

HAZELRIGG & COX, LLP

ATTORNEYS AT LAW
415 WEST MAIN STREET

P.O. Box 676
FRANKFORT, KENTUCKY 40602-0676

WILLIAM P. CURLIN, JR.
DANDRIDGE F. WALTON
JOHN B. BAUGHMAN
ROBERT C. MOORE
CLAYTON B. PATRICK
SQUIRE N. WILLIAMS III
J. SCOTT MELLO
SARAH K. MELLO

DYKE L. HAZELRIGG (1881-1970)
LOUIS COX (1907-1971)

FAX: (502) 875-7158
TELEPHONE: (502) 227-2271

February 21, 2008

Via Facsimile and Hand Delivery

Ms. Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

FEB 22 2008

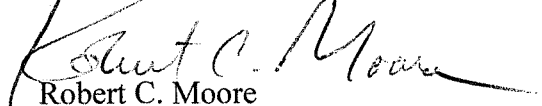
PUBLIC SERVICE
COMMISSION

Re: APPLICATION OF FARMDALE DEVELOPMENT CORPORATION FOR AN
ADJUSTMENT IN RATES PURSUANT TO THE ALTERNATIVE RATE
FILING PROCEDURE FOR SMALL UTILITIES; CASE NO. 2007-00436

Dear Ms. O'Donnell:

Please find enclosed the Response of Farmdale to Staff's Report issued in the above referenced case. I am sending this by telefax in the event that I am unable to hand deliver same due to the ice storm. Thank you for your attention to this matter, and please call me if you wish to discuss this matter.

Respectfully submitted,


Robert C. Moore

RCM/neb

cc: Carroll Cogan

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

FEB 22 2008

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF FARMDALE DEVELOPMENT)
CORPORATION FOR AN ADJUSTMENT IN RATES) CASE NO. 2007-00436
PURSUANT TO THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

**WRITTEN COMMENTS TO STAFF'S REPORT
ON FARMDALE DEVELOPMENT CORPORATION**

Comes the Applicant, Farmdale Development Corporation ("Farmdale"), by counsel, and for its Response and/or Comments to the Commission Staff's Report filed in the above-styled case, states as follows:

I. General Comments:

Farmdale has reviewed Staff's Report reflecting its review of Farmdale's Application for an Adjustment in Rates ("Application"), as well as Farmdale's Answers to Staff's First Data Requests, and disagrees with a number of Staff's comments. Staff's Report is based on a limited financial review of Farmdale's test period, which were the operations for the calendar year ending December 31, 2006. In issuing its Report, Staff rejected actual expenses and costs incurred by Farmdale in operating the subject Waste Water Treatment Plant ("WWTP"), and recommended adjusted expenses and costs based on speculation and guesswork. Staff further failed to take into consideration the long term experience of Farmdale in operating its own WWTP when it recommended the downward adjustment of Farmdale's expenses and costs. For these reasons alone, the downward adjustments proposed by Staff should be rejected.

II. Itemized Comments:

A. Owner Management Fee.

Farmdale's Application requested an owner/manager fee of \$9,600, and the Staff Report recommended decreasing the fee by \$3,600, for a total fee of \$6,000. Based on the following factors, the authorized owner/manager fee should be \$9,600.

1) The Public Service Commission has historically authorized a WWTP owner/manager to be paid a salary equivalent to the salary authorized for a single water district commissioner, on the theory that the duties of a water district commissioner and WWTP owner/manager are similar. In making its recommendation to decrease Farmdale's owner/manager salary, Staff failed to consider that a water district commissioner shares his/her duties with at least two (2) other commissioners, while a WWTP only has a single owner/manager. Using Staff's logic, a WWTP owner/manager should be compensated at the total amount paid all three (3) water district commissioners because the WWTP owner/manager is doing the job of all of the water district commissioners.

The amount paid to the officers of the Farmdale Water District per year totals \$10,800. The amount paid to the officers and managers of the South Elkhorn Water District per year totals \$30,000, and the amount paid to the officers and managers of the Northeast County Water District per year totals \$18,000. The amount paid to the officers and manager of the South Woodford Water District per year totals \$10,800. (See Application). Accordingly, the Public Service Commission should authorize the payment of the requested owner/manager fee of \$9,600, which is less than the amount paid to the water district commissioners of the above listed water districts for their services.

It is important to note that the training and experience of Mr. Cogan, Farmdale's owner/manager, justifies an owner/manager fee substantially greater than the \$9,600 requested.

In authorizing annual compensation of \$6,000 in this case, Staff referred to KRS 74.020(6) which provides for annual compensation of \$6,000 for a water district commissioner who, among other things, meets certain enhanced training requirements. Staff recommended the allowance of an owner/manager fee of \$6,000 in this case based upon Mr. Cogan's 30-plus years of experience owning and operating jurisdictional sewer utilities. Of course, if all three commissioners of the Farmdale Water District had the training and experience sufficient to satisfy KRS 74.020(6), they would receive total compensation of at least \$18,000. Accordingly, the Public Service Commission should authorize the payment of the reasonable owner/management fee in this case of \$9,600.

