

Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfort, KY 40602

July 22, 2016

RECEIVED

JUL 26 2016

Re: Case No. 2016-00131 Oldham Woods Rate Application

Public Service
Commission

Dear Sirs:

Oldham Woods has reviewed the Commission Staff Report dated July 7, 2016, and provides the following response for the consideration of the Commission and its Staff. In summary, Oldham Woods wishes to emphasize that it does not desire - and cannot afford - to expend the money and time necessary for a formal hearing or conference in this case, so we respectfully ask that the Commission carefully consider these comments and then expeditiously issue a final Order to approve sorely needed rate relief as soon as is reasonably possible.

Background

Oldham Woods is a small sewer utility that serves approximately 126 homes in Oldham County. It began operations over 28 years ago, so the sewer plant is aging and in constant need of repairs, and the original plant is approaching the end of its depreciable (and useful) life within the next 10-15 years. At the end of 2015, it had total current assets of only \$2,164 cash, and it is frequently in need of personal loans in order to pay the bills. Oldham Woods has largely been a family-owned business since its inception, although the loss of several family members has caused a change of leadership several times in recent years.

Case Summary

Oldham Woods currently has a monthly sewer rate of \$36.07, and it proposes to increase this rate to \$44.15. The monthly rate was last increased in 2011 based on a rate application filed in 2010. In the current case, the Commission Staff recommends a 12.59% increase, to \$40.61, or an annual revenue increase of \$6,869.

Oldham Woods Specific Comments

Oldham Woods re-emphasizes that it does not desire and cannot afford a hearing in this matter, and wants to institute new rates as soon as possible. Whatever result the Commission renders will be accepted, although the utility's mounting repair bills may necessitate another rate case in the very near future if the revenue increase provided in this case is inadequate to pay the bills necessary to keep the plant operating smoothly.

It is worth noting that several aging, small sewer utilities in Kentucky have abandoned their plants in recent years. The PSC's current docket includes abandonment requests by the Ridgelea (Case No. 2016-00106) and Airview (Case No. 2016-00207) sewer systems. In addition, other abandonment requests have been granted for the Cedarbrook, Cedar Hills, and Friendly Park sewer utilities in recent years. One of the main reasons for this rate case is to preserve Oldham Woods Sanitation, and ensure that abandonment will not have to be a consideration.

As a “mom and pop” small sewer system, Oldham Woods Sanitation’s most critical need for smooth operations and compliance with environmental regulations is adequate cash flow. With only \$2,164 in cash, an aging plant, and several large repair bills in recent years, there has been inadequate cash flow and this case was filed as a result.

With this background in mind, here are some specific comments relative to the Commission Staff Report. First, I extend my appreciation to the Staff for their expeditious and professional handling of this case. I am pleased that they found merit in this case, and that they agreed with the need for a rate increase. I’m writing this letter because in considering this case, the Staff has made several judgment calls which are within their right, but which will restrict the cash flow needed to pay the bills.

For example, and perhaps most importantly from a cash flow standpoint, the Staff Report at pages 8-9 discusses costs associated with a gravel access road in recent years. Staff states that Oldham Woods spent \$5,560 in 2012, and then another \$6,000 (it was actually \$7,800) in 2014, to repair this road. (Please note that Oldham Woods’ depreciation schedule submitted with the application shows the correct total for these two costs as \$13,360, rather than the \$11,560 shown in the Staff Report.) Oldham Woods properly recognizes that these costs will not recur every year, but will likely recur every few years, due to the effect of rain and snow upon gravel roads, so therefore proposed to spread them over 5 and 10 years respectively to recover this substantial cost in a reasonable timeframe without undue burden upon either Oldham Woods or its customers, with the net result being a proposed annual recovery of \$2,270.

In response, Staff recommended depreciation of these costs over 35 years, which provides an annual recovery of only \$422. So from a cash flow standpoint, Oldham Woods expended \$13,360 to fix this road – one of many plant items in need of repair – but will not fully recover the cost until 2051, by which time many more road repairs will have been necessary. If this recovery situation repeats itself over and over again, it is easy to see why sewer systems such as Oldham Woods eventually become insolvent.

