

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF RIDGELEA INVESTMENTS, ) CASE NO. 2009-00500  
INC. FOR ALTERNATIVE RATE ADJUSTMENT )

ORDER

Pursuant to 807 KAR 5:076, Ridgelea Investments, Inc. ("Ridgelea"), has applied for an adjustment of rates for sewer service provided to customers in Franklin County, Kentucky. By this Order, the Commission establishes rates that will produce additional annual revenues of \$10,746, an increase of 15 percent. We further authorize Ridgelea to collect a surcharge of \$5.45 per customer per month for a period of 24 months or until \$26,000 has been collected, whichever occurs first.

Ridgelea, a Kentucky corporation, owns and operates sewage treatment facilities that serve approximately 199 customers in the Farmgate, Edgewood, and Meadowbrook Subdivisions of Franklin County, Kentucky. It serves an additional 166 customers in Grant County, Kentucky.<sup>1</sup>

On December 14, 2009, Ridgelea tendered its application to the Commission. Because of filing deficiencies, the Commission did not accept the application for filing until January 8, 2010. On February 5, 2010, the Commission suspended operation of Ridgelea's proposed rates until July 29, 2010.

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<sup>1</sup> Although Ridgelea provides sewer service in Grant County, its proposed rate adjustment addresses only sewer service provided in Franklin County.

In its application, Ridgelea did not propose to adjust its general service rate, but instead sought authority to assess a monthly surcharge for a period of 36 months. For the first 18 months of operation, this monthly surcharge would be \$13.01. During its last 18 months of operation, the proposed surcharge would fall to \$5.75 per month. Ridgelea estimated that the proposed surcharge would generate \$67,158. It proposed to use the surcharge proceeds to cover the cost of an infiltration and inflow study of its collection system, outside laboratory services, and repairs that were required under the terms of an Order of the Kentucky Division of Water.

Given that the proposed surcharge during its first 18 months of operation would increase the total monthly bill of Ridgelea's customers by 43.4 percent and by 19.2 percent over the last 18 months of its operation, the Commission applied the same level of review to the proposed rates that would be applied to any application for rate adjustment. Failing to anticipate this level of review, Ridgelea failed to respond to Commission discovery requests in a timely manner. Accordingly, this matter proceeded at an extremely slow pace.<sup>2</sup>

On June 15, 2010, Ridgelea advised the Commission that, if the Commission intended to perform a full review of Ridgelea's rates, it proposed to amend its application to use calendar year 2009 as the appropriate test period. It noted that it lacked adequate records for its operations during calendar year 2008 and that use of calendar year 2008 as a test period would likely be disadvantageous for the utility.<sup>3</sup>

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<sup>2</sup> The Attorney General is the only person to request intervention in this matter. The Commission granted his motion for leave to intervene on January 15, 2010.

<sup>3</sup> Letter from Charles Hungler, Jr., President, Ridgelea Investments, Inc., to Executive Director, Public Service Commission (Jun. 15, 2010).

Considering Ridgelea's notice as a motion to amend its application, we granted the motion and held that use of calendar year 2009 as the test period represented the filing of a new application and reset the statutory time period in which the Commission had to review Ridgelea's proposed surcharge.

On August 19, 2009, Ridgelea submitted a revised application in which it requested an adjustment of its monthly rate of \$30 to \$48, an increase of 60 percent. Ridgelea further withdrew its request for the assessment of a surcharge. On November 4, 2010, Ridgelea again revised its application to request that, in light of the recent Kentucky Supreme Court decision in *Kentucky Pub. Serv. Comm'n v. Commonwealth*,<sup>4</sup> the Commission again consider Ridgelea's original surcharge request.<sup>5</sup>

On November 24, 2010, Commission Staff issued a report of its findings and recommendations regarding the proposed surcharge and Ridgelea's operations during the test period. It found that, based upon Ridgelea's test-period operations, Ridgelea required total revenues of \$76,135 to meet its reasonable operating expenses and earn a reasonable rate of return. It further found that, to reach this level of revenue, Ridgelea required a rate adjustment to generate additional annual revenue of \$4,495, or 6.27 percent, over normalized revenue from rates of \$71,640. Commission Staff recommended that Ridgelea be authorized a monthly rate of \$32 and permitted to assess a monthly surcharge of \$5.45 for a 24-month period or until \$26,000 has been

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<sup>4</sup> 324 S.W.3d 373 (Ky. 2010).

<sup>5</sup> Letter from Charles Hungler, Jr., President, Ridgelea Investments, Inc., to Jeff Derouen, Executive Director, Public Service Commission (Nov. 4, 2010).

collected, provided that the surcharge proceeds be used solely for the costs of an infiltration and inflow study of Ridgelea's collection facilities.