This is particularly true, where Mr. Cogan has been a licensed professional engineer since approximately 1960, and owned and operated a company that manufactured, repaired and sold WWTPs and their components. His licensure and substantial experience has helped to save or avoid expenses for the Farmdale WWTP, as the need to hire outside engineering services has been minimized and unnecessary maintenance and repair expenses were avoided.

2) The payment of the owner/management fee of \$9,600 is more that justified when considering the duties and responsibilities of an WWTP owner/manager, as compared to the duties and responsibilities of the multiple officers and managers of the above-referenced water districts. Mr. Cogan is solely responsible for:

- the operation and management of the Farmdale WWTP, consisting of the plant site, two extended aeration treatment plants, blower building with blowers and electrical controls, raw sewage pump station at the plant, chlorine contact system, chlorination system, dechlorination system, flow meter, tertiary lagoon, lagoon aerators, approximately 14,000 feet of 8" sanitary sewer line and one remote lift station.
- insuring proper maintenance, repairs and improvements to the plant.
- preparing and submitting the required reports, applications for rate adjustment and tax returns to the Public Service Commission and the Revenue Department.

- preparing and submitting the required reports to the Kentucky Division of Water, including discharge monitoring reports.
- compliance by the Farmdale WWTP with the regulations of both the Public Service Commission and the Kentucky Division of Water.
- Mr. Cogan is subjected to substantial potential liability arising out of the operation of the WWTP, including potential liability in the event that Farmdale has an upset and fails to comply with its KPDES permit or one of its customers experiences a backup of wastewater into his/her home. The applicable statutes authorize a fine of up to \$5,000 for discharges in violation of the KPDES permit.
- hiring and supervising the professionals retained by Farmdale, including accountants and attorneys.
- personally guaranteeing any loans obtained by Farmdale, as lending institutions will not loan monies to a privately owned sewer utility without an adequate guarantee. (See Attachment A).
- hiring and supervising Farmdale's part-time employee and its subcontractors.
- monitoring the billing and collection of Farmdale's total revenue exceeding \$80,000 from its 241 customers and payment of Farmdale's total expenses, which exceed \$95,000.
- Mr. Cogan does not employ a superintendent or treasurer as is authorized for water districts. (KRS 74.040 and KRS 74.050).

The above information confirms that the owner/management fee of \$9,600 proposed in the above-styled application is more than reasonable and should be approved by the Commission.

B. Sludge hauling expense.

Farmdale's Application included sludge hauling expense of \$5,450, the identical expense incurred in 2006 for sludge hauling. Farmdale did not include any increase for the cost of sludge hauling in its application. Staff improperly adjusted the sludge hauling expense downward by \$2,850, recommending a total sludge hauling expense of \$2,600. The following factors reflect that the sludge hauling expense should be maintained at \$5,450:

1) In order to insure the proper operation of the Farmdale WWTP and in response to complaints by the Commission, Farmdale changed operators in May of 2005. Lawrence Smither, the WWTP's current operator, knows that the wasting of sludge on a regular basis is important to insure proper and efficient plant operation, to obtain the most effective treatment of the

wastewater and to obtain better plant results. An increase in aeration time and frequency of wasting and hauling sludge prevents bulking and overflow, resulting in improved efficiency in the operation of WWTP. The cost to haul sludge to maintain the efficient operation of the plant in 2006 was \$5,450. The cost to haul sludge in 2007 to maintain the efficient operation of the plant was \$4,950. (See Attachment B). This \$4,950 is much closer to the 2006 expense of \$5,450 than the \$2,600 amount recommended by Commission Staff. Therefore, the proposed expense of \$5,450 to haul sludge should be maintained, as the expense to haul sludge cannot be reduced without impacting the efficient operation of the plant.

2) Staff states that Farmdale paid sludge hauling expenses totaling \$1,975 through June 30, 2007, but that \$1,550 of this amount was actually incurred for hauling performed in November and December 2006, thereby stating that only \$425 in sludge hauling expenses had been incurred as of June 30, 2007. What Staff fails to mention is that if \$1,550 is deducted from sludge hauling expenses from 2007 because the sludge was actually hauled in it 2006, then this \$1550 must be added to sludge hauling expenses incurred in 2006. Of course, whether this \$1,550 is allocated to sludge hauling expenses in 2006 or 2007, the same total cost of \$10,400 has been expended for sludge hauling in 2006 and 2007. The average of the sludge hauling expense would remain \$5,200 per year for the last two years.

