

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING) CASE NO. 2009-00403
OF EVERGREEN DISPOSAL SYSTEM, INC.)

ORDER

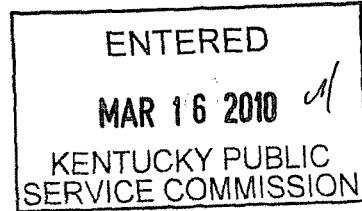
On October 6, 2009, Evergreen Disposal System, Inc. ("Evergreen") filed its application for Commission approval of proposed sewer rates. Commission Staff has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments about Staff's findings and recommendations or requests for a hearing or an informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

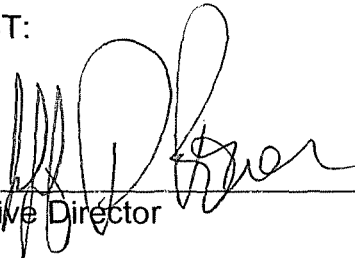
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections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

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

By the Commission



ATTEST:



Executive Director

STAFF REPORT
ON
EVERGREEN SEWAGE DISPOSAL, INC.
CASE NO. 2009-00403

On October 6, 2009, Evergreen Disposal System, Inc. ("Evergreen") filed its application seeking to increase its rates for sewer service pursuant to Administrative Regulation 807 KAR 5:076. The test year upon which the application is based is the calendar year ended December 31, 2008. Evergreen's current flat monthly rate is \$27.47 to each customer receiving sewer service. Evergreen proposes to increase this rate 45.6 percent to \$40.00. According to the information provided in Evergreen's application the proposed rate will produce revenues of \$19,830. Evergreen's application does not clearly detail how the revenue requirement of \$19,830 was determined.

Sam Bryant and Sam Reid of the Commission Staff ("Staff") performed a limited review of Evergreen's test year operations to determine the reasonableness of the application. The scope of Staff's review was limited to obtaining information as to whether the test year operating revenues and expenses were representative of normal operations, and that Evergreen's proposed adjustments were reasonable. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

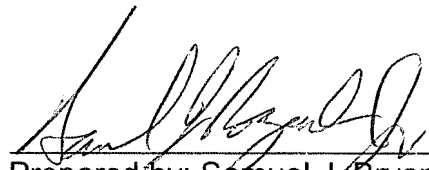
Staff conducted a review of Evergreen's operations on November 17, 2009, with additional information obtained through a series of informal discovery requests.

This report summarizes Staff's findings and recommendations resulting from its review. Mr. Bryant is responsible for all areas of this report concerning revenue requirements, and Mr. Reid is responsible for normalized revenues and rate design.

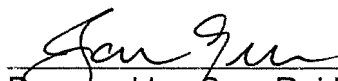
Attachment A of this report details Evergreen's reported test year operations and Staff's adjustments thereto. Attachment A also includes a calculation of the revenue requirement and includes narrative explanations for all test year adjustments proposed by Evergreen and those proposed by Staff.

Staff's adjusted test period operations result in a revenue requirement of \$15,765 and a flat monthly rate of \$32.04, a 16.8% increase over the current flat monthly rate of \$27.42.

Attachment B to this report shows the rate Staff recommends that will produce the revenue requirement calculated at Attachment A.



Prepared by: Samuel J. Bryant, Jr.
Financial Analyst, Water and Sewer
Revenue Requirement Branch
Division of Financial Analysis



Prepared by: Sam Reid
Rate Analyst, Water and Sewer
Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2009-00403

