

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

In the Matter of:

APPLICATION OF FARMDALE DEVELOPMENT)
CORPORATION FOR A CERTIFICATE OF) CASE NO. 2006-00209
CONVENIENCE AND NECESSITY, AUTHORITY)
TO MAKE REPAIRS AND SURCHARGE FOR SAME)

POST HEARING BRIEF OF FARMDALE DEVELOPMENT CORPORATION

Comes the Applicant, Farmdale Development Corporation (“Farmdale”), by counsel, and for its Post Hearing Brief in support of its Application for Certificate of Convenience and Necessity and Authority to Make Repairs and Surcharge (“Application”) for same, states as follows.

I. THE EVIDENCE INTRODUCED AT THE HEARING ESTABLISHED THAT THE REMOTE LIFT STATION REQUIRES REPLACEMENT.

On May 22, 2006, Farmdale filed its Application with the Public Service Commission (“Commission”) seeking authority to replace the remote lift station to the Farmdale Wastewater Treatment Plant (“WWTP”). The remote lift station is necessary to pump the wastewater from approximately 25 homes in the Farmdale subdivision upgradient to the WWTP. The Farmdale WWTP has provided wastewater treatment to the residents of the Farmdale subdivision since the 1960's and Farmdale has owned and operated the Farmdale WWTP since it took over the system in approximately 1974. (See Cogan Prefiled Testimony, Paras. 3 & 9).

Since Farmdale has owned the WWTP it has performed repairs and preventative maintenance to the plant on a routine basis, including repairs and maintenance to the remote lift station. (See Cogan Prefiled Testimony, Para. 11; Smither Prefiled Testimony, Para. 10).

Lawrence W. Smither is the current record operator of the Farmdale WWTP and he testified that he inspects the remote lift station three (3) times a week. Mr. Coker operated the Farmdale WWTP prior to Mr. Smither. The Farmdale WWTP consistently meets State water quality standards. (See Cogan Prefiled Testimony, Para. 4). The remote lift station consists of a 60" by 10' fiberglass basin, two 5 horsepower 230 volt 3 phase grinder pumps, guide rail assemblies and control panel. (See Cogan Prefiled Testimony, Para. 5). A typical lift station has a life expectancy of twenty-five (25) years, and the remote lift station to the Farmdale WWTP is approximately forty (40) years old. (See Cogan Prefiled Testimony, Para. 3; Transcript, pp. 23, 24, 38 and 62.) The preventative maintenance and repairs performed on the remote lift station by Farmdale has significantly extended the life of the lift station, resulting in substantial savings to the ratepayers.

The remote lift station is now in failing condition and needs to be replaced. (See Cogan Prefiled Testimony, Para. 6; Smither Prefiled Testimony, Para. 5). Mr. Smither testified that the fiberglass basin of the lift station requires replacement since it is cracked and chipped, and the steel door is rusted through. The two pumps installed in the lift station are very old and in poor condition. Temporary repairs have been made to both pumps and either pump could fail at any time. Additionally, the guide rails attached to the guide rail assemblies to the remote lift station have completely rusted through. The remote lift station is in such poor condition that it would be fruitless to make further attempts to repair same. (See Smither Prefiled Testimony, Paras. 4 & 5).

The cost to replace the entire remote lift station is \$30,425 based on the quote obtained from Smither Consulting Service, which is attached as Exhibit A to the Prefiled Testimony of Mr. Smither and the Prefiled Testimony of Mr. Cogan. Additionally, the quote was issued on

September 27, 2005, and both Mr. Cogan and Mr. Smither testified that the cost to increase the remote lift station has increased by 10% since September 27, 2005. (See Cogan Prefiled Testimony, Para. 8; Smither Prefiled Testimony, Para. 7). The quote states:

The above pricing is good to the end of 2005. After that some increase may be necessary. Steel prices keep going up and the supplier of the lift station will probably have an increase of about 3 to 4% after the first of the year.

(See Exhibit A to Cogan Prefiled Testimony and Smither Prefiled Testimony).

There was no evidence introduced at the October 26, 2006 Hearing that the remote lift station does not need to be replaced, that its deterioration was due to improper maintenance or repair or that the cost to replace the remote lift station differs from the quote of \$30,425 provided by Smither Consulting Service, plus ten percent (10%) due to the delay from the date the quote was provided until the date of the hearing. Accordingly, Farmdale has established that a certificate should be issued authorizing the replacement of the remote lift station at a cost of \$30,425, plus ten percent (10%) due to the delay from the date the quote was provided until the date of the hearing.