3) It is important to note that if the sludge is not wasted and hauled when needed in order to maintain the efficient operation of the WWTP, the sludge will overflow into the tertiary lagoon. The lagoon will eventually fill up and require pumping and cleaning. In rate Case No. 2006-00028, the Commission authorized a surcharge which included the cost of \$58,750 incurred to pump and clean the subject lagoon. The hauling of sludge on a more frequent basis not only results in improved wastewater treatment, but also avoids or defers the significant cost of

pumping and cleaning the lagoon. Furthermore, if the sludge is allowed to build up in the lagoon, it becomes even more important to waste and haul the sludge before it enters the lagoon in order to maintain the efficient operation of the plant and also to avoid the sludge being wasted into the receiving stream after a heavy rainfall;

4) Staff suggests reducing the sludge hauling expense to \$2,600, the amount of the sludge expense incurred in 2005. In making this recommendation, Staff also fails to consider that the need to haul sludge is variable and is based on weather conditions and other factors. Furthermore, Staff's recommendation fails to take into account the increase in energy costs experienced in the last several years.

C. Fuel/Power for Pumping.

Farmdale's Application proposed the amount of \$19,150 to pay for fuel/power consumption. This amount was based upon the cost of fuel/power experienced in 2006, and Farmdale made no increase to this number. Accordingly, the \$19,150 expense is based directly on the fuel/power expense incurred in 2006. Staff proposed an approximately twenty-five percent (25%) reduction in recommending adjusting the expense of fuel/power for pumping to \$15,303. In making this recommendation, Commission Staff ignores actual expenses incurred by Farmdale and fails to take into consideration the fact that, due to concerns about the operation of the WWTP, Farmdale changed the operator of the Farmdale WWTP in the May-June of 2005 time frame. Mr. Smither, the current operator, has improved the operating efficiency of the operation by increasing the overall operating time of the plant, which includes the operation of the blowers and aerators. Of course, power/fuel is needed in order to operate the blowers and aerators. The previous operator was not getting the aeration needed to keep dissolved oxygen at the levels required to obtain proper treatment of the wastewater. The most accurate projection of

fuel and power costs is the amount actually expended in 2006.

Farmdale's fuel/power expense in 2007 was \$14,570.81 and the projected fuel/power cost for 2008 is \$15,324.69. (See Attachment C). The difference in fuel/power costs reflects the fact that the operation of a WWTP is affected by variable conditions, including weather and the amount of flow. Accordingly, Staff should recommend an amount that ensures that the WWTP can be operated properly.

Staff's recommendation further fails to take into the account the increase in energy costs that have been experienced in the last several years. These energy costs are expected to continue to increase, and it would be unwise to bankrupt Farmdale by not allowing it to recover the full amount of its energy costs or to force it to operate under unsatisfactory conditions. This is particularly true where the energy allowance will remain in effect for several years, during which time energy costs are expected to continue to increase.

Should the Commission only authorize a fuel/power expense of \$15,303, then Farmdale should be allowed to recover as a nonrecurring expense the amount of \$3,847, the difference between the 2006 electric cost and the 2005 electric cost. This electricity insured the property operation of the plant and was certainly a legitimate expense.

D. Maintenance of Treatment and Disposal Expenses.

Staff erroneously deducted the amount of \$597.52, the cost of the survey of sewer mains and manholes, on the basis that it is a non-recurring expenditure. However, 807 KAR 5:071, Section 7(4) requires Farmdale to make inspections of collecting sewers and manholes on a scheduled basis at intervals not to exceed one (1) year, unless conditions warrant more frequent inspections, and shall make inspections of all mechanical equipment on a daily basis. Clearly, the cost of the survey of sewer mains and manholes is required to be incurred on an annual,

recurring basis pursuant to the above cited regulation. Therefore, the \$597.52 expense for the survey of the sewer mains and manholes should be allowed rather than amortized over five (5) years.

E. Agency collection fee.

Farmdale has used the billing and collection services provided by the Farmdale Water District (“FWD”) since it has owned the WWTP. FWD charges a flat fee of fifteen percent (15%) of the gross amount collected for this service. Farmdale uses this billing and collection service due to the unusually high collection percentage and minimal collection problems experienced by FWD. The reason for the extremely high collection rate is that FWD includes the sewer charge on its water bill, and if a customer fails to pay the bill in full, FWD cuts off the delinquent customer’s water service. FWD’s unique ability to insure a high collection rate is the reason that Farmdale utilizes its services.

