

River Road Disposal System

178 WALLEN DRIVE, VAN LEAR KY 41265

606 - 789 - 2080

November 10, 2011

RECEIVED

NOV 28 2011

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
KY Public Service Commission
PO Box 615
Frankfort, KY 40602

RE: Application for an Adjustment in Rates Pursuant to
the Alternative Rate Filing Procedure for Small Utilities

Dear Mr. Derouen:

Enclosed are an original and five copies of an application for rate adjustment for River Road Disposal System. Please be advised that the required written notice of the proposed rate adjustment has been mailed to each customer. A copy of this application has been mailed to the Office of the Attorney General.

Sincerely,

Marsha Cantrell
Secretary/Treasurer
River Road Disposal System

Enclosure

SUBMIT ORIGINAL AND FIVE ADDITIONAL COPIES, UNLESS FILING ELECTRONICALLY

RECEIVED

**APPLICATION FOR RATE ADJUSTMENT
BEFORE THE PUBLIC SERVICE COMMISSION**

NOV 28 2011

For Small Utilities Pursuant to 807 KAR 5:076
(Alternative Rate Filing)

PUBLIC SERVICE
COMMISSION

RIVER ROAD DISPOSAL SYSTEM
(Name of Utility)

178 WALLEN DRIVE
(Business Mailing Address - Number and Street, or P.O. Box)

VAN LEAR, KY 41265
(Business Mailing Address - City, State, and Zip)

(606) 789-2080
(Telephone Number)

BASIC INFORMATION

NAME, TITLE, ADDRESS, TELEPHONE NUMBER and E-MAIL ADDRESS of the person to whom correspondence or communications concerning this application should be directed:

MARSHA CANTRELL
(Name)

178 WALLEN DRIVE
(Address - Number and Street or P.O. Box)

VAN LEAR, KY 41265
(Address - City, State, Zip)

(606) 789-2080
(Telephone Number)

(Email Address)

(For each statement below, the Applicant should check either "YES" or "NO".)

- | | YES | NO |
|--|-------------------------------------|-------------------------------------|
| 1. a. In its most recent calendar year of operation, Applicant had \$5,000,000 or less in gross annual revenue. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| b. Applicant operates two or more divisions that provide different types of utility service. In the most recent calendar year of operation, Applicant had \$5,000,000 or less in gross annual revenue from the division for which a rate adjustment is sought. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 2. Applicant has filed an annual report with the Public Service Commission for the past year and the two previous years. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 3. Applicant's records are kept separate from other commonly-owned enterprises. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 4. a. Applicant is a corporation. A copy of its articles of incorporation and all amendments are attached to this application or were filed with the Public Service Commission in Case No. _____. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| b. Applicant is a limited liability company. A copy of its articles of organization and all amendments are attached to this application or were filed with the Public Service Commission in Case No. _____. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| c. Applicant is not a corporation or a limited liability company. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

- | | YES | NO |
|--|-------------------------------------|-------------------------------------|
| d. Applicant is a water district organized pursuant to KRS Chapter 74. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| e. Applicant is a water association organized pursuant to KRS Chapter 273. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 5. a. A paper copy of this application has been mailed to Office of Rate Intervention, Office of Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| b. An electronic copy of this application has been electronically mailed to Office of Rate Intervention, Office of Attorney General at rateintervention@ag.ky.gov. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 6. a. Applicant has 20 or fewer customers or is a sewer utility and has mailed written notice of the proposed rate adjustment to each of its customers no later than the date this application was filed with the Public Service Commission. A copy of this notice is attached to this application. (Attach a copy of customer notice.) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| b. Applicant has more than 20 customers, is not a sewer utility, and has included written notice of the proposed rate adjustment with customer bills that were mailed by the date on which the application was filed. A copy of this notice is attached to this application. (Attach a copy of customer notice.) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| c. Applicant has more than 20 customers, is not a sewer utility, and has made arrangements to publish notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in its service area, the first publication having been made by the date on which this Application was filed. A copy of this notice is attached to this application. (Attach a copy of customer notice.) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 7. Applicant requires a rate adjustment for the reasons set forth in the attachment entitled "Reasons for Application." (Attach completed "Reasons for Application" form.) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 8. Applicant proposes to charge the rates that are set forth in the attachment entitled "Current and Proposed Rates." (Attach completed "Current and Proposed Rates" form.) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 9. Applicant proposes to use its most recent annual report as the test period to determine the reasonableness of its proposed rates. This annual report is for the 12 months ending December 31, <u>2010</u> . | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 10. Applicant has reason to believe that some of the revenue and expense items set forth in its most recent annual report have or will change and proposes to adjust the test period amount of these items to reflect these changes. A statement of the test period amount, expected changes, and reasons for each expected change is set forth in the attachment "Statement of Adjusted Operations." (Attach a completed copy of appropriate "Statement of Adjusted Operations" form and any invoices, letters, contracts, receipts or other documents that support the expected change in costs.) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 11. Based upon test period operations, and considering any known and measurable adjustments, Applicant requires additional revenues of \$ <u>2,172.56</u> and total revenues from service rates of \$ <u>6,886.16</u> . The manner in which these amounts were calculated is set forth in the attachment "Revenue Requirement Calculation". (Attach a completed "Revenue Requirement Calculation" form.) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