II. THE EVIDENCE ESTABLISHED THAT THE COMMISSION SHOULD APPROVE A SURCHARGE TO PAY FOR THE REPLACEMENT OF THE REMOTE LIFT STATION.

The testimony of Mr. Cogan established that Farmdale does not have the revenue available to pay the substantial cost of the remote lift station for the Farmdale WWTP. Farmdale's maximum possible gross annual revenue, before the consideration of expenses, is currently \$56,235.60 per year. It's expenses are approximately \$71,326 per year. Therefore, the cost of the remote lift station, \$30,425, plus ten percent (10%), will have to be financed. Mr. Cogan testified that based on his thirty (30) years experience in the wastewater treatment plant business, Farmdale will be unable to obtain the necessary financing to enable it to replace

the remote lift station through a conventional commercial loan because it is a wastewater treatment plant. Banks and mortgage companies are reluctant to loan money to privately owned WWTPs, since they do not want to take the WWTP as collateral due to the negative factors involved in owning a WWTP or foreclosing on a WWTP, including the potential liabilities arising out of the operation of same and the numerous governmental regulations that have to be complied with when owning and operating a WWTP. (See Cogan Prefiled Testimony, Paras. 12 & 13).

As testified to by Mr. Cogan, in order to obtain a loan to finance the replacement of the remote lift station, the proceeds of the surcharge will be mortgaged to the financial institution to secure the loan of the monies needed to purchase the remote lift. Mr. Cogan, the sole shareholder of Farmdale Utilities, Inc., the company that owns the Farmdale WWTP, will also have to guarantee the loan or provide sufficient collateral for the loan from his personal assets. In order to ensure the availability of financing for the cost of the remote lift station, as well as to minimize the interest cost to rate payers, the Commission should impose a surcharge to recover the \$30,452, plus ten percent (10%) cost of the remote lift station over a three year period. The surcharge should also include the interest that would be incurred in financing this amount over a three year period using a ten percent (10%) interest rate. (See Cogan Prefiled Testimony, Paras. 12 & 13).

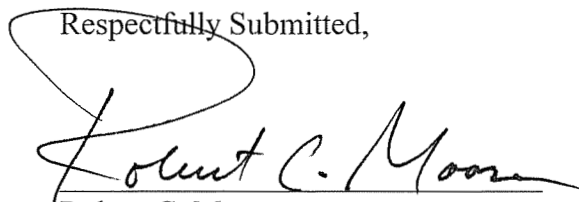
The Commission has exercised its authority to grant surcharges in a number of cases involving repairs to wastewater treatment plants and water systems. See Application of Airview Estates, Inc., Case No. 2003-0494, Application of River Bluffs, Inc., Case No. 95-365, Application of West Daviess County Water District, Case No. 93-103, The Application of Verna Hills, LTD., Case No. 9484 and Application of Hardin County Waster District No. 1,

Case No. 2004-00422. As in the above cited cases, Farmdale does not have the financial wherewithal to pay the cost to replace the failing remote lift station. This is particularly true where the Commission does not allow privately owned wastewater treatment plants to establish a sinking fund to pay for future repairs. Furthermore, the surcharge is necessary to ensure that Farmdale will be able to obtain financing through a loan guaranteed by the surcharge.

CONCLUSION

Based upon the above stated evidence, Farmdale requests the Commission to issue a Certificate authorizing the replacement of the remote lift station to the Farmdale WWTP at the cost of \$30,425, plus the ten percent (10%) increase in cost since the issuance of the quote. Farmdale further requests the Commission to authorize a surcharge to pay the cost of the remote lift station over a three year period, plus interest at the rate of ten percent (10%). Finally, Farmdale requests the Commission to authorize it to enter into a loan agreement with a financial institution so that it can obtain the funds necessary to replace the remote lift station.

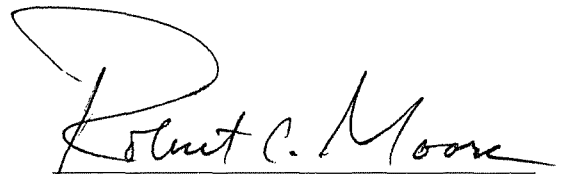
Respectfully Submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by first class mail, postage prepaid and by facsimile on David Edward Spenard, Assistant Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Ky., 40601-8204, and by first class mail, postage prepaid on Beverly J. Hunt, 304 Peachtree Road, Frankfort, Kentucky 40601-8141, Kenny and Marilyn Glass, 223 Briarwood Drive, Frankfort, Kentucky 40601 and Mary Pennington, 210 Cherry Lane, Frankfort, Kentucky 40601, on this the 29th day of November, 2006.



Robert C. Moore