Farmdale included billing and collection costs in the amount of \$22,934 in its application. This \$22,934 cost is based on the 15% fee charged by FWD for billing and collection services on its proposed base rate and the \$9.92 per month surcharge. Staff proposes to reduce this amount by \$14,943, asserting that FWD’s fee is exorbitant . A review of the following factors establishes that this fee is reasonable and the Commission should approve same:

- 1) In rate Case 2006-00028, Farmdale included the FWD 15% billing and collection fee in its Application for Rate Adjustment. Staff noted the FWD fee, but did not propose any adjustment to this expense in its Staff Report in Case No. 2006-00028. Instead, Staff suggested that Farmdale consider more economical alternatives to its present billing and collection service in the future. The parties to Case No. 2006-00028 then filed a Stipulation and Agreement with the Commission which included the FWD fee was included in the WWTP’s operating expenses.

The FWD fee was then approved by the Commission when it issued its April 11, 2007 Order approving the increase in the Farmdale rate from \$19.05 to \$28.00 per month and approving a surcharge of \$9.92 for a period of 5 years. Accordingly, since the Commission has previously reviewed and approved FWD's billing and collection fee, Staff's recommendation should be disregarded. Furthermore, the Commission should not overrule its previous approval of FWD's billing and collection fee and should approve FWD's fee in the subject case.

2) As stated above, the billing and collection services provided by FWD are unique because the bill for sewer services is included on the water bill, and water service to a customer is cut off if the bill, including the charge for sewer services, is not paid in full. FWD can easily cut off a customer's water service at the meter when a bill is unpaid and easily turn the water service back on when the bill is paid in full. The same simple procedure is not available to Farmdale if a sewer customer fails to pay his/her sewer bill. Instead of merely turning off the water supply at the meter, the sewer line must be dug up using a backhoe and then capped in order to cut off sewer service to a delinquent sewer customer. If the sewer bill is paid in full, the sewer line must be reconnected and the excavation closed up. This procedure is both time consuming and expensive to Farmdale, particularly where there is no guarantee that Farmdale will be able to recover the cost of same. This procedure is also costly to the individual that pays his delinquent sewer bill and then has to pay for the disconnection and the re-connection of the sewer line. Furthermore, this procedure is costly to the rate payers, who must ultimately shoulder these costs, if the delinquent customer does not pay same. Finally, the capping of the sewer line could result in health problems where a customer continues to use the bathroom facilities even though the sewer connection has been capped.

Because of FWD's unique ability to insure payment, its services are valuable and actually

result in a savings to Farmdale's customers and the utility, because of fewer collection costs incurred by the utility and little lost revenue from delinquent customers. This ability to ensure collection is even more critical where an unpopular surcharge, in addition to the base rate, must be paid. These avoided costs translate into a lower rate for Farmdale's customers.

3) Farmdale requested quotes from all three (3) companies that perform billing services that are listed in the Yellow Pages for the City of Frankfort phone book and that are still in business. Based on the response received, it is clear that the FWD's billing and collection fee is reasonable and should be approved by the Commission. The first quote for billing and collection services was received from Bluegrass Billing Services, LLC. (See Attachment D). A review of its quote reflects that it charges a fee of 10% of gross collections. Its quote also states that in its experience, 10 to 15% of customers billed fail to pay their bill, and the cost Bluegrass Billing Services, LLC charges for collections is 30% of the amount collected. As indicated below, the use of Bluegrass Billing Services, LLC results in billing and collection charges slightly higher than that charged by FWD, with no guarantee of comparable effectiveness and ultimately less revenue to Farmdale:

Proposed revenue in Application:	\$123,629
Delinquent accounts (12.5%):	<u>(\$23,454)</u>
Total revenue collected:	\$100,175
Collection fee (10%):	<u>(\$10,018)</u>
Sub-total of revenue:	\$90,157
Recovery from delinquent accounts (50%) minus 30% collection fee	<u>\$8,209</u>
Total Revenue recovered:	\$98,366

Based on this analysis, greater revenue is received by Farmdale using FWD's services (\$105,085.00) as compared to the billing and collection agency (\$98,366.00). Liberty Billin, LLC responded, stating that it has no experience in this type of billing and collection and only

performs medical billing. (See Attachment E).

4) As stated above, the Commission has previously approved Farmdale's use of FWD's billing and collection services in Case No. 2006-00028. Relying upon this approval, Farmdale continued to use FWD's billing and collection services to collect the new rate and the surcharge. This new rate (\$28.00) and surcharge (\$9.92) was implemented on May 1, 2007. Since that time, Farmdale has paid FWD its normal fee of 15% on the amount of the new rate and surcharge collected for its services. In the event the Commission does not ultimately approve Farmdale's use of FWD's billing and collection service, Farmdale requests that any requirement to use a new billing collection service become effective as of the date of the Commission's Order, and further, that it be allowed to recover in its rate the amount over and above Staff's recommended allowance of \$8,097, already to paid to FWD for billing and collection services for the time period from May 1, 2007 to the date of the Order. To do otherwise would unfairly penalize Farmdale for relying upon the Commission's Order entered in Case No. 2006-00028.

