

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF COOLBROOK) CASE NO. 2011-00433
UTILITIES, LLC)

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

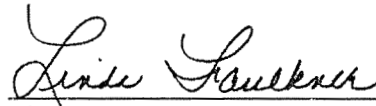
- The digital video recording of the evidentiary hearing conducted on May 10, 2012 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on May 10, 2012 in this proceeding;
- The written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the hearing conducted on May 10, 2012.

A copy of this Notice, the certification of the digital video record, exhibit list, and hearing log have been served by first class mail upon all persons listed at the end of this Notice. Parties desiring an electronic copy of the digital video recording of the hearing in Windows Media format may download a copy http://psc.ky.gov/av_broadcast/2011-00433/2011-00433_10May12_Inter.aspx. Parties wishing an annotated digital video

recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

The exhibits introduced at the evidentiary hearing may be downloaded at <http://psc.ky.gov/pscscf/2011%20cases/2011-00433/>.

Done at Frankfort, Kentucky, this 1st day of June 2012.



Linda Faulkner
Director, Filings Division
Public Service Commission of Kentucky

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Assistant Attorney General's Office
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Frankfort, KENTUCKY 40601-8204

Honorable Robert C Moore
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

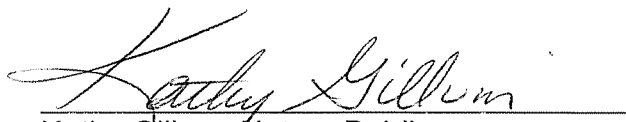
ALTERNATIVE RATE FILING OF COOLBROOK)
UTILITIES, LLC) CASE NO. 2011-00433
)

CERTIFICATE

I, Kathy Gillum, hereby certify that:

1. The attached DVD contains a digital recording of the hearing conducted in the above-styled proceeding on May 10, 2012;
2. I am responsible for the preparation of the digital recording;
3. The digital recording accurately and correctly depicts the hearing;
4. The "Exhibit List" attached to this Certificate lists all exhibits introduced at the hearing of May 10, 2012.
5. The "Hearing Log" attached to this Certificate accurately and correctly states the events that occurred at the hearing of May 10, 2012 and the time at which each occurred.

Given this 31st day of May, 2012.


Kathy Gillum, Notary Public
State at Large

My commission expires: Sept 3, 2013



Case History Log Report

Case Number: 2011-00433_10May12

Case Title: Coolbrook Utilities, LLC

Case Type: Other

Department:

Plaintiff:

Prosecution:

Defendant:

Defense:

Date: 5/10/2012

Location: Default Location

Judge: Jim Gardner

Clerk: Kathy Gillum

Bailiff:

Event Time	Log Event	
9:00:19 AM	Case Started	
9:00:22 AM	Preliminary Remarks Note: Kathy Gillum	Case will be presided over by Vice Chair Gardner as Hearing Officer.
9:00:43 AM	Introductions Note: Kathy Gillum	Robert Moore, attorney for Coolbrook; Jennifer Hans and Travis Van Ort; for the Attorney General; Shane Benson and Gerald Wuetcher for the PSC
9:01:13 AM	Public Notice Note: Kathy Gillum	Public notice has been given and received. Mr. Moore passed out a copy of public notice.
9:01:59 AM	Vice Chair Gardner Note: Kathy Gillum	Order issued yesterday by the PSC.
9:04:32 AM	Public Comments Note: Kathy Gillum	No members of the public present.
9:04:56 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore states that he does not ask for a continuance. Mr. Moore states that he may ask for a short break to prepare witnesses.
9:05:37 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore states that they will be addressing the surcharge issue.
9:06:28 AM	Witness, Larry Smither (Coolbrook) Note: Kathy Gillum	Called to testify by Robert Moore.
9:07:16 AM	Examination by Robert Moore (Coolbrook) Note: Kathy Gillum	Qualification of the witness by Robert Moore. Questions regarding time period of take over of the utility. Questions regarding the witness working with Coolbrook. Witness states that he makes frequent trips to the plant to make sure that it is being properly operated and maintained. Questions as to witness' involvement with repairs to the system. Questions regarding the I and I problem at Coolbrook. Witness states that they have had to make numerous major repairs to the system. Witness states that the treatment plant and the collection system was in poor condition when it was acquired. Questions regarding video survey.

9:19:08 AM	Exhibit Coolbrook 1 Note: Kathy Gillum	Exhibit: Letter dated June 9, 2011 from Energy and Environmental Cabinet, Division of Enforcement to Coolbrook Utilities outlining June 9, 2011 Administrative Conference, introduced by Robert Moore and marked as Coolbrook Exhibit 1.
9:19:21 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Questions regarding Coolbrook Exhibit 1. Questions regarding meeting with DOW. Questions regarding I and I and DOW addressing the issues. Questions regarding money issues regarding I and I repair. Questions regarding the cost of the video survey.
9:27:36 AM	Exhibit Coolbrook 2 Note: Kathy Gillum	Exhibit: Document titled "Martin's Pipeline Inspection, dated 2-9-12 directed to Larry Smither", introduced by Robert Moore and marked as Coolbrook Exhibit 2.
9:27:58 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Questions regarding ownership interest in companies.
9:30:53 AM	Exhibit Coolbrook 3 Note: Kathy Gillum	Exhibit: 2 page Document titled "Statement of Credit Denial, Termination or Change dated 5-9-12, introduced by Robert Moore and marked as Coolbrook Exhibit 3.
9:31:18 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Questions regarding Coolbrook Exhibit 3.
9:31:47 AM	Objection by Jennifer Hans (OAG) Note: Kathy Gillum	Objection: Ms. Hans Objects due to not being provided with a copy of the Exhibit. (copies were made at that time by PSC staff and distributed to the parties)
9:32:26 AM	Robert Moore (Coolbrook)	
9:35:55 AM	Examination by Jennifer Hans (OAG) Note: Kathy Gillum	Questions regarding witness taking ownership in 2008. Questions regarding Coolbrook Exhibit 2. Questions regarding financial stability of the company to operate the system. Questions regarding surcharge.
9:42:39 AM	Examination by Shane Benson (PSC) Note: Kathy Gillum	Questions regarding the I and I study becoming necessary. Questions regarding Coolbrook Exhibit 1.
9:44:36 AM	Data Request (PSC) Note: Kathy Gillum	Data Request: Copies of any NOV's issued at the Administrative Conference.
9:45:12 AM	Shane Benson (PSC)	
9:46:18 AM	Data Request (PSC) Note: Kathy Gillum	Copy of the letter from witness explaining that the first step would be to get a video survey.
9:46:48 AM	Shane Benson (PSC) Note: Kathy Gillum	Questions regarding Coolbrook Exhibit 1, section L. Questions regarding why it took until October to request a surcharge. Witness states that he had asked for an extension of time and it was granted. Questions regarding whether or not there was an Agreed Order with the Division of Enforcement. Witness states that they have not entered into an Agreed Order to date. Questions regarding when first NOV's were issued to Coolbrook.
9:50:47 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore asks for question to be re-phrased.