- | | YES | NO |
|---|-------------------------------------|-------------------------------------|
| 12. As of the date of the filing of this application , Applicant had <u>10</u> customers. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 13. A billing analysis of Applicant's current and proposed rates is attached to this application. (Attach a completed "Billing Analysis" form.) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 14. Applicant's depreciation schedule of utility plant in service is attached. (Attach a schedule that shows per account group: the asset's original cost, accumulated depreciation balance as of the end of the test period, the useful lives assigned to each asset and resulting depreciation expense.) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 15.a. Applicant has outstanding evidences of indebtedness, such as mortgage agreements, promissory notes, or bonds. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| b. Applicant has attached to this application a copy of each outstanding evidence of indebtedness (e.g., mortgage agreement, promissory note, bond resolution). | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| c. Applicant has attached an amortization schedule for each outstanding evidence of indebtedness. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 16.a. Applicant is not required to file state and federal tax returns. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| b. Applicant is required to file state and federal tax returns. | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| c. Applicant's most recent state and federal tax returns are attached to this Application. (Attach a copy of returns.) | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 17. Approximately <u>\$0</u> (Insert dollar amount or percentage of total utility plant) of Applicant's total utility plant was recovered through the sale of real estate lots or other contributions. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

I am authorized by the Applicant to sign and file this application on the Applicant's behalf, have read and completed this application, and to the best of my knowledge all the information contained in this application and its attachments is true and correct.

Signed Marsha L Cantrell
Officer of the Company/Authorized Representative
 Title Sec/Treas
 Date 11-18-11

COMMONWEALTH OF KENTUCKY

COUNTY OF Johnson

Before me appeared Marsha L Cantrell, who after being duly sworn, stated that he/she had read and completed this application, that he/she is authorized to sign and file this application on behalf of the Applicant, and that to the best of his/her knowledge all the information contained in this application and its attachments is true and correct.

Jamie King Alder
 Notary Public
 My commission expires: 11/8/2015

LIST OF ATTACHMENTS
(Indicate all documents submitted by checking box)

- Applicant's Articles of Incorporation, Articles of Organization, or Limited Partnership Agreement.
- All amendments to Applicant's Articles of Incorporation, Articles of Organization, or Limited Partnership Agreement.
- Customer Notice of Proposed Rate Adjustment
- "Reasons for Application" Form
- "Current and Proposed Rates" Form
- "Statement of Adjusted Operations" Form
- "Revenue Requirements Calculation" Form
- "Billing Analysis" Form
- Depreciation Schedule
- Outstanding Debt Instruments (i.e., Bond Resolutions, Mortgages, Promissory Notes, Amortization Schedules.)
- State Tax Return
- Federal Tax Return

REASONS FOR APPLICATION FORM

(In the space below list all reasons why the Applicant requires a rate adjustment. Describe any event or occurrence of significance that may affect the Applicant's present or future financial condition, including but not limited to excessive water line losses, regulatory changes, major repairs, planned construction, and increases in wholesale water costs.)

The operating expenses have increased since the last rate case. For River Road to be able to provide adequate service to its ratepayers, the requested increase in the sewer rate is required.