5) Farmdale has requested FWD to reduce the percentage it charges for its billing and collection services from fifteen percent (15%) to seven and one-half percent (7.5%), resulting in a total fee of \$11,467, but FWD denied this request. Farmdale subsequently asked FWD if, based upon KRS 96.930, it would cut off water service to its customers who fail to pay their sewer bill, even if FWD does not provide billing and collection services to Farmdale. KRS 96.930 provides that the use of water in any manner tending to contaminate it raises a duty to provide for the proper disposition of the wastewater according to the highest public health standards and such duty includes full responsibility for paying the cost of such disposition. FWD denied this request as well. (See Attachment F). This information establishes that Farmdale

attempted to negotiate a fee that was more economical for its customers. If the Commission is dissatisfied with the rate charged by FWD, it should use its regulatory powers to require FWD to reduce same.

F. Interest Expense.

Staff recommended removing interest expense of \$2,313.00 incurred by Farmdale on a one year renewable loan from National City Bank. Based upon the following factors, Staff's recommendation to delete this interest expense should be disregarded.

1) Farmdale obtained the subject loan because it was necessary to pay legal bills, accounting fees, the cost of extraordinary repairs to its remote lift station, and other bills that were due. The legal fees and accounting fees were incurred in preparing the application for rate adjustment and representing Farmdale in rate Case No. 2006-00028, the petition for the CPCN in Case No. 2006-00209 and the amended application for rate adjustment needed to due to the filing of the petition for CPCN. Farmdale incurred accounting fees in the amount of \$6,610.00, that were due and payable to Logsdon & Co., PC, CPAs. Additionally, Farmdale incurred attorney's fees in the amount of \$5,000.00, that were due and payable to Hazelrigg & Cox, LLP. These amounts were included in the amortization schedule of the above-styled application. Farmdale also incurred costs in the amount of \$8,339.97 to keep the remote lift station functioning. As noted above, Farmdale also incurred fuel/power costs in the amount of \$19,150 in 2006, which were \$3,847 higher than that incurred in 2005. While Farmdale should recover these fees through the rate process, it cannot expect its vendors and/or service providers to wait 5 years to be paid. As Staff is aware, Farmdale's rate only pays operating expenses, and not additional expenses such as these. Therefore, Farmdale was required to borrow money from National City Bank in order to pay its vendors and professional advisors, and the interest due on this loan

should be recoverable.

2) The Commission and the Kentucky Division of Water require proper maintenance and upkeep of Farmdale's WWTP, and compliance with the applicable regulations and its KPDES permit. In a perfect world, the expenses incurred in maintaining and repairing the equipment at the Farmdale WWTP would be identical to the expenses included in setting the rate. However in 2006, Farmdale incurred substantial extraordinary maintenance and repair and energy costs, including but not limited to the \$8,339.97 cost of keeping the remote lift station in operation and the fuel/power cost of \$19,150. As previously stated, the cost of these repairs and new equipment and energy was not included in the prior rate and therefore, monies from the National City loan were used to pay for same. Simply put, the interest expense on this necessary loan should be included in the rate case.

Staff's Recommendation deleting the interest expense is unrealistic, as it assumes:

- the need for and cost of all maintenance and repairs can be accurately predicted.
- vendors will wait for a rate case to be filed and completed, as well as the monies authorized by the rate case collected, to be paid for the services rendered.
- vendors will continue to work for utility even though they have not paid in a timely manner.

The above factors further establish that Farmdale should be allowed to recover the interest expense on the loan needed to fund Farmdale's extraordinary maintenance and repair costs.

3) Staff states that, historically, the Commission has not allowed utilities to recover interest on loans to cover operating expenses, because it is the responsibility of an owner to monitor a utility's financial condition and seek rate relief in a timely manner. In making this statement, Staff ignores the fact that Farmdale did in fact seek rate relief in a timely manner, but

as indicated in the time-line set forth below, it took the Commission over fifteen (15) months to rule on its Application for Rate Adjustment in Case No. 2006-00028.

- January 12, 2006, Farmdale files Application for Rate Adjustment, with surcharge request.
- March 14, 2006, Farmdale files Motion for Informal Conference and also requests expedited approval of the funds necessary to replace the remote lift station.
- April 20, 2006, Informal Conference held, and Staff recommended the filing of an Application for a Certificate of Public Convenience and Necessity (“CPCN”) for the replacement of the remote lift station.
- May 22, 2006, Farmdale files Petition for CPCN.
- June 14, 2006, Farmdale files Amended Application for Rate Adjustment to exclude cost of the replacement of the remote lift station and filed Motion to Consolidate CPCN case with this application. The Motion to Consolidate was denied.
- October 4, 2006, Staff forwards First Information Request to Farmdale.
- October 26, 2006, second Informal Conference held.
- February 26, 2007, Order granting Farmdale’s Application for a CPCN and consolidating CPCN case with application for rate adjustment entered.
- March 15, 2007, Formal Hearing held.
- April 11, 2007, Commission enters final Order granting rate increase and surcharge.

