

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 for a proposed sewer rate increase and implementation of a surcharge. Airview is a sewer utility that charges its customers a single class residential rate of \$23.96 per month. In its application, Airview proposed to increase its monthly rate to \$28.45, plus a surcharge of \$17.31 per month. The increase in the monthly rate is \$4.49, or approximately 18.74 percent over its existing rate. The proposed monthly rate will produce an increase in annual operating revenues of \$10,297, or 18.75 percent above normalized operating revenues of \$54,912.

The sole intervenor in this proceeding is the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"). On January 14, 2004, the Attorney General submitted his information request to Airview and on February 12, 2004 Airview filed its responses.

Commission Staff ("Staff") performed a limited financial review of Airview's operations and, on March 11, 2004, released its initial report ("Staff Report") containing Staff's findings and recommendations regarding the proposed rates. The Staff Report

gave the parties leave to file written comments upon Staff's findings and recommendations or to request a conference or hearing no later than March 26, 2004.

On March 26, 2004, the Attorney General submitted his comments.

STAFF REPORT RECOMMENDATIONS

The following are the Commission's modifications to the findings and recommendations contained in the Staff Report:

Surcharge

Airview proposes to implement a monthly surcharge of \$17.31 per ratepayer that will be in effect for 3 years. The proceeds of the surcharge will be used to fund the following system repairs:

| <u>Location</u> | <u>Description</u> | <u>Amount</u> ¹ |
|---------------------|---|----------------------------|
| Remote Lift Station | New Guide Rail Assemblies; 2 4-Inch, 7.5 H.P. Non-clog Submersible Pumps; and Control Panel | \$ 22,552 |
| Treatment Plant | 2 Blower Motors & Control Panel; 3 1/4-Inch Diffuser Drops with 3/8-Inch Diffusers; and Pump-Out & Dispose of Lagoon Sludge | 91,038 |
| Gravity Sewer Mains | Video Inspection of Mains | + 5,400 |
| Total | | <u>\$ 118,990</u> |

Citing the deficiencies contained in the July 15 and August 13, 2003 Commission inspection reports of Airview, Staff concluded that Airview's proposed repairs are necessary and that Airview's cost estimate is reasonable. To ensure that Airview completes its repairs in a timely manner, Staff recommended that the Commission approve Airview's proposed surcharge and that the surcharge be placed in effect for a

¹ Application, Exhibit C, Rate and Surcharge Calculations.

36-month period or until \$118,990 has been collected. Staff further recommended that the Commission place the following conditions upon Airview's proposed surcharge:

1. The surcharge collections should be placed in a separate interest-bearing account and the monthly transfers to the surcharge account should equal the monthly surcharge calculated in the Staff Report.

2. The monthly surcharge collections should be transferred from gross revenues prior to those revenues being dispersed for another purpose.

3. Airview should be directed to file quarterly activity reports containing the monthly surcharge billings and collections, the monthly surcharge bank statement, a detailed listing of the payments made from the surcharge account, and copies of the invoices supporting the payments made from the surcharge account.

4. If Airview fails to comply with any of the above conditions, its surcharge should be revoked and it should be directed to refund the monies already collected, plus interest.

5. If Airview fails to comply with the construction schedule contained in Appendix B of the Staff Report, its surcharge should be revoked and it should be directed to refund the monies already collected, plus interest.

In his comments to the Staff Report, the Attorney General requests that the surcharge conditions recommended by Staff be modified to include the following:

1. The surcharge is being established as part of an application for a change in rates under KRS 278.180 and, therefore, it should not be revised until issuance of an Order concerning another application for rates pursuant to KRS 278.180 or concerning an investigation pursuant to KRS 278.260.

2. Because the surcharge results from a proceeding on an application pursuant to KRS 278.180, the surcharge is subject to complete review in any proceeding or an application Airview files under KRS 278.180 while the surcharge mechanism is in place.

3. Airview should be required to file an application under KRS 278.180 for the elimination of the surcharge at the end of the 36-month period or the collection of the \$118,990.

4. The surcharge should appear as a separate line item on the customer's bill.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. The recommendations and findings contained in the Staff Report are supported by the evidence of record and are reasonable.

2. The modifications to the surcharge proposed by the Attorney General are reasonable and should be accepted.

3. The monthly sewer rate proposed by Airview and contained in Appendix A will produce Staff's recommended revenue requirement of \$65,209 and should be accepted.

4. The construction surcharge proposed by Airview and contained in Appendix A is reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The recommendations and findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The monthly sewer rate and surcharge proposed by Airview and contained in Appendix A are approved for service rendered by Airview on and after the date of this Order.
3. Within 30 days of the date of this Order, Airview shall file with the Commission its revised tariff setting out the rates approved herein.
4. Airview shall place its surcharge collections in a separate interest-bearing account and the monthly transfers to the surcharge account will equal the monthly surcharge calculated in the Staff Report.
5. Airview shall transfer its monthly surcharge collections from gross revenues prior to those revenues being dispersed for another purpose.
6. Airview shall file its quarterly activity reports within 15 days of the close of the reporting quarter. The quarterly reports shall contain the monthly surcharge billings and collections, the monthly surcharge bank statement, a detailed listing of the payments made from the surcharge account, and copies of the invoices supporting the payments made from the surcharge account.
7. Airview may not revise the surcharge approved herein until issuance of an Order concerning either an application for a rate change or an investigation pursuant to KRS 278.260.
8. The surcharge approved herein is subject to review in any application Airview files under KRS 278.180 while the surcharge mechanism is in place.

9. Airview shall file an application for the elimination of the surcharge at the end of the 36-month period or the collection of the \$118,990, whichever is sooner.

10. The surcharge shall appear as a separate line item on the customer's bill.

11. Airview's failure to comply with the conditions described in ordering paragraphs 4 through 8 shall warrant the revocation of the surcharge and the refunding of the monies already collected, plus interest.

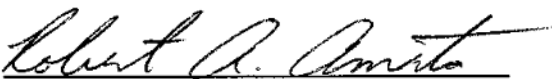
12. Airview's failure to comply with the construction schedule contained in Appendix B of the Staff Report shall warrant the revocation of the surcharge and the refunding of the monies already collected, plus interest.

13. Three years from the date of this Order, Airview shall file 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 annual debt service.

Done at Frankfort, Kentucky, this 14th day of June, 2004.

By the Commission

ATTEST:



DEPUTY Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2003-00494 DATED June 14, 2004

The following rates are prescribed for the customers in the area served by Airview Estates, Inc. 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.

MONTHLY RATE

| | | |
|-----------------------|----|-------|
| Residential Flat Rate | \$ | 28.45 |
|-----------------------|----|-------|

MONTHLY SURCHARGE

\$17.31 per customer for a period of 36 months or until \$118,990 has been collected, whichever is sooner.