCEDURE FOR SMALL UTILITIES)	

ORDER

On December 22, 2003, Airview Estates, Inc. ("Airview") submitted its application requesting the Commission to approve its proposed sewer rate increase and the implementation of its surcharge. Commission Staff, having performed a limited financial review of Airview's operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 10 days from the date of this Order. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing

IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 15 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or informal conference.

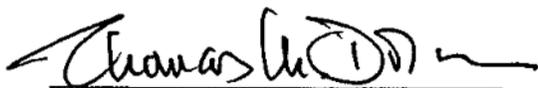
2. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing.

3. If no request for a formal hearing or informal conference is received by this date, this case shall stand submitted to the Commission for a decision on all issues raised by the application.

Done at Frankfort, Kentucky, this 11th day of March, 2004.

By the Commission

ATTEST:


Executive Director

Case No. 2003-00494

STAFF REPORT
ON
AIRVIEW ESTATES, INC.
CASE NO. 2003-00494

Pursuant to a request by Airview Estates, Inc. ("Airview") for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Airview's test-period operations, the calendar year ending December 31, 2002. The scope of Staff's review was limited to obtaining information as to whether the test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of its limited review, Staff assisted Airview in the development and preparation of its rate application, which was filed pursuant to 807 KAR 5:076. The application included an adjusted pro forma operating income statement wherein adjustments were made to test period operating revenues and expenses that were known and measurable and deemed to be reasonable. Exhibit C of the application shows that Airview's pro forma operations support a revenue requirement from sewer rates of \$65,209, an increase of \$10,297 or 18.75 percent above normalized revenue from sewer rates of \$54,912. Airview is proposing to increase the residential rate from \$23.96 to \$28.45 per month, an increase of \$4.49 or the same percentage increase that occurred in revenues.

On December 22, 2003 Airview submitted its application requesting the Commission to approve its proposed sewer rate and its construction surcharge. Staff is

hereby adopting the contents of Airview’s application as its recommendation in this report as if fully set out herein. Jessamyn Helton of the Commission’s Division of Financial Analysis is responsible for the revenue normalization adjustment and the calculation of the sewer rate. Mark Frost of the same division is responsible for all other pro forma adjustments, the construction surcharge, and the revenue requirement determination. Based on the information included in Airview’s application, Staff is of the opinion that the sewer rate proposed by Airview, as shown in Attachment A of this report, is reasonable and should be approved by this Commission.

In Exhibit C of its application, Airview identified the following repairs that it is required to construct at its wastewater treatment facilities:

Location	Description	Amount
Remote Lift Station	1) New Guide Rail Assemblies	
	2) 2 4-Inch, 7.5 H.P. Non-clog Submersible Pumps	
	3) Control Panel	\$ 22,552
Treatment Plant	1) 2 Blower Motors & Control Panel	11,893
	2) 13 ¼” Diffuser Drops with 3/8” Diffusers	4,145
	3) Pump-Out & Dispose of Lagoon Sludge	75,000
Gravity Sewer Mains	Video Inspection of Mains	<u>+ 5,400</u>
Total		<u>\$ 118,990</u>

Airview requests the Commission to approve a monthly surcharge of \$17.31 per ratepayer to fund its proposed system repairs. The surcharge as proposed by Airview, will be in effect for a 3 years.

On July 15 and August 13, 2003, Brian Rice of the Commission’s Engineering Division conducted the periodic inspection of Airview. In his September 10, 2003 report, Mr. Rice notes that a motor/blower unit at the treatment plant is not operational, that a pump at the lift station is in need of repair, and that the lagoon is high in sludge

deposits. Given the deficiencies cited in Mr. Rice's inspection report, Staff believes that Airview's proposed repairs are necessary and that Airview's cost estimate is reasonable.

In its prior rate case,¹ Airview proposed to dredge, dewater, and dispose of its lagoon sludge ("lagoon cleaning") at an estimated cost of \$85,000. The Commission allowed Airview to amortize the cost of its lagoon cleaning over 15 years, resulting in an amortization expense of \$5,667. Airview's base rate was adjusted to reflect the allowed amortization. However, by allowing Airview to recover the amortization of the capital expenditures in its base rates there was not a monitoring mechanism in place to ensure that Airview actually cleaned its lagoon and the evidence in this proceeding shows that the lagoon is still high in sludge deposits.

If Airview fails to complete its proposed system repairs in a timely manner, Staff believes that the delay could result in an environmental hazard that would be detrimental to the ratepayers. In order to fund the repairs in a timely manner and to allow Staff to ensure that the repairs are actually completed, Staff recommends the Commission approve Airview's proposed surcharge as shown in Attachment A of this report. Staff further recommends that the surcharge be placed in effect for a 36-month period or until \$118,990 has been collected.

Staff arrived at its projected monthly surcharge collection of \$3,306.21 by multiplying the recommended monthly surcharge of \$17.31 by the test-period customer level of 191. Based upon the projected monthly surcharge collections and the priority of

¹ See Case No. 1998-00595, The Application of Airview Estates, Inc. for a Rate Adjustment Pursuant to the Alternative Rate Filing for Small Utilities (August 17, 1999).

the repairs, Staff developed the construction schedule contained in Attachment B of this report.

If the Commission approves the proposed repair surcharge, than it should direct Airview to place the surcharge collections in a separate interest-bearing account. The monthly transfers to the surcharge account should equal the monthly surcharge calculated herein and should be transferred from Airview's gross revenues prior to those revenues being dispersed for another purpose. The Commission should require Airview to submit quarterly activity reports containing the following information: the monthly surcharge billings and collections; the monthly surcharge bank statement; a detailed listing of the payments made from the account; and copies of the invoices supporting the payments. Airview's failure to comply with the above funding requirements or to file the quarterly reports should warrant the revocation of the surcharge and the refunding of the monies already collected, plus interest.

Staff recommends that the Commission should periodically inspect Airview's wastewater facilities to insure compliance with the construction schedule contained in Attachment B of this report. Airview's failure to comply with the construction schedule should warrant the revocation of the surcharge and the refunding of the monies already collected, plus interest.

The surcharge collections constitute contributions, and should be accounted for in the manner prescribed by the Uniform System of Accounts for Class C Sewer Utilities. The monthly billing should be debited to customer accounts receivable and credited to the contribution account. When the surcharge is actually collected from the customer, special funds would be debited and the customer account credited.

Signatures

Prepared by: Mark C. Frost
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Jessamyn Helton
Rate Analyst, Communications, Water
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT B
 STAFF REPORT CASE NO. 2003-000494
 STAFF'S RECOMMENDED REPAIR SCHEDULE

Repair Description	Estimated Repair Costs		Accumulated Surcharge Collection
	Itemized Costs	Accumulated Costs	
1) Remote Lift Station (Guide Rail, Pumps, & Control Panel)	\$ 22,552	\$ 22,552	\$ 23,000
2) 2 Blower Motors & Control Panel	11,893	\$ 34,445	\$ 36,000
3) 13 ¼" Diffuser Drops with 3/8" Diffusers	4,145	\$ 38,590	\$ 39,000
4) Pump-Out & Dispose of Lagoon Sludge	75,000	\$ 113,590	\$ 115,000
5) Video Inspection of Mains	5,400	\$ 118,990	\$ 118,000
Totals	<u>\$ 118,990</u>		

¹ The Month construction is scheduled to begin is from the date of the Final Order.