Due to the extraordinary length of time (15 months), it took for the Commission to rule in Case No. 2006-00028 and to establish new rates for Farmdale, Farmdale believes it would be inequitable to apply the “historical” rules precluding the payment of interest on any loan incurred to pay expenses, which include operating expenses. Accordingly, Farmdale should be allowed to recover the interest expense incurred on the loan from National City.

G. Depreciation expense.

Staff recommended depreciating the \$1,635.29 cost of the “motor, materials, labor and mileage; worked on blower @ #1 plant” over a period of seven (7) years. This amount should be depreciated over a period of five (5) years since in included a substantial amount of labor

charges.

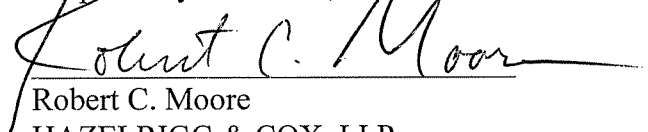
H. Request for Hearing

Farmdale requests an Informal Conference to discuss the Staff's response to these comments and further requests a Formal Hearing in the event the parties are unsuccessful in addressing these issues as the result of the Informal Conference.

I. Conclusion.

The Farmdale WWTP is currently being operated in an efficient manner and is in compliance with the applicable regulations of the Commission and the Division of Water. Staff's recommended decreases would result in the operation of the WWTP on a shoestring budget and an inability to operate the WWTP in an efficient and effective manner. Staff's recommended changes might save Farmdale's customers pennies on the front end, but would result in the payment of substantially higher rates in the future, which higher rates would be needed to make the "catchup" repairs and improvements to the WWTP. This would be unfair to both Farmdale and its customers. Accordingly, the adjustments recommended by the Staff discussed above should be rejected.

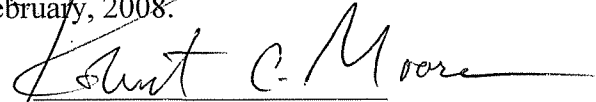
Respectfully submitted,



Robert C. Moore
HAZELRIGG & COX, LLP
415 West Main Street, 1st Floor
P. O. Box 676
Frankfort, Kentucky 40602-0676
(502) 227-2271

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, Kentucky 40602, David Edward Spenard, Assistant Attorney General 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601-8204, Kenny and Marilyn Glass, 223, Briarwood Drive, Frankfort, Kentucky 40602, and Tiffany Bowman, Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, Kentucky 40602 by placing same in the U.S. Mail, postage pre-paid, this the 21st day of February, 2008.


Robert C. Moore

ATTACHMENT A

Thomas K. Elliott
Senior Vice President
tommy_elliott@oldnational.com

March 12, 2007

Via Facsimile 502-564-7279
Ms. Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of the Application of Farmdale Development Corporation for an
Adjustment of Rates pursuant to the Alternative Rate Filing Procedure for
Small Utilities: Case No. 2006-00028

Dear Ms. O'Donnell:

At the request of Carroll Cogan with Farmdale Development Corporation, I am hereby providing the following information to you for consideration in the above-referenced case.

I am currently employed as a Senior Vice President with Old National Bank located in Louisville, Kentucky. I obtained a bachelor's degree in business and office administration from the University of Kentucky in 1981. I have worked in the financial industry for 26 years, including in positions at National City Bank in Louisville, Kentucky (formerly known as First National Bank of Louisville) and now with Old National Bank in Louisville, Kentucky. During this time period, I have gained considerable experience in providing financing to privately owned wastewater treatment plants.

In providing financing to privately owned wastewater treatment plants, as well as to any business entity, a review of the entity's cash flow is the primary consideration. A financial institution generally requires a debt service ratio of approximately 1.3 prior to considering providing financing to an applicant. In other words, if the borrower is required to make payment of \$1,000 per month, it will need to provide documentation establishing revenue of at least \$1,300 per month to service the debt, after expenses have been paid. If an applicant cannot meet the required debt service ratio of approximately 1.3, the bank likely will not provide financing to the applicant.

In addition to considering the cash flow position of the applicant, a lending institution will also review the collateral available to secure the loan. Financial institutions do not typically consider privately owned wastewater treatment plants to be satisfactory collateral to secure a loan. This is due to many considerations, including the inability to sell a wastewater treatment plant at foreclosure and environmental considerations that are often connected with

Preston Pointe Financial Center
333 East Main Street
Louisville, KY 40202
T: 502.540.7333
F: 502.540.7366
oldnational.com

Thomas K. Elliott
Senior Vice President
tommy_elliott@oldnational.com

Beth O'Donnell
March 12, 2007
Page Two

wastewater treatment plants. Accordingly, a lending institution will not typically accept a wastewater treatment plant as the sole collateral to secure a loan. The financial institution could also require guarantees from qualified individuals or entities owning the company that owns the wastewater treatment plant. I would note that in the late 1970s and early 1980s, when developers defaulted on loans, National City Bank (formerly known as First National Bank of Louisville) took possession of a number of wastewater treatment plants. These wastewater treatment plants then had to be sold for pennies on the dollar by the bank to recover even a partial amount due on the loans.