Similarly, Staff at pages 6-8 has recommended amortizing the costs of a disinfection system over 10 years; the cost of lagoon repairs over 10 years; and the cost of this rate case over 5 years. These recommendations, coupled with the 35-year recommended life for the gravel road, have reduced the revenue requirement by approximately \$4,846, as follows:

Recovery Item	Proposed yrs.	Staff	Proposed amount	Staff	Difference
Disinfection system	1	10	\$2,270	\$227	\$2,043
Gravel access road	5/10	35	\$1,712	\$422	\$1,290
Lagoon repairs	5	10	\$1,142	\$571	\$571
Rate case fees	3	5	\$900	\$540	\$360
			\$6,024	\$1,760	\$4,264
				Op. ratio	88%
				Rev. req.	\$4,846

The total outlays for these four items alone was \$22,240, but Staff is only recommending an annual recovery amount of \$1,760, meaning it will take over 12 years to recover the combined cost of these four items. In summary, these recovery periods associated with major, critically needed expenditures for small sewers such as OWS are perfectly within the rights of the Commission to make, but over time they severely hamper the viability of small privately-owned sewer systems, particularly because small systems lack the ready access to funding that is available to public systems or large investor-owned utilities.

Other Comments

Additional Gravel Access Road Repairs – The gravel access road repairs done in the past were of a “band-aid” nature, and additional, more permanent repairs will be necessary. I mention this not to recover these additional planned costs in this case, but rather to support the notion that our proposed recovery periods of 5-10 years for the past expenditures are reasonable. Included in this response is a copy of a bid for additional repairs for that road.

Berm Repair – The berm between the two lagoons was repaired this week for \$1,800. Bill is enclosed.

2016 aerator replacement – Also included is a receipt for a new aerator, which cost \$3,743.68 (paid out of pocket with a credit card due to lack of company funds). The approximate installation cost will be \$1,000. If this cost is depreciated over 5 years, the increased annual depreciation expense is \$949.

Just yesterday (7/21/16) I learned of two new expenses:

- 1) the lagoon partition needs to be replaced (at an as yet unknown, but significant cost), and
- 2) new Kentucky Administrative Regulations require daily plant equipment inspection, which will increase the plant operator's fees by \$540/month, or \$6480/yr.

In summary, Oldham Woods Sanitation's current income is insufficient to pay for large repair costs such as the access road, aerator replacement, and lagoon partition, as well as additional inspections and other unexpected expenses on a continuous basis. We therefore respectfully request that the Commission re-examine several of the judgment calls made in this case, examine the additional documentation provided herein, and consider approving additional revenue beyond that recommended in the Staff Report. Granting this request will help to forestall the need for another rate increase request in the immediate future.

Again, thanks to all for your consideration of the rate case and of this letter.

Sincerely,



Patience Martin, President
Oldham Woods Sanitation, Inc
PO Box 23226
Anchorage, KY 40223

R & R Septic & Excavation, LLC

1357 Bunk Road
Pleasureville, KY 40057

Invoice

Date	Invoice #
7/22/2016	720

Bill To
Oldham Wood Sanitation Inc. P.O. Box [REDACTED] Louisville, KY 40223

P.O. No.	Terms	Project

Quantity	Description	Rate	Amount
1	1 load of dirt	0.00	0.00
	load of Rip Rap	0.00	0.00
	Place dirt and rock on dam of lagoon	1,800.00	1,800.00
Public Service Commission 211 Sower Blvd. P.O. Box 615 Frankfort, KY 40602 Re: Case No. 2016-00131 Oldham Woods Rate Application			
		Total	\$1,800.00

Aquatic Control, Inc.
P.O. Box 100
Seymour, IN 47274
800-753-LAKE

Ticket Number
206673
Ticket Date
7/21/2016

Sales Region: Kentucky
Warehouse Region: Home Office Warehouse
Seller: CDR

Purchased by:
36955 - Oldham Woods Sanitation
PO Box [REDACTED]
Anchorage, KY 40223

Ship To:
Patience Martin
Oldham Woods Sanitation
PO Box [REDACTED]
Anchorage, KY 40223

Product ID	Description	Quantity	UOM	Price	Ext. Price
FOF126323	Power Unit, C2, 60Hz, 3HP, 208/230, 3Ph	1		\$3451.77	\$3451.77

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Carrier
Shipped from factory

Freight Quote Number County

Payment Method	Payment Amount	Sub Total	\$3451.77
AC Charge Acct.	3743.68	Shipping Cost	\$80.00
Credit Card	PO Number	Check Number	Tax Rate
Master Card	Zip 40223		6.000% Tax
		Grand Total	\$3743.68

Received By: _____

Re: Case No. 2016-00131 Oldham Woods Rate Application

To repair road, Larry Clark construction wrote that he would need to do the following work:

Form and pour 2 concrete pads apx 15' by 20' on each side of the existing concrete pad.

Furnish 2 loads of stone to grade under concrete, and build driveway to top of the lagoon at existing gate in fence.

Clean out at existing headwall in drainage ditch and install new gate to catch trash from clogging drainage pipe.

He did not itemize, but estimated that the cost to do this as well as another job not related to the road would be \$7800.

Cost to do just the above mentioned work on the road would be closer to \$7,500.