9:51:05 AM	Shane Benson (PSC) Note: Kathy Gillum	Mr. Benson re-phrased question. Witness states that the system is 40 years old. Questions regarding companies making the bids received. Witness explains prior business dealings with the bidding companies. Witness states that he has no financial interest in any of the companies or with anyone else who does.
9:54:53 AM	Objection by Robert Moore (Coolbrook) Note: Kathy Gillum	Mr Moore objects to the relevance.
9:55:08 AM	Shane Benson (PSC)	
9:55:26 AM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner asks why it is relevant. States that witness does not have to answer as to violations of other companies.
9:56:30 AM	Shane Benson (PSC) Note: Kathy Gillum	Mr. Benson asks if witness has had other dealings with Agreed Orders. Questions regarding how often an I and I (video survey) should be performed. Witness states 10 to 15 years if repairs are made. Witness explains an I and I study step by step. Witness states that an I and I study could probably be done in 30 days (based upon the problems they encounter). Questions regarding the benefits of performing an I and I study. Questions regarding personal guarantee to get a business loan.
10:05:28 AM	Objection by Robert Moore (Coolbrook) Note: Kathy Gillum	Objection:
10:07:06 AM	Shane Benson (PSC) Note: Kathy Gillum	States it goes to allocation of risks.
10:07:36 AM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner states that he was going to allow the witness to answer the question.
10:08:00 AM	Shane Benson (PSC) Note: Kathy Gillum	Mr Benson asks, if witness was put on notice that he would have to give a personal guarantee to get a business loan.
10:09:59 AM	Vice Chair Gardner Note: Kathy Gillum	Questions regarding Coolbrook Exhibit 3. Questions regarding NOV's since the June 2011 Conference. Witness stated no. Questions regarding communications with Division of Enforcement regarding Coolbrook since June 2011 as to an Agreed Order. Questions regarding range of repairs might be needed.
10:14:03 AM	Re-Direct by Robert Moore (Coolbrook)	
10:14:26 AM	Objections by Jennifer Hans (OAG) and Shane Benson (PSC) Note: Kathy Gillum	Simultaneous objections from Jennifer Hans (OAG) and Shane Benson (PSC)
10:14:36 AM	Vice Chair Gardner	
10:14:45 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Personal issues that may have distracted Mr. Wilson from closing monitoring Coolbrook.
10:15:33 AM	Objection by Jennifer Hans (OAG)	
10:15:54 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Questions regarding loans.
10:16:54 AM	Vice Chair Gardner	
10:17:44 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Questions regarding reasons for not submitting application to PNC.
10:18:35 AM	Examination by Jennifer Hans (OAG)	

10:18:49 AM	Data Requests by Jennifer Hans (OAG) Note: Kathy Gillum	Copies of correspondence with Div. of Enforcement relating to Coolbrook
10:19:13 AM	Jennifer Hans (OAG)	
10:19:43 AM	Shane Benson (PSC) Note: Kathy Gillum	Questions regarding Coolbrook Exhibit 1. Questions regarding witness' involvement in financial issues on a day to day basis. Questions regarding the financing of repairs. Questions regarding who makes financial decisions.
10:23:34 AM	Witness Excused (Smither)	
10:23:47 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Offers exhibits into evidence. (Coolbrook Exhibits 1, 2, and 3) No objections.
10:24:43 AM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner clarifies Data Requests: (1) Copies of all NOV's; and (2) copies of any documents, correspondence, or e-mails with Division of Enforcement relevant to the issues.
10:24:50 AM	Robert Moore (Coolbrook)	
10:25:14 AM	Case Recessed	
10:37:59 AM	Case Started	
10:38:06 AM	Witness, Martin Cogan (Coolbrook) Note: Kathy Gillum	Witness called to testify by Robert Moore.
10:38:40 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Qualification of witness by Robert Moore. Questions regarding purchase of the system. Questions regarding the person who handles the repairs and who handles the financial side of the utility. Witness explains his prior experience with operating a treatment plant. Questions regarding need for an I and I study. Questions regarding the enforcement conference and post conference letter. Questions regarding NOV's issued. Witness states that they did not know of some of the repairs that needed to be done prior to purchase of the system. Questions regarding the surcharge. Questions regarding payment of an I and I study. Witness states they do not have a source of collateral or a source of incoming revenue to cover a loan.
10:55:10 AM	Exhibit Coolbrook 4 Note: Kathy Gillum	Letter dated March 12, 2007 from Old National to the PSC regarding Farmdale Development Corporation in Case No. 2006-00028, introduced by Robert Moore and marked as Coolbrook Exhibit 4.
10:55:42 AM	Robert Moore (Coolbrook)	
10:57:48 AM	Examination by Jennifer Hans (OAG) Note: Kathy Gillum	Questions regarding problems associated with the utility when it was purchased. Questions regarding any I and I problems. Questions regarding financing. Witness states that they have struggled, but still have the ability to operate the plant.
11:01:48 AM	Examination by Shane Benson (PSC) Note: Kathy Gillum	Questions regarding reports that had to be submitted to DOW. Questions regarding the I and I problems. Questions regarding loan negotiations.
11:07:17 AM	Vice Chair Gardner Note: Kathy Gillum	Questions regarding amount of sewer companies owned by the witness that have received loans from banks since receiving letter from Old National.

11:08:54 AM	Re-Direct by Robert Moore (Coolbrook) Note: Kathy Gillum	Questions regarding recovering of fines.
11:09:40 AM	Shane Benson (PSC) Note: Kathy Gillum	Question regarding whether or not the witness would give a personal guarantee in order to get a loan.
11:12:52 AM	Jennifer Hans (OAG) Note: Kathy Gillum	Questions regarding whether the witness has been involved in the purchase of plants at lower costs, and then sell later for a profit.
11:15:13 AM	Witness Excused (M. Cogan)	
11:15:24 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore offers Coolbrook Exhibit 4 into evidence. No objections.
11:15:48 AM	Witness, Jack Kaninberg (Coolbrook) Note: Kathy Gillum	Witness called to testify by Robert Moore.
11:16:27 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Qualification of witness by Robert Moore. Questions regarding the request for the surcharge. Questions regarding funding for I and I study. Questions regarding sinking fund accounts etc.
11:24:57 AM	Examination by Jennifer Hans (OAG) Note: Kathy Gillum	Questions regarding differences between stipulation or agreements and Orders of the Commission. Questions regarding I and I study surcharge in Ridglea case. Questions regarding options (surcharge, bank loans, etc). Questions regarding whether the surcharge would shift the risk to the ratepayers. Questions regarding cost savings. Questions regarding investments in older wastewater treatment facilities, any upgrades would lead to profits if sold.
11:33:35 AM	Examination by Gerald Wuetcher (PSC) Note: Kathy Gillum	Questions regarding alternative rate filings for small utilities. Questions regarding the amount of cases witness helped to prepare applications for. Questions regarding duties at PSC in preparation of applications.
11:37:29 AM	Objection by Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore states that he objects to the questions because he doesn't know how they relate to the surcharge.
11:37:43 AM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Mr. Wuetcher states that he is trying to explore what the staff would be doing based upon the witness's experience.
11:38:40 AM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner allowed question.
11:38:47 AM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Mr. Wuetcher asked, if the applicant's were advised that they could change the numbers in the application because it was "their application". Questions regarding filing a rate case with PSC staff assistance.
11:44:16 AM	Objection by Robert Moore (Coolbrook) Note: Kathy Gillum	Objection: Relevance.
11:44:47 AM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Mr. Wuetcher explains that his questioning is to ask why the Commission staff wasn't used instead of hiring a consultant.
11:44:57 AM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner states he will allow the question.
11:45:03 AM	Jack Kaninberg (Coolbrook) Note: Kathy Gillum	Mr. Kaninberg as for the question to be repeated.