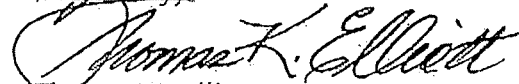
Other factors considered by a lending institution are the condition of the wastewater treatment plant, how soon it will become obsolete and the length of time it will remain in service. If the repairs that are being financed by the loan will be obsolete by the maturity date of the loan, the wastewater treatment plant is clearly insufficient collateral to secure the loan. Furthermore, if the wastewater treatment plant is not expected to remain in service for the life of the loan, due to purchase by, or transfer to a public utility, it is also considered insufficient collateral to secure the loan.

A financial institution will not generally provide financing to a wastewater treatment plant for a term of more than five (5) years. The current interest rate that would be offered by Old National Bank to a private entity such as Farmdale Development Corporation on financing with either a three (3) or five (5) year term is approximately 10 percent (10%) per annum.

Please note that this letter is not to be considered as a commitment for financing. Old National Bank has had no prior dealing with Farmdale Development Corporation or its principal. Nor has Old National Bank considered any financial information regarding Farmdale Development Corporation.

Please feel free to call me if you have any questions concerning this information. Thank you for your consideration of same.

Yours truly,



Thomas K. Elliott
Senior Vice President

cc: Carroll Cogan

Preston Pointe Financial Center
333 East Main Street
Louisville, KY 40202
T: 502.540.7333
F: 502.540.7366
oldnational.com

ATTACHMENT B

Category Report - All Dates:2
12/31/2006 through 3/29/2008



2/13/2008

Page 1

Date	Account Num	Description	Memo	Category	Amount
12/31/2006 - 12/31/2006					0.00
1/9/2007	NCB Fa... 1245	Martin's Sanit... #7961 Pumping L.S. 06 A/P		Sludge hauling	-700.00
1/26/2007	NCB Fa... 1248	Martin's Sanit... #8256 Pump Digester x 2 06 A/P		Sludge hauling	-500.00
2/13/2007	NCB Fa... 1250	Martin's Sanit... #8256 Pump Digester x 2 06 A/P		Sludge hauling	-350.00
5/8/2007	NCB Fa... 1291	Martin's Sanit... #8716 Pumped digester		Sludge hauling	-425.00
7/10/2007	NCB Fa... 1321	Martin's Sanit... #9756 Wet well,basin,digester		Sludge hauling	-425.00
8/10/2007	NCB Fa... 1331	Martin's Sanit... #9756 skimming clarifier		Sludge hauling	-425.00
9/10/2007	NCB Fa... 1347	Martin's Sanit... #10061 Small Plant Clarifier		Sludge hauling	-425.00
10/8/2007	NCB Fa... 1363	Martin's Sanit... #10399 Pumping Digester x2		Sludge hauling	-850.00
11/12/2007	NCB Fa... 1378	Martin's Sanit... #10734 Pumping Treat.Pit x2		Sludge hauling	-450.00
12/11/2007	NCB Fa... 1394	Martin's Sanit... #10734 Pumping Treat.Pit x2		Sludge hauling	-400.00
1/1/2007 - 12/31/2007					-4,950.00
1/15/2008	NCB Fa... 1410	Martin's Sanit... #11382 Partial 07 A/P		Sludge hauling	-225.00
2/15/2008	NCB Fa... 0000	Martin's Sanit... #11382 Balance 07 A/P		Sludge hauling	-200.00
2/29/2008	NCB Fa... 0000	Martin's Sanit... #11665 07 A/P		Sludge hauling	-425.00
1/1/2008 - 3/29/2008					-850.00
OVERALL TOTAL					-5,800.00
TOTAL INFLOWS					0.00
TOTAL OUTFLOWS					-5,800.00
NET TOTAL					-5,800.00

