

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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MAR 21 2011

PUBLIC SERVICE  
COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF  
HILLRIDGE FACILITIES, INC.

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)

CASE NO. 2010-00426

**COMMENTS OF HILLRIDGE FACILITIES, INC., TO STAFF REPORT**

Comes Hillridge Facilities, Inc. ("Hillridge"), by counsel, and for its comments to the

Commission Staff's Report, states as follows:

- 1) Hillridge appreciates the Commission Staff's efforts in this case in conducting a field review to streamline the rate-making process and reduce rate case expenses, and the expedited issuance of a Staff Report. Hillridge believes the Staff Report is a good starting point towards resolution of the rate-making issues in this case. Hillridge now requests an Informal Conference to hopefully resolve those issues where Hillridge disagrees with the Staff Report, and to avoid the legal and other expenses associated with a formal hearing.
- 2) Hillridge generally disagrees with the Staff's recommendations related to the recommended rate of \$35.85 and the revenue requirement of \$309,744, and needs a higher monthly rate to provide safe, reliable, and adequate service.
  - a) Bookkeeping fee. Commission Staff recommended against a bookkeeping fee of \$6,000.00. However, this is a reasonable amount as reflected by the \$500.00 per month quote provided by Jack Kaninberg. (See Attachment

A). Rental Expense. Commission Staff recommended against a rental expense of slightly less than \$300 per month. Certainly, a rent expense of this amount is justified where Hillridge is required to have telephone service and a location to perform its administrative work. Hillridge also disagrees with Staff's recommendations for an Owner/Manager Fee of \$3,600; the disallowance of \$7,165.87 in legal fees; and disallowance of Other Interest Expense of \$4,848. In addition, Hillridge should be allowed to include its updated legal fees associated with this case, which total \$2,708 as of this date, and which will continue to increase.

- 3) Hillridge is one of the oldest sewer systems regulated by the Commission, and it has substantial Infiltration and Inflow issues typical for a sewer utility of its age. Hillridge believes the recommended rate of \$35.85 is lower than the Kentucky average, and can cite at least 17 examples of other PSC-regulated sewer systems whose rates are higher (See Attachment B). The Commission's final decision in this case should recognize that Hillridge needs higher rates to address the infiltration and inflow and other maintenance and repair needs of an aging system.
- 4) Hillridge disagrees with the Staff's conclusions regarding the proposed surcharge to fix the critically-needed repairs costing \$290,000 associated with Infiltration and Inflow at the plant. However, if the Commission finds that a surcharge is not warranted in this case, Hillridge believes a reasonable alternative is to include an

allowance for the \$290,000 amount in depreciation expense using a 15-year life, resulting in an annual expense of \$19,333.

- 5) Commission Staff indicated that it was unable to make a recommendation on the reasonableness of Hillridge's proposed surcharge of \$11.19 for a period of 36 months. Hillridge's submittal of the following documents to the Commission established the reasonableness of the surcharge: a) Hillridge stated in its Answer to Commission Staff's Second Request for Information, Question 8(a) that it had been placed on the Kentucky Division of Water' sewer sanction list due to "infiltration and inflow issues that occur infrequently during large rain events; b) Hillridge provided bids from Camden Environmental Service Co., Inc., Bland Plumbing and Piping, and Murphys' Excavating that identified locations in it's collection system needing repair, and the cost to make the repairs; c) Ms. Sandy Gruzesky, the Director of the Kentucky DOW forwarded a letter dated November 29, 2010, to Executive Director Jeff Derouen stating, among other things, that Hillridge was "recently placed on the States sewer sanction list . . ."; and, d) The Louisville and Jefferson County Metropolitan Sewer District's Motion for Full Intervention asserted that the Hillridge "collection system has severe inflow and infiltration problems." This information establishes that Hillridge's request for a surcharge is reasonable.
- 6) Commission Staff determined that Hillridge had not demonstrated reasonable efforts to obtain outside funding to pay for the repairs to its collection system.

