

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

In the Matter of:

APPLICATION OF FARMDALE DEVELOPMENT)
CORPORATION FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY, AUTHORITY)
TO MAKE REPAIRS AND SURCHARGE FOR SAME)

CASE NO. 2006-00209

RECEIVED

OCT 25 2006

PUBLIC SERVICE
COMMISSION

**PRE-FILED
TESTIMONY OF CARROLL F. COGAN**

1. What is your name and business address?

Answer: My name is Carroll F. Cogan, and my business address is 1706 Bardstown Road
Louisville, Kentucky 40205.

2. What is your relationship to Farmdale Development Corporation?

Answer: I am the President and sole shareholder of Farmdale Utilities, Inc., the Company that is
sole owner of Farmdale Development Corporation ("Farmdale"). Farmdale is a utility subject
to the jurisdiction of the Public Service Commission under KRS 278.010(3)(f).

3. How long has Farmdale owned and operated the Farmdale Wastewater Treatment
Plant ("WWTP") and how long has the plant and collection system been in operation?

Answer: Farmdale has owned and operated the Farmdale WWTP located in Franklin County,
Kentucky since approximately 1974. The wastewater treatment plant and collection system was
built in the 1960's and has provided wastewater treatment services for approximately 246
residential customers since that time.

4. Please provide a general description of the Farmdale WWTP.

Answer: The Farmdale WWTP is a package sewage treatment plant that has a collection system

with a remote lift station. The average daily treatment capacity of the Farmdale WWTP is 85,000 gallons. The plant consistently meets State water quality standards, but many parts of the plant and collection system, are in need of repair. The remote lift station is in poor condition and needs to be replaced.

5. Please describe the remote lift station that is the subject of this Petition for Certificate of Convenience and Necessity, as well as its condition.

Answer: The remote lift station for the Farmdale WWTP has been in operation since the late 1960's. This remote lift station, consisting of a 60" by 10' fiberglass basin, two 5 horsepower 230 volt 3 phase grinder pumps, guide rail assemblies and control panel, is in very bad condition and needs to be replaced immediately.

6. Please describe the maintenance and repairs performed on the remote lift station in late 2005 and 2006 and describe its condition.

Answer: The remote lift station is in a failing condition and it immediately needs replacement. The fiberglass basin requires replacement, as do the two pumps installed in the lift station and the guide rails. The Number 1 pump at the remote lift station was removed on February 8, 2006, after it failed and was then delivered to Quality Electric for repair. Temporary on-site repairs were made to the Number 2 pump at that time, and it was reinstalled and placed back in service. Service was again performed on the Number 2 pump on February 9, 2006 and February 18, 2006, in an attempt to keep the remote lift station operational. On February 24, 2006, the Number 1 pump was picked up from Quality Electric after the repairs to same had been completed and it was reinstalled in the remote lift station. The Number 2 pump was then removed and delivered to Quality Electric for repair. This pump was reinstalled after repair by Quality Electric. The repairs to the two pumps in the

remote lift station are only temporary repairs, and either or both pumps could fail at any time.

7. What was the total cost of the repairs to the remote lift station and other steps necessary to keep it operational?

Answer: The cost of the on-site repairs to the pumps, the repairs by Quality Electric and the re-installation of the pumps, which is only a temporary fix, was \$5,238.56. A new Ebara 5 horsepower grinder pump has been ordered at a cost of \$2,701.41, plus freight and tax, and an installation cost of \$400 will be incurred when it is placed into the remote lift station when the old Number 1 and Number 2 pumps fail. Therefore, the total cost incurred by Farmdale to temporarily keep the remote lift station operational is \$8,339.97.

8. What is the total cost to replace the remote lift station?

Answer: It will cost \$30,425 to replace the remote lift station. The cost of the new grinder pump and installation of same, \$3,101.41, is included in the \$30,425 cost to replace the entire lift station. The cost to increase the remote lift station has increased by 10% since September 27, 2005, the date upon which the prior quote was obtained. Farmdale will continue to incur extraordinary costs to keep the worn out remote lift station and pumps operational if it is not authorized to replace the remote lift station and pumps.