11:45:11 AM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Mr. Wuetcher repeats the question.
11:46:00 AM	Objection by Robert Moore (Coolbrook) Note: Kathy Gillum	Objection: Mr. Moore states that it calls for speculation.
11:46:17 AM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner requested for Mr. Wuetcher to repeat the question.
11:46:32 AM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Mr. Wuetcher asks if the witness agrees that if staff had assisted in the preparation of the application, they would have reviewed the documents needed and would not have required as much data requests to complete the process.
11:46:54 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore states that the witness is testifying as to surcharge, and this questioning is an entirely different area.
11:47:02 AM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Mr. Wuetcher states that he is simply asking the person who put together the application.
11:47:28 AM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner instructs Mr. Moore that if he needed extra time or needed to call other witnesses, or witnesses of the PSC, that he could since the door has now been opened
11:47:47 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore states, "Or to call other employees ...".
11:48:24 AM	Vice Chair Gardner Note: Kathy Gillum	Staff is questioning. Yes you can call staff employees to ask questions.
11:49:28 AM	Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore asks if he could also request the last 5 years of rate cases to see how much attorney's fees were granted for preparation of rate cases.
11:49:52 AM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner gives instructions on what would be allowed.
11:50:16 AM	Jack Kaninberg (Coolbrook) Note: Kathy Gillum	Mr. Kaninberg asks if he can answer the question. States that if the utility is not happy with staff results, then they come to him.
11:51:12 AM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Questions regarding the Consulting Agreement. Questions regarding when the witness first started working on the rate case. Questions regarding the number of hours the witness worked on the rate case. Questions regarding Ridgelea and Farmdale cases having a surcharge. Witness states that AirView had a surcharge. Questions regarding the recovery of costs for an I and I study without a surcharge. Questions regarding amortization of costs. Witness makes recommendation. Questions regarding cost of the asset. Questions regarding depreciation expenses.
12:07:08 PM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner states he is concerned that the questions should have been asked in a Data Request.
12:08:09 PM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Witness stated that he recommended 1 year for the I and I study. Witness stated that he used the Ridgelea president. Questions regarding how an I and I study would be accounted for. Questions regarding benefits of the surcharge.

12:24:21 PM	Vice Chair Gardner Note: Kathy Gillum	Vice Chair Gardner states that Coolbrook made an adjustment in the expenses rate case and proposed to amortize some of it from the 2010 case, as well accounting and legal fees. Staff said that it was disallowed, and staff disallowed legal fees, is that correct? Were you questioning the accounting fees.
12:26:47 PM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Mr. Wuetcher states that the questioning was to see why the utility needed an outside consultant instead of using staff. Mr. Wuetcher states that staff can withdraw the questions if needed, and the answers should also be withdrawn.
12:27:07 PM	Vice Chair Gardner	
12:30:24 PM	Jennifer Hans (OAG) Note: Kathy Gillum	Does your contract state that you are not responsible for responding to the PSC or AG Data Requests? Ms. Hans points out Page 3, stating with However. Requests that the Witness reads the sentence at the request of the OAG. Witness does not read the sentence, but gives an explanation. OAG reads the sentence.
12:33:18 PM	Vice Chair Gardner Note: Kathy Gillum	Asked if witness had reviewed the income tax return.
12:35:44 PM	Case Recessed	
1:33:45 PM	Case Started	
1:33:55 PM	Vice Chair Gardner Note: Kathy Gillum	Back on the record.
1:34:05 PM	Robert Moore (Coolbrook) Note: Kathy Gillum	Mr. Moore states that it is his withdrawing that those questions were concerning Mr. Kaninberg's fee, and he doesn't object to that.
1:34:26 PM	Re-Direct by Robert Moore (Coolbrook) Note: Kathy Gillum	Questions regarding repairs having a beneficial effect over a number of years. Questions regarding paying for the I and I study if the surcharge is not granted.
1:36:20 PM	Jennifer Hans (OAG) Note: Kathy Gillum	Questions regarding rate increase and the surcharge rate. Questions regarding amortization period. Questions regarding the Ridgelea documents.
1:38:58 PM	Gerald Wuetcher (PSC) Note: Kathy Gillum	Questions regarding the social economic status of the customers of Coolbrook.
1:40:33 PM	Witness Excused (Kaninberg)	
1:40:46 PM	Witness, Sam Bryant (PSC) Note: Kathy Gillum	Witness called to testify by Shane Benson.
1:41:16 PM	Examination by Shane Benson (PSC) Note: Kathy Gillum	Qualification of witness by Shane Benson. Questions regarding Coolbrook's application for a rate increase.
1:42:52 PM	Exhibit PSC 1 Note: Kathy Gillum	Exhibit: Document titled Notice of Filing of Commission Staff Report in Case No. 2011-00433 dated March 5, 2012, introduced by Shane Benson and marked as PSC Exhibit 1.
1:43:10 PM	Shane Benson (PSC) Note: Kathy Gillum	Witness states he has no additions or corrections to the Exhibit.
1:43:56 PM	Examination by Robert Moore (Coolbrook)	
1:45:08 PM	Witness, Eddie Beavers (PSC)	

1:45:21 PM	Examination by Shane Benson (PSC)	
	Note: Kathy Gillum	Moves to introduce PSC Exhibit 1. No objections.
1:46:54 PM	Robert Moore (Coolbrook)	
	Note: Kathy Gillum	Questions regarding a Cash flow analysis.
1:47:21 PM	Vice Chair Gardner	
	Note: Kathy Gillum	Vice Chair Gardner states that Briefs are due by May 25 and Data Requests by May 11. Vice Chair Gardner adjourns hearing.
1:50:54 PM	Case Recessed	
1:51:01 PM	Case Stopped	



Case Title: Coolbrook Utilities, LLC

Department:

Plaintiff:

Prosecution:

Defendant:

Defense:

Name	Description
Coolbrook Exhibit 1	Letter dated June 9, 2011 from Energy and Environmental Cabinet, Division of Enforcement to Coolbrook Utilities outlining June 9, 2011 Administrative Conference
Coolbrook Exhibit 2	Document titled "Martin's Pipeline Inspection, dated 2-9-12 directed to Larry Smither",
Coolbrook Exhibit 3	2 page Document titled "Statement of Credit Denial, Termination or Change dated 5-9-12
Coolbrook Exhibit 4	Letter dated March 12, 2007 from Old National to the PSC regarding Farmdale Development Corporation in Case No. 2006-00028
PSC Exhibit 1	Document titled Notice of Filing of Commission Staff Report in Case No. 2011-00433 dated March 5, 2012



STEVEN L. BESHEAR
GOVERNOR

LEONARD K. PETERS
SECRETARY

ENERGY AND ENVIRONMENT CABINET
DEPARTMENT FOR ENVIRONMENTAL PROTECTION
DIVISION OF ENFORCEMENT
300 FAIR OAKS LANE
FRANKFORT KENTUCKY 40601
www.kentucky.gov

June 9, 2011

Coolbrook Utilities, LLC
Attention: Mr. Lawrence Smither
P.O. Box 91588
Louisville, KY 40291

Re: Post Conference Letter
AI ID: 1380
AI Name: Coolbrook Subdivision
WWTP
Case #: DOW 100186
Activity ID: ERF20100001
Permit#: KY0044351
County: Franklin


Dear Mr. Smither:

Thank you for participating in the Administrative Conference held on June 9, 2011, to address the Notices of Violation (NOV's) that have been issued to the Coolbrook Subdivision WWTP (Coolbrook).

