

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LONGVIEW LAND)	CASE NO.
COMPANY, LLC FOR ALTERNATIVE RATE)	2009-00075
FILING)	

ORDER

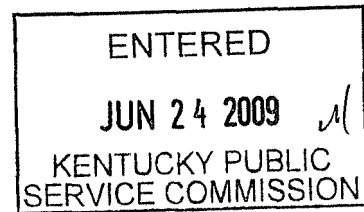
On February 24, 2009, Longview Land Company, LLC ("Longview") applied to the Commission for an increase in sewer rates. Commission Staff has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

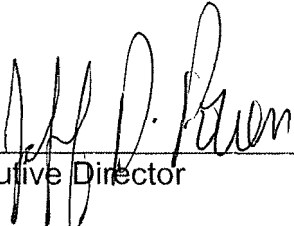
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings set forth in the Staff Report and provide a brief summary of testimony it would present at hearing.
3. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of the date of this Order shall be deemed as agreement with that finding or recommendation.

4. If no request for a formal hearing or an informal conference is received within 14 days of the date of this Order, this case shall stand submitted to the Commission for decision.

By the Commission



ATTEST:



Executive Director

Case No. 2009-00075

STAFF REPORT
ON
LONGVIEW LAND COMPANY, LLC
CASE NO. 2009-00075

On February 24, 2009, Longview Land Company, LLC ("Longview"), pursuant to 807 KAR 5.076, filed its application with the Commission for an increase in its sewer rate. Longview proposed to increase its rate from \$21.38 per month to \$30.00 per month, a 40.32 percent increase, resulting in additional revenues of \$27,412. This report recommends that the proposed increase be accepted.

Longview used the 12-month period ending December 31, 2007 as its test period. Its changes in test-period and pro forma operations are included in Attachment A of the application and Appendix A of this report. Appendix A also explains Longview's proposed adjustments to its test-period operations.

On April 7, 2009, the Commission Staff ("Staff") performed a review of Longview's operations and proposals. This report contains the findings and recommendations of that review. Sam Reid of the Commission's Division of Financial Analysis is responsible for the revenue adjustment, and Sam Bryant of the same Division is responsible for all pro forma expense adjustments and the revenue requirement determination.

The following is a list of contested adjustments and Staff's recommendations:

Owner/Manager Fee

According to its 2007 Annual Report, Longview did not record a test-period owner/manager fee. In its application, Longview proposed to include \$6,000 for this expense. It has been the Commission's practice in past cases to hold this fee to

\$3,600. Mr. Pulliam, the owner of Longview, has other business interests to pursue and devotes less time to Longview than he would otherwise. Nor has Mr. Pulliam demonstrated the need for the Commission to deviate from this practice. Therefore, Staff recommends Longview's proposed adjustment be denied and that an owner/manager fee of \$3,600 be included in its operating expenses.

Other Labor, Materials, and Expenses

Longview proposed to increase this expense from \$6,407 to \$12,442, an increase of \$6,035. \$6,209 of the total \$12,442 was included to hire two individuals to maintain the 52 weeks and be paid at a rate of \$10 per hour. This comes to a total of \$3,120 per year per individual. Staff believes that the amount of work necessary to maintain the grounds around the plant can be accomplished by one individual. Therefore, Staff has decreased this amount by \$3,120.

Longview also proposed to include \$1,400 for maintaining the gravel road from its office to the sewer plant. According to Longview, this road has previously been maintained by the golf course. Review of previous invoices indicates that a load of gravel costs approximately \$340 and that maintaining the road requires at least two loads of gravel per year. It takes about 16 hours per year at \$20 per hour to grade and maintain the road. The total cost for this project is \$1,000. Therefore, Staff has reduced this proposed adjustment by \$400.