Considering the recommended rates to be inadequate, Ridgelea filed objections to Commission Staff's findings and recommendations. On January 5, 2011, an informal conference was held between the parties and Commission Staff. As a result of this conference, Commission Staff and Ridgelea entered into a stipulation regarding the principal issues in this matter. The Attorney General, while not a signatory to the stipulation, has reviewed the stipulation and noted no objections to its contents. The Parties filed the Stipulation with the Commission on March 4, 2011. Concurrent with this filing, they also moved that this matter be submitted for a decision based upon the existing record without any hearing.

Having considered the Stipulation and the other evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The calendar year ending December 31, 2009 should be used as the test period to determine the reasonableness of Ridgelea's proposed rates.
2. Based upon pro forma test-period operations, Ridgelea's pro forma annual revenues are \$71,640.
3. Based upon pro forma test-period operations, Ridgelea's pro forma total operating expenses, after adjusting for known and measurable changes, are \$72,500.

4. Given that no basis exists to determine an appropriate rate of return for Ridgelea and that Ridgelea has no outstanding debt, the use of an operating ratio<sup>6</sup> to determine its total revenue requirement is appropriate.<sup>7</sup>

5. An operating ratio of 0.88 will permit Ridgelea to meet its reasonable operating expenses and provide a fair and reasonable return for equity growth and should be used to determine Ridgelea's total revenue requirements.

6. Applying an operating ratio of 0.88 to Ridgelea's pro forma total operating expenses of \$71,639 produces a total revenue requirement of \$82,386, or \$10,746 greater than Ridgelea's current rates produce.

7. Given Ridgelea's end-of-test-period customer level of 199 customers, a monthly rate of \$34.50 will produce total annual revenues of \$82,386.

8. Ridgelea should be authorized to charge a surcharge of \$5.45 per customer per month for a period of 24 months or until \$26,000 has been collected, whichever occurs first, to finance the cost of an infiltration and inflow study.

9. The proposed surcharge should be conditioned upon strict accounting, record keeping and reporting requirements and the proceeds of the surcharge should be used solely for the surcharge's stated purpose. Ridgelea's failure to comply with

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<sup>6</sup> Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

<sup>7</sup> See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

these conditions should result in termination of the surcharge and the refund of all collected surcharge proceeds.

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

IT IS THEREFORE ORDERED that:

1. The parties' Motion for Submission is granted.
2. Ridgelea's proposed rates for sewer service are denied.
3. Ridgelea is authorized to assess a monthly fee of \$34.50 for sewer service provided on and after the date of this Order to Ridgelea's customers in Franklin County, Kentucky.
4. Subject to the conditions set forth in ordering paragraphs 5 through 10, Ridgelea is authorized to assess a surcharge of \$5.45 per customer per month on its customers in Franklin County, Kentucky for a period of 24 months or until \$26,000 has been collected, whichever occurs first.
5. Ridgelea shall begin assessing the surcharge on bills rendered no later than May 31, 2011.
6. Ridgelea shall use the proceeds of the surcharge solely for the purpose of funding an infiltration and inflow study of its sewer collection system in Franklin County, Kentucky.

7. Ridgelea shall deposit the proceeds of the surcharge in a separate interest-bearing account.

8. Beginning with the first month after issuing bills that reflect the approved surcharge and continuing for the following 23 months, Ridgelea shall make a monthly transfer of \$1,084.55 into the surcharge account from its gross revenues prior to those revenues being disbursed for any other purpose.

9. Beginning on June 30, 2011, and continuing until June 30, 2013, Ridgelea shall file with the Commission, no later than the last day of each calendar quarter, quarterly activity reports that include the monthly surcharge billings and collections, the monthly surcharge bank statement, a detailed listing of payments from the account, and invoices supporting the payments.

10. Ridgelea's failure to comply with any condition set forth in ordering paragraphs 5 through 9 shall result in the revocation of the surcharge and the refund of all collected surcharge proceeds, plus interest.

11. Ridgelea shall debit each monthly billing to customer accounts receivable and credit to the contribution account. When the surcharge is collected from the customer, Ridgelea shall debit special funds and credit the customer account.

12. Within 30 days of the date of this Order, Ridgelea shall file a revised tariff sheet with the Commission setting forth the rates approved in this Order.

13. Any documents filed pursuant to ordering paragraph 9 herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission

ENTERED <sup>(R)</sup>  
**APR 08 2011**  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

*Carol D. Greenwell* for  
Executive Director

Case No. 2009-00500



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