PRO FORMA OPERATING STATEMENT

	Test Year	Adjustments		Adjusted
Revenues	\$ <u>12,398</u>	\$ <u>1,117</u>	A	\$ <u>13,515</u>
 Expenses:				
Owner/Manager Fee	\$ 5,100	\$ 0	B	\$ 5,100
Sludge Hauling	875	0		875
Utility-Water	111	0		111
Fuel Purchased	1,250	0		1,250
Chemicals	168	0		168
Collection System	1,522	(425)	C	1,097
Maint. Structures & Improve.	2,905	(1,937)	D	968
Maint. Collection System	1,060	0		1,060
Maint. Pumping System	426	300	E	726
Meter Reading Flat Rate Insp.	1,055	0		1,055
Office Supplies and Expenses	196	0		196
Outside Services Employed	<u>600</u>	0		<u>600</u>
Total Operating Expenses	15,268	(2,062)		13,206
Taxes Other Than Income	<u>261</u>	<u>0</u>		<u>261</u>
Total Expense Before Income Tax	<u>\$ 15,529</u>	<u>\$ (2,062)</u>		<u>\$ 13,467</u>
Operating Income Before Income Tax	\$ (3,131)	\$ 3,179		\$ 48
Income Taxes	<u>0</u>	<u>0</u>		<u>0</u>
Net Income	<u>\$ (3,131)</u>	<u>\$ 3,179</u>		<u>\$ 48</u>

EXPLANATION OF ADJUSTMENTS

A. Revenues were adjusted for normalization by Staff. Evergreen reported 42 customers in their application. Through informal discovery Staff obtained information that Evergreen currently has 41 customers receiving sewer service. Evergreen reported test year revenues of \$12,398. Staff recommends that test year revenue be increased by \$1,117 to \$13,515.

Present Flat Rate	\$27.47
Times: Number of Customers	41
Times: 12 Months	12
Pro forma	\$13,515
Less: Test Year	<u>\$12,398</u>
Increase	\$ 1,117

B. Owner/Manager Fee. Evergreen records payments to its certified operator in the Owner/Manager Fee account. Evergreen's operator fee is \$5,100 for the test year. Evergreen proposes to increase this expense by \$200. According to the utility this expense needs to be increased because the plant operator is experiencing increased expenses for gasoline and other travel expenses.

The fee paid by Evergreen to its certified operator is set by contract. Staff does not doubt that these expenses have increased. However, Staff is of the opinion that if Evergreen wishes to increase the fee paid to its certified operator it should be done through a renegotiation of their contract. Therefore, Staff recommends that this adjustment be disallowed.

C. Materials and Supplies-Collection System. Evergreen reported expenses of \$1,522 for the test year for this account. Evergreen seems to have experienced an unusual increase in this expense during the test year. In 2006, this expense was \$854,

and in 2007, it was \$914. The average for the three years is \$1,097. Staff recommends that the Commission reduce the test year expense by \$425 to \$1,097.

D. Maintenance of Structures and Improvements. Evergreen reported an amount of \$2,905 for the test year. For the two previous years, 2006 and 2007, Evergreen reported no expense at all for this account. Staff recommends that the test year expense be amortized over a three-year period at \$968 per year. This will reduce the test year expense by \$1,937.

E. Maintenance of Pumping System. Evergreen proposed to increase this account by \$300 over a test period amount of \$426. The utility states that the increase was necessitated by several repairs to the system. After examination of test period expenses, Staff recommends that the Commission accept the proposed increase.

CALCULATION OF REVENUE REQUIREMENT

Pro forma Operating Expenses Before Taxes	\$ 13,467
Divide By: Operating Ratio	<u>88%</u>
Total Revenue Required Before Taxes	15,303
Less: Operating Expenses Before Taxes	<u>(13,467)</u>
Net Income Allowed After Taxes	1,836
Multiply By: Tax Gross Up Factor	<u>1.251564456</u>
Net Operating Income Before Taxes	2,298
Plus: Operating Expenses Before Taxes	<u>13,467</u>
Revenue Requirement	\$ 15,765
Revenue	100.00000
Less: State Income Tax	<u>6.00000</u>
Subtotal	94.00000
Less: Federal Income Tax, 15% of Subtotal	<u>14.10000</u>
Percent Change in NOI	<u>79.90000</u>
Revenue Conversion Factor (Revenue of 1 divided by Percent Change In NOI)	1.251564456

ATTACHMENT B
STAFF REPORT CASE NO. 2009-00403

FLAT RESIDENTIAL RATE

\$32.04

Honorable David Edward Spenard
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