We discussed the following remedial measures and conditions that may be included in an Agreed Order between the Cabinet and Coolbrook to resolve the outstanding violations cited against the above noted facility:

- A. At all times, Coolbrook shall report to the Cabinet all spills, bypass discharges, upset condition discharges or other releases of substances from its WWTP and sewer collection system which would result in or contribute to the pollution of the waters of the Commonwealth, including emergency and accidental releases, in accordance with KRS 224.01-400, and 401 KAR Chapter 5. Coolbrook shall make its initial report of the above discharges or releases by telephone to the DOW Frankfort Regional Office, 502-564-3358 or the Cabinet's 24-hour notification number, 800-928-2380 or 502-564- 2380;
- B. At all times, Coolbrook shall provide for proper and regular operation and maintenance (O & M) of its sewage collection system and WWTP in accordance with, 401 KAR 5:065 and its permit condition. This includes, but is not limited to providing adequate fencing and a lockable gate to the facility; *Call Debris*
- C. By July 1, 2011, Coolbrook shall submit to DENF for review and acceptance, a written



- Corrective Actions Plan (CAP). The CAP shall include, but not be limited to, a schedule of completion dates to ensure compliance with permit requirements, including, but not limited to, providing proper disinfection of the facility's effluent, E. coli, Total Suspended Solids (TSS), and Total Residual Chlorine (TRC) at the facility. Upon written notification that DENF does not accept the CAP, Coolbrook has fifteen (15) days from the date of written notification by DENF to submit an amended CAP. If Coolbrook has received no response from DENF within thirty (30) days of receipt of the CAP, such plan shall become effective upon the expiration of that thirty (30) day period;
- D. By July 1, 2011, Coolbrook shall develop, and implement an O&M manual which shall include, but not be limited to, adequate laboratory controls, appropriate quality assurance procedures, a detailed design of the system, daily operating procedures, and a schedule of testing procedures. Coolbrook shall review and update this manual on an annual basis. Coolbrook shall submit to the Division of Enforcement (DENF) a self-certification that the manual has been developed. The manual shall be maintained at the facility and made available upon demand by the Cabinet for review and inspection;
- E. At all times, monitoring shall be conducted according to test procedures approved under 40 CFR Part 136, unless other test procedures have been established in KPDES Permit No. KY0044351;
- F. At all times, records of monitoring information shall include, but not be limited to:
1. The date, exact place, and time of sampling or measurements;
 2. The individuals who performed the sampling or measurements
 3. The date the analysis was performed;
 4. The analytical technique or method used; and
 5. The result of the analysis.
- G. Commencing immediately, Coolbrook shall retain records of all monitoring information, including all calibration and maintenance records and all original strip chart recordings for continuous instrumentation, copies of all reports required by KPDES Permit No. KY0044351, records of all data used to complete the application for the permit and other pertinent information for a period of at least three (3) years. The records shall be maintained in an orderly, sequential manner;
- H. At all times, Coolbrook shall measure the plant effluent flow as required by KPDES Permit No. KY0044351. Flow measurement devices shall be calibrated by an independent source at least once per year or as recommended by the manufacturer;
- I. At all times, Coolbrook shall accurately report all monitoring results on a Discharge Monitoring Report (DMR). The DMR's shall be submitted to the DOW, 200 Fair Oaks Lane, Frankfort, Kentucky 40601 and the DOW Frankfort Regional Office, by the 28th day of the month following the reporting period for all twelve (12) months of the year;
- J. By July 15, 2011, Coolbrook shall submit a Sanitary Sewer Overflow Plan (SSOP) to the Cabinet for review and acceptance. The SSOP shall include a map of the entire collection system, including the location of any known sanitary sewer overflows (SSO);
- frequency of overflows;
 - estimate of the annual volume of overflows;
 - type of overflow (manhole, pump station, overflow pipe, etc.);
- 

- receiving stream for the overflow;
- immediate area of overflow and downstream land use, including potential for public health concerns;
- a description of any previous (within the last 5 years), current, or proposed rehabilitation or construction work to remediate or eliminate overflows;
- a schedule for the elimination of overflows; and
- a plan that addresses Coolbrook's approach to eliminating any sources of private Inflow and Infiltration (I&I), such as down spouts, sump pumps, roof drains, and other illegal connections to the system. The plan should include a schedule to address existing illegal connections, and a plan to prevent future connections.

The Cabinet shall review the SSOP and notify Coolbrook of any deficiencies in writing. Failure to develop an acceptable SSOP after three (3) notices of deficiency from the Cabinet shall constitute a violation of the Agreed Order;

K. By July 15, 2011, Coolbrook shall develop and submit a Sewer Overflow Response Protocol (SORP) to the Cabinet for review and acceptance. The SORP shall include, but not be limited to:

- an overflow response procedure (designated responders, response times, cleanup methods, etc.);
- a regulatory agency notification procedure; and
- a manhole and lift station inspection schedule

The Cabinet shall review the SORP and notify Coolbrook of any deficiencies in writing. Failure to develop an acceptable SORP after three (3) notices of deficiency from the Cabinet shall constitute a violation of the Agreed Order;

I + I
X

L. By August 1, 2011, Coolbrook shall submit to the DENF for DOW review and acceptance; an Inflow/Infiltration Rehabilitation Project to identify and correct Inflow/Infiltration (I/I) within Coolbrook's sewage collection system. The rehabilitation project shall include, but not be limited to:

- 1) identify all significant sources of I/I into the collection system;
- 2) contain a compliance schedule and description of corrective actions to be undertaken for correcting all cost-effective sources of I/I into the collection system;
- 3) contain updated, detailed maps, sketches and schematic diagrams of the current collection system; and

If the DOW does not accept the written I/I Rehabilitation Project, modifications to the plan, including the compliance schedule contained therein, shall be made in accordance with DOW specifications. The modified written I/I Rehabilitation Project shall be resubmitted to DENF within thirty (30) days of receipt of the aforementioned specifications from DOW. Coolbrook shall initiate the I/I corrective actions in accordance with the written I/I Rehabilitation Project and its approved compliance schedule. Coolbrook shall complete the rehabilitation or modifications set forth in the accepted I/I Rehabilitation Project not later than two (2) years from the execution of the Agreed Order;

M. By August 15, 2011, Coolbrook shall develop and implement a written Sludge Management Plan (SMP) which shall provide for proper management and disposal of sewage sludge generated at the facility. The SMP shall be reviewed annually and updated to reflect current

operations at the facility. Coolbrook shall submit to the Division of Enforcement (DENF) a self-certification that the manual has been developed. An up-to-date copy of the SMP shall be maintained at the facility and shall be made available upon request by the Cabinet for inspection;

- N. Commencing July 15, 2011, and for the duration of the Agreed Order, Coolbrook shall submit quarterly progress reports for compliance with this Agreed Order postmarked no later than April 15th, July 15th, October 15th, and January 15th, to DENF and the DOW Frankfort Regional Office until the Agreed Order is terminated;
- O. All submittals required of Coolbrook shall be submitted to:
- Division of Enforcement
Attention: Director
300 Fair Oaks Lane
Frankfort, KY 40601
- P. By August 1, 2012, Coolbrook shall be in compliance with KPDES Permit No. KY00244351 and the Agreed Order.

Coolbrook shall pay the Cabinet a civil penalty in the amount of twelve thousand dollars (\$12,000) to address the NOV's issued to the facility.