CURRENT AND PROPOSED RATES FORM
(List Applicant's Current and Proposed Rates)

<u>Current Monthly Rate</u>	<u>Proposed Monthly Rate</u>	<u>Proposed</u>	
		<u>Amount</u>	<u>Percent</u>
\$39.28	\$57.38	\$18.10	46.08%

SCHEDULE OF ADJUSTED OPERATIONS FORM - SEWER UTILITY

TYE 12/31/20

	Test Year	Adjustment	Ref.	Pro Forma
<u>Operating Revenues</u>				
Sewage Service Revenues				
Flat Rate Revenues	4,713.60			4,713.60
Measured Revenues				0.00
Revenue from Public Authorities				0.00
Revenue from Other Systems				0.00
Miscellaneous Sewage Revenues				0.00
Total Sewage Service Revenues	<u>4,713.60</u>	<u>0.00</u>		<u>4,713.60</u>
Other Operating Revenues				
Forfeited Discounts				0.00
Miscellaneous Operating Revenues				0.00
Total Other Operating Revenues	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>
Total Operating Revenues	<u>4,713.60</u>	<u>0.00</u>		<u>4,713.60</u>
<u>Operating Expenses</u>				
Total Operation and Maintenance Expenses*	5,449.47	-271.12		5,178.35
Depreciation Expense	300.00	50.81	E	350.81
Amortization Expense	0.00	440.00	F	440.00
Taxes Other Than Income	90.66			90.66
Income Tax Expense	0.00			0.00
Total Operating Expenses	<u>5,840.13</u>	<u>219.69</u>		<u>6,059.82</u>
Utility Operating Income	<u>-1,126.53</u>	<u>-219.69</u>		<u>-1,346.22</u>

Instructions

Test Year amounts should be taken from the most recent annual report on file with the Commission.

Any known and measurable adjustments to Test Year amounts should be listed in the Adjustment column.

All adjustments should be referenced by listing a letter in the Ref. column and an explanation should be provided for each adjustment separately on the attached References page.

The amount listed in the Pro Forma column should reflect the Test Year amounts following any proposed adjustments.

For information about individual accounts please refer to the Uniform System of Accounts for the appropriate utility type.

* Total Operation and Maintenance Expenses should be calculated using the worksheet titled "Sewer Operations and Maintenance Expenses".

References

E. Depreciation

The cost of installing of new grates was originally expensed in the Pumping System account. River Road proposes to remove the cost from that account and to depreciate the cost of \$509 over 10 years, or \$51 per year. Therefore, River Road proposes to increase the Depreciation expense by \$51.

F. Amortization

River Road incurred a cost of \$2,200 to renew its Kentucky Pollutant Discharge Elimination System during the test period. This permit is effective for a period of five years. River Road proposes to amortize the cost of this permit over five years. The yearly amortized expense is \$440. Therefore, River Road increases the Amortization expense by \$440.

SEWER OPERATIONS AND MAINTENANCE EXPENSES

TYE 12/31/20 10

	Test Year	Adjustment	Ref.	Pro Forma
<u>Operation Expenses</u>				
Supervision and Engineering:				
Owner/Manager-Management Fee	0.00			0.00
Other Expenses	0.00			0.00
Labor and Expenses:				
Collection System-Labor, Materials and Expenses	0.00			0.00
Pumping System-Labor, Materials and Expenses	290.00			290.00
Treatment System:				
Sludge Hauling	0.00			0.00
Utility Service- Water Cost	184.17	-13.77	A	170.40
Other-Labor,Materials and Expenses	460.16	13.92	B	474.08
Rents	0.00			0.00
Fuel/Power Purchased for Pumping and Treatment	711.25			711.25
Chemicals	193.35			193.35
Miscellaneous Supplies and Expenses:				
Collection System	0.00			0.00
Pumping System	0.00			0.00
Treatment and Disposal	0.00			0.00
<u>Maintenance Expenses</u>				
Supervision and Engineering:				
Routine Maintenance Service Fee	2,462.47	237.53	C	2,700.00
Internal Supervision and Engineering	0.00			0.00
Maintenance of Structures and Improvements	0.00			0.00
Maintenance of Collection Sewer System	0.00			0.00
Maintenance of Pumping System	0.00			0.00
Maintenance of Treatment and Disposal Plant	508.80	-508.80	D	0.00
Maintenance of Other Plant and Facilities	0.00			0.00
<u>Customer Accounts Expenses</u>				
Supervision	0.00			0.00
Meter Reading Expenses and Flat Rate Inspections	0.00			0.00

	Test Year	Adjustment	Ref.	Pro Forma
<u>Customer Accounts Expenses-Continued</u>				
Customer Records and Collection Expenses:				
Agency Collection Fee	0.00			0.00
Internal Labor, Materials and Expenses	0.00			0.00
Uncollectable Accounts	0.00			0.00
Miscellaneous Customer Accounts Expenses	0.00			0.00
<u>Administrative and General Expenses</u>				
Administrative and General Salaries	0.00			0.00
Office Supplies and Other Expenses	139.27			139.27
Outside Services Employed	0.00			0.00
Insurance Expenses	0.00			0.00
Employee Pensions and Benefits	0.00			0.00
Regulatory Commission Expense	200.00			200.00
Transportation Expense	0.00			0.00
Miscellaneous General Expenses	300.00			300.00
Rents	0.00			0.00
Maintenance of General Plant	0.00			0.00
Total Sewer Operation and Maintenance Expenses	<u>5,449.47</u>	<u>-271.12</u>		<u>5,178.35</u>

INSTRUCTIONS

Test Year amounts should be taken from the most recent annual report on file with the Commission.