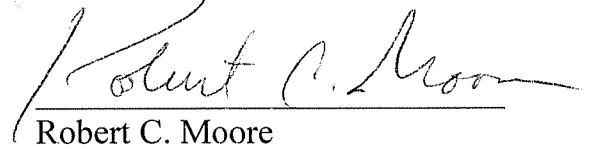
However, staff recognized that Hillridge unsuccessfully sought to obtain financing from a financial institution. Hillridge also includes as Attachment C to its comments a letter dated March 12, 2007 that was filed in a separate rate case in which a representative of Old National Bank states: Financial 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 wastewater treatment plants.” Accordingly, Hillridge has established that it made reasonable efforts to obtain funding.

- 7) Commission Staff also indicated "the potential involuntary connection of Hillridges collection system to the Louisville and Jefferson County Metropolitan Sewer District’s collection system heightens commission staff’s concerns." Hillridge notes that MSD has not yet obtained authorization from the Kentucky DOW or from the US EPA to connect to Hillridge’s collection system. Nor has MSD established that its sewer lines and pump stations will be able to handle the flow Hillridge flow without suffering sanitary sewer overflows.

### **CONCLUSION**

Hillridge respectfully requests an Informal Conference to discuss these issues, which may eliminate the need for a formal hearing in this matter.

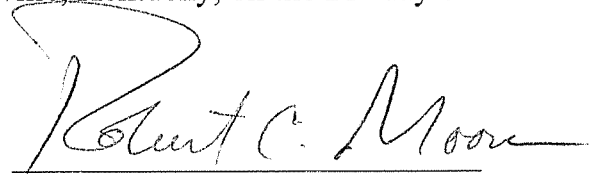
Respectfully Submitted,



Robert C. Moore  
Hazelrigg & Cox, LLP  
415 West Main Street, 1<sup>st</sup> Floor  
• P.O. Box 676  
Frankfort, Kentucky 40602-0676

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was served by first class mail, postage prepaid, on Jeff Derouen, 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 and Laurence J. Zielke and Janice M. Theriot, Zielke Law Firm PLLC, 1250 Meidinger Tower, 462 S. 4<sup>th</sup> Street, Louisville, Kentucky, on the 21<sup>st</sup> day of March, 2011.



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Robert C. Moore

KENTUCKY SMALL UTILITY CONSULTING, LLC

Jack Kaninberg, Owner  
8105 Parkshire Court  
Louisville, KY 40220  
(502) 742-9325

March 16, 2011

Sonja Ridge, Vice-President  
Hillridge Facilities, Inc.  
17825 Bradbe Road  
Fisherville, KY 40023

Dear Sonja,

Regarding the Hillridge Facilities, Inc. request for bids for bookkeeping services, I am pleased to submit a bid of \$500 per month to perform this service for you. I currently perform this work for one other sewer utility regulated by the Kentucky Public Service Commission, and I'd be honored to do it for you as well. Having worked for the PSC for 26 years, I fully understand the documentation needed to support rate increase applications and other filings. In addition, having worked with the books of Hillridge Facilities to justify the current rate increase application before the PSC, I believe I can recommend and/or institute improvements over current bookkeeping procedures to make the process more efficient.

Thank you for your consideration, and please contact me if you have any questions.

Sincerely,

Jack Kaninberg, Owner  
Kentucky Small Utility Consulting, LLC

ATTACHMENT A

## Sewer Rates 2011

<b>17 Sewer Utilities</b>	<b>Flat Monthly Rate</b>
Appalachian Waste Control	\$56.72
Big Bear Wastewater	\$48.24
Big Valley Sanitation	\$39.22
Brocklyn Utilities (Single family)	\$40.00
Evergreen Sewage Disposal	\$40.00
Farmdale Development	\$32.60 + \$9.92 surcharge
Fox Run Utilities	\$55.85
Kingswood Development	\$38.84
Lake Columbia Estates	\$50.32
Ledbetter Sewer	\$47.99 if unmetered
Mallard Point	\$41.35
Purchase PSC – Cardinal Utilities	\$39.57
Purchase PSC – Highland Club Estates	\$38.87
R.A. Williams Cedarbrook	\$62.00
River Bluffs	\$58.16
River Road Disposal	\$39.28
Woodland Estates	\$41.05

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

ATTACHMENT C

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Louisville, KY 40202  
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Thomas K. Elliott  
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Beth O'Donnell  
March 12, 2007  
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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

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