As discussed during the Administrative Conference, Coolbrook is to respond in writing by Friday, June 24, 2011, to the remedial measures and civil penalty tendered during the Administrative Conference. DENF will consider any reasonable change in dates for Coolbrook to complete the remedial measures and any reasonable counter offer to the civil penalty assessed against the WWTP.

If you have any questions, you may contact me at (502) 564-2150, extension 168 or at greg.wilson@ky.gov.

564-9710

Respectfully,



J. Greg Wilson,
Enforcement Specialist III
Kentucky Division of Enforcement

Martin's Pipeline Inspection

1020 Wes-Lee Drive

Paris, KY 40362

Date: 02-09-12

Atten: Larry Smither

Subject: Cool Brooke Subdivision

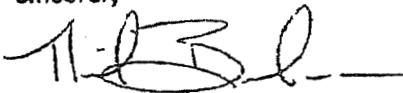
Dear Larry,

The following is a quote for CCTV inspection and High Pressure Cleaning for the Cool Brooke Subdivision. Approximately 22,000 ft of sanitary sewer is to be cleaned and 100 sanitary manholes to be inspected.

- CCTV 22,000 ft. of Sanitary Sewer
- High Pressure Cleaning of 22,000 ft. of Sanitary Sewer
- Inspection of 100 Sanitary Sewer Manholes

Total cost \$38,400

Sincerely



Neil Buchanan

Leak Eliminators, LLC.

DATE: October 25, 2011

TO: Lawrence W. Smither
3906 N. Camden Lane
P.O. Box 137
Crestwood, KY.40014

Project: Coolbrook Subdivision CCTV

We are pleased to present this proposal to Clean and Camera the main sewer lines in the Coolbrook Subdivision located in western Franklin County. Our proposal is based on meeting with you and the subdivision plat you provided.

We have included the following in our proposal:

- Jet Cleaning 22,000 LF of main sewer lines.
- Video & record 22,000 LF of main sewer lines.
- Accessing 100 Manhole's to CCTV the main sewer lines.
- Provide Copies of DVD and report after completion of CCTV.

Total Cost Estimate \$35,200.00

Thank you for the opportunity to provide you with this quote if you need additional information please feel free to call.

Sincerely,

Dennis O'Connell

Leak Eliminators, LLC
Estimator/Project Manager
1064 Manchester Street
Lexington, KY 40508
(502) 352 - 3356

Statement of Credit Denial, Termination or Change

Lender
 BEDFORD LOAN & DEPOSIT BANK (02)
 PENDLETON BRANCH
 P O BOX 193
 943 PENDLETON RD
 PENDLETON, KY 40055

Applicant
 COOLBROOK UTILITIES LLC
 P O BOX 91588
 LOUISVILLE, KY 40281

Date
 05-09-2012
Application or Loan Number

INCOMPLETE

"We" means Lender.

"You" means Applicant.

Property Address:

Description of Account, Transaction or Requested Credit.

Description of Action Taken.

Principal Reasons for Credit Denial, Termination or Other Action Taken Concerning Credit

- | | |
|---|--|
| <input type="checkbox"/> Credit Application Incomplete | <input type="checkbox"/> Delinquent Past or Present Credit Obligations with Others |
| <input type="checkbox"/> Insufficient Number of Credit References Provided | <input type="checkbox"/> Collection Action or Judgment |
| <input type="checkbox"/> Unacceptable Type of Credit References Provided | <input type="checkbox"/> Garnishment or Attachment |
| <input type="checkbox"/> Unable to Verify Credit References | <input type="checkbox"/> Foreclosure or Repossession |
| <input type="checkbox"/> Temporary or Irregular Employment | <input type="checkbox"/> Bankruptcy |
| <input type="checkbox"/> Unable to Verify Employment | <input type="checkbox"/> Number of Recent Inquiries on Credit Bureau Report |
| <input type="checkbox"/> Length of Employment | <input checked="" type="checkbox"/> Value or Type of Collateral not Sufficient |
| <input type="checkbox"/> Income Insufficient for Amount of Credit Requested | <input type="checkbox"/> |
| <input type="checkbox"/> Excessive Obligations in Relation to Income | <input type="checkbox"/> |
| <input type="checkbox"/> Unable to Verify Income | <input type="checkbox"/> |
| <input type="checkbox"/> Length of Residence | <input type="checkbox"/> |
| <input type="checkbox"/> Temporary Residence | <input type="checkbox"/> |
| <input type="checkbox"/> Unable to Verify Residence | <input type="checkbox"/> |
| <input type="checkbox"/> No Credit File | <input type="checkbox"/> |
| <input type="checkbox"/> Limited Credit Experience | <input type="checkbox"/> |
| <input type="checkbox"/> Poor Credit Performance with Us | <input type="checkbox"/> |

Disclosure of Use of Information Obtained from an Outside Source

Our credit decision was based in whole or in part on information obtained in a report from the consumer reporting agency or agencies listed below. You have a right under the *Fair Credit Reporting Act* to know the information contained in your credit file at the consumer reporting agency. The reporting agency played no part in our decision and is unable to supply specific reasons why we have denied credit to you. You also have a right to a free copy of your report from the reporting agency, if you request it no later than 60 days after you receive this notice. In addition, if you find that any information

Statement of Credit Denial, Termination or Change

Lender

BEDFORD LOAN & DEPOSIT BANK (02)
PENDLETON BRANCH
P O BOX 193
943 PENDLETON RD
PENDLETON, KY 40055

Applicant

COOLBROOK UTILITIES LLC
P O BOX 91588
LOUISVILLE KY 40281

Date

05-09-2012

Application or Loan Number

INCOMPLETE

"We" means Lender.

"You" means Applicant.

Property Address:

Description of Account, Transaction or Requested Credit.

\$35,000.00

Description of Action Taken.

Principal Reasons for Credit Denial, Termination or Other Action Taken Concerning Credit

- Credit Application Incomplete
- Insufficient Number of Credit References Provided
- Unacceptable Type of Credit References Provided
- Unable to Verify Credit References
- Temporary or Irregular Employment
- Unable to Verify Employment
- Length of Employment
- Income Insufficient for Amount of Credit Requested
- Excessive Obligations in Relation to Income
- Unable to Verify Income
- Length of Residence
- Temporary Residence
- Unable to Verify Residence
- No Credit File
- Limited Credit Experience
- Poor Credit Performance with Us
- Delinquent Past or Present Credit Obligations with Others
- Collection Action or Judgment
- Garnishment or Attachment
- Foreclosure or Repossession
- Bankruptcy
- Number of Recent Inquiries on Credit Bureau Report
- Value or Type of Collateral not Sufficient

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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 Farndale 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 Farndale 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.

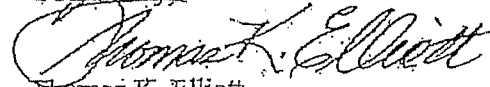
Other factors considered by a lending institution are the condition of the wastewater treatment plant, how soon it will become obsolete and the length of time it will remain in service. If the repairs that are being financed by the loan will be obsolete by the maturity date of the loan, the wastewater 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

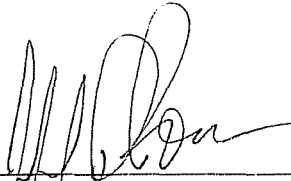
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF)	CASE NO.
COOLBROOK UTILITIES, LLC)	2011-00433

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of February 3, 2012, the attached report containing the findings and recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: MAR 05 2012

cc: Parties of Record

STAFF REPORT
ON
COOLBROOK UTILITIES, LLC
CASE NO. 2011-00433

On October 31, 2011, Coolbrook Utilities, LLC ("Coolbrook") applied pursuant to 807 KAR 5:076 to increase its rates for sewer service. Using the calendar year ending December 31, 2010 as its test period, Coolbrook proposes to increase its current monthly sewer rate of \$30.15 to \$36.80, an increase of \$6.65 or 22 percent. Coolbrook also requests authority to assess a monthly surcharge of \$6.75 for a 12-month period to fund the cost of an inflow and infiltration study. The proposed surcharge will produce revenues of \$35,200.