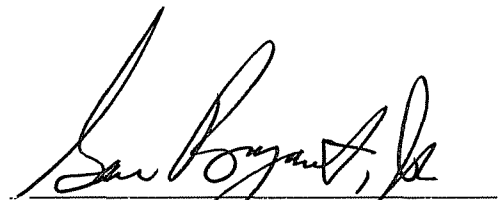
The net effect of Staff's adjustments to Other Labor, Materials, and Expense is a reduction of \$3,520. The net effect of all Staff's proposed adjustments is a reduction to Longview's pro forma operations of \$5,920.

All other adjustments proposed by Longview were found to be reasonable and Staff recommends they be accepted. This results in a revenue requirement of \$100,305 as calculated in Appendix B to this report. The revenue requirement is produced by the rate contained in Appendix D to this report.

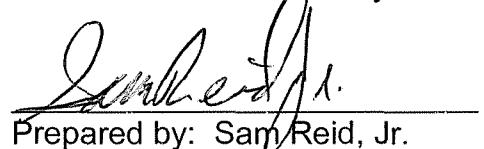
The rates proposed by Longview in its application will not generate the recommended revenue requirement. However, Staff finds that Longview's proposed rate will generate sufficient revenue to pay its operating expenses and provide for future equity growth. Therefore, Staff recommends that the Commission accept Longview's proposed rate as set out in Appendix C of this report.

Should Longview decide to further increase its rates to generate the revenue requirement recommended by Staff, it should amend its application to reflect those rates and provide the Commission with confirmation that it has published notice of those rates pursuant to KRS 278.185 and 807 KAR 5:011, Section 8.

Signatures:



Prepared by: Sam Bryant, Jr.
Financial Analyst
Water/Sewer Rev. Req. Branch
Division of Financial Analysis



Prepared by: Sam Reid, Jr.
Rate Analyst
Comm./Water/Sewer Rate
Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 2009-00075
OPERATING STATEMENT

<u>Account</u>	<u>2007 AR</u>	<u>Adjust.</u>		<u>Adjusted</u>	<u>Staff Adj.</u>		<u>Balance</u>
Revenues	\$65,882	\$2,106	A	\$67,988			\$67,988
Operation and Maintenance Expenses							
Owner/Manager Fee	\$0	\$6,000	B	\$6,000	(\$2,400)	P	\$3,600
Sludge Hauling	\$4,205	\$1,450	C	\$5,655			\$5,655
Utility Service-Water/Elec.	\$12,044	(\$1,920)	D	\$10,124			\$10,124
Other Labor, M & E	\$6,407	\$6,035	E	\$12,442	(\$3,520)	Q	\$8,922
Rents	\$0	\$2,400	F	\$2,400			\$2,400
Chemicals	\$10,261	(\$850)	G	\$9,411			\$9,411
Treatment and Disposal	\$7,804	\$880	H	\$8,684			\$8,684
Maint. Of Collection Syst.	\$21,696	(\$60)	I	\$21,636			\$21,636
Agency Collection Fee	\$0	\$4,770	J	\$4,770			\$4,770
Office Supplies/Other	\$4,190	(\$699)	K	\$3,491			\$3,491
Misc. General Expenses	\$6,750	\$0		\$6,750			\$6,750
Total Sewer O & M Exp.	\$73,357	\$18,006		\$91,363	(\$5,920)		\$85,443
Depreciation Expense	\$15,000	(\$14,040)	L	\$960			\$960
Amortization Expense	\$0	\$972	M	\$972			\$972
Taxes Other Than Income	\$1,360	(\$466)	N	\$894			\$894
Total Operating Exp.	\$89,717	\$4,472		\$94,189	(\$5,920)		\$88,269
Net Operating Income	(\$23,835)	(\$2,366)		(\$26,201)	\$5,920		(\$20,281)
Interest On Debt	\$1,952	(\$1,952)	O	\$0			\$0
Net Income	(\$25,787)	(\$414)		(\$26,201)	\$5,920		(\$20,281)

A. Revenues were adjusted to reflect 265 customers at the end of 2007 X 12 months X \$21.38.

B. Owner/Manager Fees. Utility requested Owner/Manager fees of \$6,000. Staff has reduced this fee to \$3,600 in its Adjustment P.