C

ATTACHMENT C

Electra

Category Report - All Dates:2
12/31/2006 through 3/29/2008

2/13/2008

Page 1

Date	Account Num	Description	Memo	Category	Clr	Amount
12/31/2006 - 12/31/2006						0.00
1/19/2007	NCB F... 1234	Blue Grass E... #160102		Utilities:Electric	R	-1,208.40
2/13/2007	NCB F... 1260	Blue Grass E... #160102		Utilities:Electric	R	-1,216.55
3/13/2007	NCB F... 1133	Blue Grass E...		Utilities:Electric	R	-1,028.40
4/20/2007	NCB F... 1282	Blue Grass E... #160102		Utilities:Electric	R	-1,065.55
5/11/2007	NCB F... 1292	Blue Grass E... #160102		Utilities:Electric	R	-1,286.38
6/18/2007	NCB F... 1309	Blue Grass E... #160102		Utilities:Electric	R	-1,219.83
7/20/2007	NCB F... 1326	Blue Grass E... #160102		Utilities:Electric	R	-1,436.07
8/17/2007	NCB F... 1337	Blue Grass E... #160102		Utilities:Electric	R	-1,418.50
9/18/2007	NCB F... 1353	Blue Grass E... #160102		Utilities:Electric	R	-1,339.98
10/23/2007	NCB F... 1370	Blue Grass E... #160102		Utilities:Electric	R	-1,042.59
11/19/2007	NCB F... 1382	Blue Grass E... #160102		Utilities:Electric	R	-1,033.64
12/14/2007	NCB F... 1387	Blue Grass E... #160102		Utilities:Electric	R	-1,214.92
1/1/2007 - 12/31/2007						-14,510.81
1/16/2008	NCB F... 1403	Blue Grass E... #160102 07 ...		Utilities:Electric	R	-1,201.79
2/23/2008	NCB F...	Blue Grass E... #160102		Utilities:Electric		-1,339.36
1/1/2008 - 3/29/2008						-2,541.15
OVERALL TOTAL						-17,051.96
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-17,051.96
NET TOTAL						-17,051.96

ATTACHMENT D

Bluegrass Billing Services, LLC

6477 Bagdad Rd.
Bagdad, Ky. 40003
(502) 747-5632

4119 Browns Ln. Ste. 2B
Louisville, Ky. 40220
(502) 454-7766

February 18, 2008

Hazelrigg & Cox, LLP
Attorneys At Law
415 West Main St.
P.O. Box 676
Frankfort, Ky. 40602-0676
Attn: Robert C. Moore

RE: Farmdale Development Corporation ("Farmdale")

Dear Mr. Moore,

I would like to thank you for considering Bluegrass Billing Services for your client's billing and collections needs. Although my current clients are medical, I feel confident that we could accommodate Farmdale's needs.

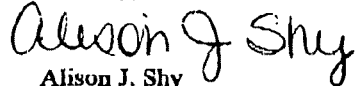
The following are my recommendations to the questions that were presented in your letter:

1. The cost for our services that I am quoting you is 10% of gross collections. I currently have payments sent to our office, made out to the individual client. We then deposit into their accounts and send a monthly invoice, along with accounting reports, to the client for payment for services. I would prefer to continue this method instead of Bluegrass making payment to your client.
2. For new customers, I would assume the information would be provided to us by Farmdale when a new customer requests service.
3. For existing customers ceasing service, I believe Farmdale should also furnish us with this information when a customer contacts them to end service. Also, our statements do have an area to list any changes. If that information is provided to us, we will forward to Farmdale.
4. Since my experience is in medical collections, I would estimate a 80/20 % collections of timely payments. Physician office visit claims pay sooner than hospital or surgery claims.
5. Again, in the medical collections, the percentage is higher. However, with a smaller bill amount, I would estimate 10-15% will fail to pay.
6. The cost for collections on delinquent accounts is 30%. I do utilize an outside collection agency for this purpose.

I hope this information is helpful in considering our service. I also have a few questions that I would like to be considered as well.

1. Do you charge a late fee if a bill is paid after the due date? If so, how much? Is there a grace period?
2. How long do you allow an account to go with no payment before going to collections?

I am enclosing a sample copy of our contract for your review. If you have any further questions or concerns, please feel free to contact me at the numbers above. I look forward to the opportunity of working with your company.

Sincerely,

Alison J. Shy

ATTACHMENT E

Specializing in Medical Billing and Collection



87 C. Michael Davenport Blvd.
Frankfort, Kentucky 40601
502.226.3858 Toll Free 888.800.7248
Fax 502.227.5081

February 20, 2008

Robert C. Moore
Hazelrigg & Cox, LLP
415 West Main Street
Frankfort, KY 40602

Re: Farmdale Development Corporation

Dear Mr. Moore:

Thank you for your letter of inquiry dated February 15, 2008. Our company specializes in electronic medical billing and collection. While our software is capable of generating monthly statements such as those mentioned in your letter and tracking the amounts remitted with an accounting at the end of each month, we have no experience in this type of billing and collection.

I contacted the collection agency our clients utilize for delinquent accounts (Cash-Pro, Inc. located in Evansville, Indiana) but Jon Townsend, the President, was not aware of any company specializing in billing and collection services for a wastewater treatment system. I was hoping to offer a solution!

Thank you again.

Sincerely,

A handwritten signature in black ink, appearing to read "Kristine Kaiser".

Kristine Kaiser
President