Commission Staff members Samuel Bryant and Eddie Beavers performed a limited financial review of Coolbrook's operations to determine whether test-period operating revenues and expenses are representative of normal operations and the proposed adjustments are reasonable. They did not pursue, and have not addressed in this report, insignificant or immaterial discrepancies. Where they have not expressly addressed a test-period expense, they found insufficient evidence to contest the reasonableness of that expense.

This report summarizes Commission Staff's findings and recommendations. Attachment A contains Commission Staff's recommended pro forma operating statement and sets forth its findings and recommendations regarding Coolbrook's proposed adjustments and explains its recommended adjustments to Coolbrook's test-period operating statement. Commission Staff's recommended rates are found at

Attachment B. Mr. Beavers is responsible for the pro forma revenue adjustment and the calculation of the recommended rates. Mr. Bryant is responsible for all pro forma operating expense adjustments, the revenue requirement determination, and the proposed surcharge.

Coolbrook proposes to use an operating ratio of 88 percent to determine its revenue requirement. The Commission has historically used an operating ratio approach¹ to determine revenue requirements for small, privately owned utilities.² This approach is used because no basis for rate-of-return determination exists or the cost of the utility has fully or largely been recovered through the receipt of contributions. For these reasons, this method should be used to determine Coolbrook's revenue requirement. Commission Staff finds that an operating ratio of 88 percent will allow Coolbrook sufficient revenues to cover its reasonable operating expenses and to provide for reasonable equity growth.

Using an operating ratio of 88 percent, Coolbrook determined that its proposed pro forma operations support a revenue requirement from base sewer rates of \$192,077, which is an increase of \$34,694, or 22 percent, above the normalized revenue from base sewer rates of \$157,383. As shown in Table 1, Commission Staff's recommended pro forma operations and an 88 percent operating ratio result in a

¹ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues.

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

² See, e.g., Case No. 7553, *McKnight Utilities Co.* (Ky. PSC Nov. 13, 1979).

revenue requirement from base sewer rates of \$167,236, an increase of \$9,903, or 6.3 percent, over normalized revenue from rates of \$157,333.

Table 1		
Operating Expenses	\$	147,168
Divided by: Operating Ratio	÷	88%
Commission Staff Revenue Requirement	\$	167,236
Less: Normalized Operating Revenue	-	157,333
Recommended Increase in Revenue from Rates	\$	9,903

Because Coolbrook's proposed base sewer rate will produce revenue in excess of \$167,236, Commission Staff recommends that it be denied. Using the recommended revenue requirement and the current number of Coolbrook's customer, Commission Staff calculates a residential rate of \$32.04 per month, as shown in Table 2. Staff recommends that the Commission approve the residential rate set forth in Attachment B, as it will produce the recommended revenue requirement from rates of \$167,236.

Table 2		
Total Requested/Recommended Revenue Requirement	\$	167,236
Divided by: 12 Months	÷	12
Monthly Revenue Requirement	\$	13,936.33
Divided by: Current Customer Level	÷	435
Monthly Rate – Rounded up to Nearest Penny	\$	32.04

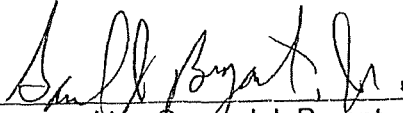
Coolbrook proposed a surcharge of \$6.75 per month for a period of 12 months. The surcharge will generate \$35,200 and Coolbrook proposes to use the surcharge proceeds to fund an inflow and infiltration study, which in its application it represents that the Kentucky Division of Water ("DOW") has required. However, Coolbrook has produced no evidence of such a requirement other than a letter in which a DOW enforcement official suggested possible terms of an Agreed Order. Coolbrook has acknowledged in response to Commission Staff's Requests for Information that no agreed order with DOW currently exists.

Assuming the need for an infiltration and inflow study exists, Coolbrook has offered no evidence that the proposed surcharge is necessary to finance such study. A utility will generally finance this type of expenditure through internal funds or through the issuance of debt. Recognizing that financing the proposed study through general rates is not likely, Coolbrook may borrow the funds and then seek recovery of the cost of borrowing through its general rates. Commission Staff is of the opinion that prior to the authorization of a surcharge, the utility should demonstrate reasonable efforts to obtain outside funding. Coolbrook has not done so. It has provided no evidence regarding its efforts to obtain funding. Reasonable efforts require the submission of applications to several lending institutions.

Commission Staff is also concerned regarding the effects of the proposed surcharge on the allocation of risks between utility ratepayers and the utility. The inflow and infiltration study represents a construction overhead that generally would be recovered over the useful lives of any construction projects resulting from the study. Such a major capital expenditure is funded by the utility and recovered through general rates over the utility plant's service life. Utility ratepayers pay for the expenditure as the capital asset depreciates. Coolbrook's proposed surcharge, however, requires ratepayers to pay these capital expenditures in advance before using the asset. Instead of the utility bearing the risk that the asset will be fully used, the proposed surcharge will transfer that risk to ratepayers.

The lack of a clearly defined need for the inflow and infiltration study, the absence of any evidence of efforts to obtain financing for the proposed study, and the

shifting of risk from the utility to ratepayers leads Commission Staff to recommend that the *proposed surcharge* be denied.



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



Prepared by: Eddie Beavers
Rate Analyst, Water and Sewer
Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT, 2011-00433
COMMISSION STAFF
PRO FORMA INCOME STATEMENT
AND ADJUSTMENTS

Account Titles	2010 Annual Report	Pro Forma Adjustment	Ref.	Pro Forma Operations
Operating Revenues:				
Flat Rate Sewer	\$ 116,892	\$ 40,491	A	\$ 157,383
Operating Expenses:				
Operation & Maint. Exp.:				
Owner Manager Fee	\$ 7,200	\$ (3,600)	B	\$ 3,600
Sludge Hauling	11,713	0		11,713
Water	1,058	0		1,058
Other Labor & Materials	8,974	0		8,974
Fuel & Power Expense	27,108	(36)	C	27,072
Chemicals	6,775	0		6,775
Routine Maintenance Fee	17,600	1,600	D	19,200
Maint. Collection System	7,592	0		7,592
Maint. Treatment & Disp.	6,019	0		6,019
Maint. Other Plant	42,452	(25,912)	E	16,540
Agency Collection Fee	17,534	0	F	17,534
Office Supplies & Other	208	0		208
Outside Services	4,189	0		4,189
Insurance Expense	900	4,878	G	5,778
Rate Case Expense	1,968	(1,968)	H	0
Misc. General Expense	358	0		358
Rent	0	1,200	I	1,200
Total O&M expenses	\$ 161,648	\$ (23,838)		\$ 137,810
Depreciation Expense	6,957	(3,105)	J	3,852
Amortization Expense	0	890	K	890
Taxes Other Than Income	4,616	0		4,616
Total Operating Expenses	\$ 173,221	\$ (26,053)		\$ 147,168
Net Operating Income	\$ (56,329)	\$ 66,544		\$ 10,215

A. Operating Revenues. Coolbrook proposes to increase its operating revenues from sewer rates by \$40,491 to reflect the effect of the rate increase that was granted in Case No. 2010-00314 on June 6, 2011.⁵ Coolbrook reports that during the test period it provided sewer service to 435 customers. Applying the rates authorized in

⁵ Case No. 2010-00314, *Alternative Rate Filing of Coolbrook Utilities, LLC* (Ky. PSC Jun. 6, 2011).