C. Sludge Hauling Expense was increased by \$1,450 to reflect a price increase of \$50 per load times the test period sludge hauled of 29 loads.

D. Utility Service of \$12,044 was decreased to remove five billing and collection charges from Georgetown Water of \$1,920. The pro forma billing and collection fees are included as Agency Collection Fees.

E. Other Labor, Materials and Expenses of \$6,407 was increased by \$6,035 to reflect adjustments to four items. First, Georgetown Water billing and collection charges totaling \$1,940 were removed from this account. Second, this account was increased by \$366 to include expenditures of \$111 and \$255 that had been misclassified as interest expense. Third, Longview proposed to increase this account by \$1,400 to reflect the annual labor and equipment expense for road maintenance to the sewer treatment plant. Staff's Adjustment Q reduced this expense by \$400. Fourth, Longview increased this account by \$6,209 to reflect twice-weekly maintenance charges paid to contract laborers to keep the plant grounds adequately maintained. Staff's Adjustment Q reduced this expense by \$3,120. The net effect of Longview's and Staff's adjustments to this expense is a pro forma operating expense of \$8,922.

F. Rents was increased by \$200 per month for its portion of office space, phone, and computer usage shared with other related businesses.

G. Chemicals Expense was reduced by \$850 to remove a nonrecurring charge. Its multi-year recovery has been included in Depreciation Expense.

H. Treatment and Disposal Expenses has been increased by \$880 to reflect 52 weekly effluent tests at the current charge of \$167 per test.

I. Maintenance of Collection System Expenses was decreased to reflect the following: First, \$1,030 paid on May 16, 2007 to Roark Fencing was removed and its multi-year recovery has been included in Depreciation Expense. Second, an increase of \$970 was made to reflect December 2007 charges paid on January 3, 2008 to Georgetown Water for the certified plant operator.

J. Agency Collection Fees were increased to reflect Georgetown Water's current rate for billing and collecting of \$1.50 per bill X 12 months X 265 customers.

K. Office Supplies and Other Expenses of \$4,190 was reduced by \$699. First, this expense was increased by \$301 to include misclassified interest expense from Ikon Financial Services. Second, this expense has been reduced to remove a

nonrecurring charge of \$1,000 for fence repairs, the recovery of which has been included in Depreciation Expense.

L. Depreciation Expense of \$15,000 was removed from pro forma operations to be consistent with PSC's decision in Case No. 2004-00778. In addition, this expense was increased to include the multi-year recovery of the following expenditures:

Fence	12/31/07	\$1,000	3 yrs	\$333.33
Roark Fencing	5/16/07	\$1,030	3 yrs	\$343.33
Electrical Device	12.04/07	\$850	3 yrs	\$283.33
Total				<u>\$959.99</u>

M. Amortization Expense has been increased to include amortization of two items. First, the expense has been increased by \$700 to include the three-year amortization of Longview's rate case consulting fees of \$2,100. Second, the expense has been increased by \$272 to reflect the five-year amortization of items removed from Taxes Other Than Income Taxes.

N. Taxes Other Than Income Taxes was reduced to remove the expenditure of \$1,360 for a five-year operating permit and to include a misclassification from interest expense of \$894 for property taxes paid to the Scott County Sheriff.

O. Interest on Debt to Associated Companies has been removed in total.

APPENDIX B
STAFF REPORT CASE NO. 2008-00498
REVENUE REQUIREMENT DETERMINATION

Adjusted Operating Expenses	\$88,269
Revenue Requirement	
(Expenses Divided by 88% Operating Ratio)	\$100,305
Less: Normalized Revenues	(\$67,988)
Justified Revenue Increase	\$32,317
Requested Revenue Increase	\$27,412

APPENDIX C
STAFF REPORT CASE NO. 2008-00498
REQUESTED RATES

Flat Monthly Rate

\$30.00 per month

APPENDIX D
STAFF REPORT CASE NO. 2008-00498
JUSTIFIED RATES

Flat Monthly Rate

\$31.55 per month

William R Pulliam II
Manager
Longview Land Company, LLC
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