Any known and measurable adjustments to Test Year amounts should be listed in the Adjustment column.

All adjustments should be referenced by listing a letter in the Ref. column and an explanation should be provided for each adjustment separately on the attached References page.

The amount listed in the Pro Forma column should reflect the Test Year amounts following any proposed adjustments.

For information about individual accounts please refer to the Uniform System of Accounts for the appropriate utility type.

References

A. Water Cost

In an average month, River Road's water usage falls with the usage amount allowed for the minimum bill assessed by Paintsville Utilities. This usage equates to a monthly bill of \$14.20 or a yearly cost of \$170.40, which is \$14 less than the cost that it incurred in the test year. Therefore, River Road reduces its Water Cost expense by \$14.

B. Water Testing

Currently, River Road pays McCoy & McCoy \$118.52 every 3 months for water testing. This quarterly expense yields a normalized annual expense of \$474.08. This amount is an increase of \$14 over the test year expense. Therefore, River Road increases its Water Testing expense by \$14.

C. Maintenance Fee

The certified operator who River Road currently employs increased his monthly fee to \$225. This action results in a normalized yearly expense of \$2,700, an increase of \$238 over the test year expense. Therefore, River Road increases its Maintenance Fee expense by \$238.

D. Pumping System

During the test year, River Road installed new grates. It expensed this cost instead of capitalizing it. River Road has reclassified this cost and remove the expense it from the Pumping System account.

REVENUE REQUIREMENT CALCULATION FORM - OPERATING RATIO METHOD

(This method is commonly used by investor owned utilities as well as non-profit entities that do not have long-term debts outstanding.)

Pro forma Operating Expenses Before Income Taxes	\$6,059.82
Operating Ratio	0.88
Sub-Total	6,886.16
Less: Pro forma Operating Expenses Before Income Taxes	-6,059.82
Net Income Allowable	826.34
Add: Provision for State and Federal Income Taxes, if Applicable (see footnote)	
Interest Expense	
Pro forma Operating Expenses Before Taxes	6,059.82
Total Revenue Requirement	6,886.16
Less: Other Operating Revenue	
Non-operating Revenue	
Interest Income	
Total Revenue Required from Rates for Service	6,886.16
Less: Revenue from Sales at Present Rates	-4,713.60
Required Revenue Increase	2,172.56

Required Revenue Increase stated as a Percentage of Revenue at Present Rates 46.09%

Provision for Income Taxes - Calculation of Tax Gross-Up Factor

Revenue	1
Less: 5% State Tax	-0.05
Sub-Total	0.95
Less: Federal Tax, 15% of Sub-Total	-0.1425
Percent Change in NOI	0.8075
Factor (Revenue of 1 divided by change in NOI)	1.23839
Times: Allowable Net Income	826.34
Net Income Before Taxes	1,023.33
Difference Equals Provision for State and Federal Income Taxes	196.99

Notes: (1) Natural gas utilities should deduct their cost of natural gas from pro forma operating expenses before performing the operating ratio calculation. The cost of natural gas should be added back and included in pro forma operating expenses when determining the total revenue requirement. (2) A provision for state and federal income taxes should only be included in the calculation of revenue requirements for utilities that file income tax returns and are liable for the payment of state and federal income taxes. Utilities whose income flows through to its owner's income tax returns for tax purposes should not include a provision for income taxes. (3) The conversion factor above is calculated using the minimum federal tax rate. Adjustment may be warranted where the actual federal tax rate exceeds the minimum federal tax rate.

BILLING ANALYSIS FORM - FLAT RATES

Revenue from Present/Proposed Rates

	<u>Current Rate</u>	<u>Proposed Rate</u>
Number of Customers	10	10
Flat Monthly Rate	\$39.28	\$57.38
Monthly Revenue	<u>\$392.80</u>	<u>\$573.80</u>
Number of Months	12	12
Annual Revenue	<u>\$4,713.60</u>	<u>\$6,885.60</u>