Case No. 2010-00314 to the test-period level of customers of 435 results in normalized revenue of \$157,383, which is \$40,491 above the reported test-period level of \$116,892. Accordingly, Commission Staff recommends that the Commission accept Coolbrook's proposed adjustment.

Table 1: Normalized Revenues		
Monthly Flat Sewer Rate	\$	30.15
Multiplied by: No. of Bills	x	5220
Normalized Annual Revenues	\$	157,383
Less: Reported Test-Period Revenues	-	116,892
Pro Forma Adjustment	\$	40,491

B. Owner/Manager Fee. Coolbrook proposes to increase its test-period owner/manager fee from \$7,200 to \$15,000, an increase of \$7,800. According to Coolbrook, its owner and President, Larry Smither, spent 300 hours per year on Coolbrook matters. Applying an hourly rate of \$50 to the 300 annual hours, Coolbrook arrives at the requested owner/manager fee of \$15,000.

The Commission has previously stated that "the reasonableness of the [owner-manager] fee will depend on the circumstances of the particular utility, to include its owner's responsibilities and duties and the size and complexity of the sewer utility's operations."⁶ It further stated that, as payment of an owner-manager fee is not an arms-length transaction, the utility must demonstrate by substantial evidence that the fee is reasonable.

Coolbrook has not demonstrated that, given its operations, the fee being paid to Mr. Smither is reasonable. To support its contention that Mr. Smither spends approximately 300 hours per year managing Coolbrook's operations, it submitted a daily

⁶ Case No. 2007-00436, *Application of Farmdale Development Corporation for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* at 6 (Ky. PSC Jul. 30, 2008).

activity log that covers 45 noncontiguous days outside of the test period. This log shows that during this period Mr. Smither spent 47.5 hours on Coolbrook matters. However, 12 of these hours, or approximately 25.3 percent of the noted time, was rate-case related. Compensation for this time would not be included in pro forma operating expenses because of the nature of the work and because it was incurred outside the test period.

In reviewing the log, Commission Staff is of the opinion that the duties that Mr. Smither performs do not differ significantly from those of other similarly sized sewer utilities to require greater administrative oversight and a larger administrative salary. In fact, the majority of Coolbrook's operations are performed by outside or affiliated contractors (e.g., bookkeeping, plant operations, customer billing and collection).

In proceedings involving similarly-sized sewerage treatment facilities, the Commission has consistently found \$3,600 to be a reasonable amount for the owner/manager fee.⁷ In the absence of any factor that distinguishes Coolbrook's operations from those entities or the duties of Coolbrook's owners from those of other utility owners, Commission Staff recommends that the Commission deny Coolbrook's adjustment to increase its owner/manager fee to \$15,000 and limit the owner/manager fee in this case to \$3,600, resulting in a decrease of \$3,600 to operating expenses.

⁷ Case No. 2007-00443, *South 641 Water Dist.* (Ky. PSC Dec. 20, 2007); Case No. 2008-00042, *Cedarbrook Treatment Plant* (Ky. PSC July 29, 2008); Case No. 2008-00355, *Thomas Country Estates Wastewater Treatment Plant* (Ky. PSC Oct. 24, 2008); Case No. 2008-00482, *Purchase Public Service Corp.* (Ky. PSC Mar. 24, 2009); Case No. 2008-00501, *Ledbetter Water Dist.* (Ky. PSC May 22, 2009); Case No. 2008-00506, *Powell's Valley Water Dist.* (Ky. PSC Apr. 14, 2009); Case No. 2009-00075, *Longview Land Co.* (Ky. PSC July 20, 2009); Case No. 2009-00227, *Middletown Waste Disposal, Inc.* (Ky. PSC Apr.30, 2010); Case No. 2009-00403, *Evergreen Disposal System, Inc.* (Ky. PSC July 29, 2010); Case No. 2010-00231, *Purchase Public Service Corp.* (Ky. PSC Sept. 9, 2010).

C. Fuel and Power Expense. Coolbrook proposed a total of \$28,355, an increase of \$1,247 over actual test-period expense. The increase was to normalize the expense for a rate increase by Coolbrook's supplier, Blue Grass Energy Cooperative Corporation ("Blue Grass"). Coolbrook states that on January 14, 2011, the Commission approved new rates for East Kentucky Power Cooperative ("EKPC"), resulting in an average increase of 4.6 percent to EKPC's distribution cooperatives. Applying the 4.6 percent to the 2010 expense of \$27,108 results in Coolbrook's proposed adjustment of \$1,247.

In Case No. 2010-00169,⁸ the Commission granted Blue Grass an increase in its energy charge rates to pass through the increase in the wholesale power costs resulting from the rate increase granted to EKPC. The percentage methodology proposed by Coolbrook fails to accurately reflect the effect that Blue Grass's rate increase will have on Coolbrook's pro forma fuel and power expense. Applying the energy charge contained in Blue Grass's current rate schedules will result in a more accurate and reasonable adjustment.

Coolbrook receives electric service at four different metering points and is billed with one rate classification, "SC-1 General Service (0-100 KW)." Applying the current energy rate⁹ to Coolbrook's 2010 Kilowatt Hour Usage, Commission Staff calculates a

⁸ Case No. 2010-00169, Application of Blue Grass Energy Cooperative Corporation for Pass-Through of East Kentucky Power Cooperative, Inc. Wholesale Rate Adjustment (Ky. PSC Jan. 14, 2011).

⁹ On May 31, 2011, the Commission established a new energy rate for the SC-1 Energy Schedule. This rate supersedes the rate to which Coolbrook refers in its application. See Case No. 2010-00497, *An Examination of the Application of the Fuel Adjustment Clause of Blue Grass Energy Cooperative Corporation From November 1, 2008 Through October 31, 2010* (Ky. PSC May 31, 2011).

pro forma decrease to purchased power expense of \$36. Accordingly, Staff recommends that the Commission deny Coolbrook's proposed adjustment and decrease purchased power expense by \$36.

D. Routine Maintenance Fees Expense. According to Coolbrook, its reported routine maintenance fee expense of \$17,600 only reflected 11 monthly payments and did not reflect the full cost of maintenance for the test period. To correct this error, Coolbrook proposes to increase this expense by \$1,600. Commission Staff finds Coolbrook's adjustment to be correct and recommends the Commission accept the proposed adjustment.

E. Maintenance of Other Plant. Coolbrook proposes to remove capital expenditures that were incorrectly included in its test period maintenance of other plant expense. Coolbrook's proposal would reduce the test-period level of this expense from \$42,452 to \$16,630, a decrease of \$25,912. Commission Staff agrees and recommends the Commission accept Coolbrook's proposed adjustment.

F. Agency Collection Fee. Coolbrook proposes to increase its test-period agency collection fee expense from \$17,534 to \$23,217, an increase of \$5,683. Currently, Farmdale Water District ("Farmdale District") performs Coolbrook's customer billing and collections and charges a fee of 15 percent of the amount collected. Coolbrook determined that its requested rates would produce an agency collection fee of \$28,971, \$11,605 above the test-period level.¹⁰ Coolbrook proposes to increase the agency collection fee expense by \$5,638, or one-half of the \$11,605 increase in billing fees that would result if the proposed rates were placed into effect. Coolbrook asserts

¹⁰ $435 \text{ (Customers)} \times \$37 \text{ (Requested Rate)} \times 12 \text{ (Months)} = \$193,140 \times 0.15 \text{ (Agency Collection Fee)} = \$28,971.$

that it is critical that the Commission recognize some billing and collection cost increase even if the actual increase in the fee is not totally recovered in its rates. Coolbrook asserts that its current billing and collection arrangement with the Farmdale District requires the adjustment.

This Commission has long been concerned with the high cost of the billing and collection services provided by the Farmdale District. In Case No. 2007-00436,¹¹ the Commission made the following finding's regarding the billing and collection fees being charged by the Farmdale District:

The Commission finds that, given the high level of expense and the questionable nature of Farmdale District's termination practices, the current arrangement does not appear reasonable. Based upon the rates that Farmdale proposes in its application, it will pay \$7.93 per month to Farmdale District for each bill collected. With each additional increase in the monthly sewer rate, an additional 15 percent of that increase must be added to customer bills and paid to Farmdale District, though no new service is provided. Such an arrangement is unreasonable on its face.¹²

In that proceeding, the Commission denied Farmdale Development Corporation's ("Farmdale Sewer") adjustment to the agency collection fee expense to reflect the effect of the requested revenue requirement and limited Farmdale Sewer's recovery of the agency collection fee expenses to the test-period expense level of \$8,091.¹³ The Commission also placed Farmdale Sewer on notice that in any future rate proceeding it

¹¹ Case No. 2007-00436, *Application of Farmdale Development Corporation for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 30, 2008).

¹² *Id.* at 12.

¹³ *Id.* at 15.

will be required to demonstrate the reasonableness of its agency collection fee expense and to show that it has undertaken reasonable efforts to develop an alternative to its present collection methods, including the conducting of its own billing and collection.¹⁴

In this current proceeding, Coolbrook states that, given the negative collection experience of other utilities, it has not advertised for bids nor considered doing the billing and collecting activity in-house. According to Coolbrook, a competitive bidding exercise required by the Commission in Case No. 2007-00436, did not yield attractive alternatives to Farmdale District. Coolbrook claims that collections are more efficiently and effectively performed by water utilities that may terminate water service if the entire bill, including the sewer portion, is not paid.

Coolbrook has provided no studies or factual evidence to support its contention that use of a water supplier is more cost-effective. No agreement between Farmdale District and Coolbrook for the termination of water service presently exists. Moreover, Farmdale District may not discontinue water service for a customer's failure to pay a bill owed for service provided by a sewer utility without Commission approval. Farmdale has not sought such approval from the Commission. Coolbrook has been unable to show that its proposed agency collection expense is reasonable and that it has undertaken all reasonable efforts to develop an alternative. For these reasons, Commission Staff recommends that the Commission deny Coolbrook's proposed

¹⁴ *Id.* The Commission has expressed similar concerns regarding the billing performed for Coolbrook's predecessors. See Case No. 8493, *Notice of Adjustment of Rates of 4-Way Enterprises, Inc. D/B/A Coolbrook Sewage Treatment Plant to Become Effective April 20, 1982* (Ky. PSC Nov. 4, 1982); Case No. 98-284, *The Application of 4-Way Enterprises, Inc., Coolbrook Sanitation Division For a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure For Small Utilities* (Ky. PSC Mar. 25, 1999).

adjustment and increase the agency collection by \$71 to reflect the level agreed to in the previous rate case.

G. Insurance Expense. Coolbrook proposed to increase its test-period insurance expense by \$4,878 to a pro forma level of \$5,778. This adjustment is supported by an invoice from Voit-Lee Insurance, Inc. Upon review of the supporting invoice, Commission Staff recommends that the Commission accept Coolbrook's proposed adjustment.

H. Rate Case Expense. Coolbrook reduced operating expenses by \$1,968 to eliminate rate case expenditures that it has proposed to recover by amortizing the cost over three years. Commission Staff is of the opinion that Coolbrook is correct and recommends the Commission accept the proposed adjustment. The amortization of rate case amortization is discussed in Adjustment K, Amortization Expense.

I. Rent. Coolbrook proposes to increase its test period operating expenses by \$1,200 to reflect its share of the office rent. Coolbrook currently shares an office with the other businesses owned by Mr. Smither in Crestwood, Kentucky. The \$100 per month represents Coolbrook's allocation of the costs associated with the office, which include: a landline telephone; an internet connection; a computer; a fax machine; a printer; a copy machine; and filing cabinets. In reviewing the benefits received by Coolbrook in sharing the office with affiliated companies, Commission Staff believes that the fee is reasonable and that the Commission should accept Coolbrook's proposed adjustment.

J. Depreciation Expense. Coolbrook proposes to decrease its test-year depreciation expense of \$6,957 by \$3,105 to reflect the amount of depreciation included

in the Stipulation Agreement in the previous rate case. Commission Staff finds Coolbrook's adjustment to be correct and recommends the Commission accept it as proposed.

K. Amortization Expense. Coolbrook proposes to increase operating expenses by \$4,312. Approximately \$1,232 of this amount purportedly reflects the amortization of rate case expenses incurred in Case No. 2010-00314. The remaining \$3,090 reflects the amortization of estimated rate case expenses incurred in the current proceeding.

It is a well-settled principle of utility law that rate case expenses must be included in the costs of operation in the computation of a fair return. Coolbrook has presented no evidence to demonstrate that the rates agreed to and approved in Case No. 2010-00314 failed to include rate case expense. In Case No. 2010-0036,¹⁵ the Commission made the following finding:

As the settlement agreement in each proceeding is silent on this issue, we cannot assume that parties agreed to the amortization of rate case expense any more than we can assume that parties did not establish rates providing for the immediate expensing of the full rate case expense. Accordingly, we find that the AG's proposed adjustment should be accepted. Any utility that enters a settlement agreement in a rate case proceeding and wishes to amortize the rate case expense incurred in that proceeding should ensure that the settlement agreement specifically addresses the issue of rate case expenses or request the creation of a regulatory asset for its rate case expenses for accounting purposes.

¹⁵ Case No. 2010-00036, *Application of Kentucky-American Water Company For An Adjustment of Rates Supported By a Fully Forecasted Test Year at 46* (Ky. PSC Dec. 14, 2010).

Accordingly, Commission Staff recommends that the Commission deny Coolbrook's adjustment to include the amortization of rate case expense for Case No. 2010-00314.

Coolbrook's rate case cost is comprised of accounting fees of \$2,400, postage and customer notice expenses of \$270, and anticipated legal fees of \$6,600. Upon review of the supporting invoices, Commission Staff finds that the fees are reasonable with the exception of the estimated legal fees which are not known or measurable. Commission Staff calculates a rate case amortization expense of \$890 based upon amortizing the allowable costs of \$2,670 over three years. Accordingly, Commission Staff recommends that the Commission deny Coolbrook's proposed adjustment, and instead increase operating expenses by \$890.

ATTACHMENT B
STAFF REPORT, 2011-00433
COMMISSION STAFF
RECOMMENDED RATE

	RATE	
Monthly Flat Rate		\$ 32.04

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