9. Why is the remote lift station required?

Answer: The remote lift station is necessary to pump the wastewater from a number of houses in the Farmdale subdivision to the Farmdale WWTP. The wastewater from these houses will not gravity-flow to the Farmdale WWTP.

10. Has the remote lift station been properly maintained by Farmdale and if so, why does it need to be replaced?

Answer: Yes, Farmdale has properly maintained the remote lift station, and it needs to be

replaced because it is worn out after approximately 40 years in service.

11. What steps have been taken to maintain the remote lift station since Farmdale became the owner and operator of the Farmdale WWTP?

Answer: Farmdale, its employees, subcontractors and operators, have performed preventative maintenance and repairs on the remote lift station, enabling it to remain in operation for approximately 40 years.

12. How does Farmdale propose to pay for the cost to replace the remote lift station?

Answer: Farmdale does not have the revenue available to pay the \$30,425 cost of the remote lift station for the Farmdale WWTP. Farmdale's maximum possible gross annual revenue, before the consideration of expenses, is \$56,235.60 per year. Its expenses are approximately \$71,326 per year. Therefore, the \$30,425.00 cost of the remote lift station will have to be financed. Farmdale is unable to obtain the necessary financing to enable it to replace the remote lift station through a conventional commercial loan. In order to obtain a loan to finance the replacement of the remote lift station, Carroll Cogan, the sole shareholder of Farmdale Utilities, Inc., the company that owns the Farmdale WWTP, will have to guarantee the loan or provide sufficient collateral for the loan from his personal assets. In order to avoid incurring this liability for an inordinate period of time, as well as to minimize the interest cost to rate payers, Farmdale requests authorization to impose a surcharge to recover the \$30,452 cost of the remote lift station over a three year period, plus the interest in the amount of \$4,918 that would be incurred in financing this amount over a three year period using a ten percent (10%) interest rate. Accordingly, each of Farmdale's 246 customers would be required to pay a surcharge of 3.99 per month.

13. What experience, if any, do you have in obtaining financing for WWTP projects

from banks and mortgage companies?

Answer: I personally have over 30 years of experience in attempting to secure financing from banks and mortgage banking institutions for work to be performed at privately owned WWTPs. A large portion of the 35 WWTPs that I owned were acquired from banks and mortgage bank institutions who had taken over failed developments in lieu of foreclosure and in many cases this included taking over the WWTP. In each case where a treatment system was involved, the bank or mortgage company could not get rid of the WWTP soon enough, even at a very low sale price compared to a “so-called” plant value. Banks and mortgage companies are reluctant to loan money to privately owned WWTPs, since they do not want to take the WWTP as collateral. There are a number of 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. Furthermore, there is no uniform way for a bank or mortgage company to perform a satisfactory appraisal of a WWTP. In my experience, the only way a bank or mortgage company will provide financing to a privately owned WWTP is if the financing is guaranteed by an individual associated with the WWTP.

14. Who provides quotes to replace the remote lift station at the Farmdale WWTP and what is each quote or bid?

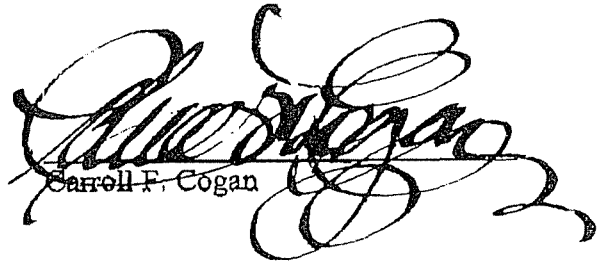
Answer: Larry Smither with Smither Consulting Company provided the quote indicating the cost to replace the remote lift station. The quote is attached as Exhibit A to my Pre-filed Testimony.

15. Is sewer service available to the Farmdale Subdivision from the City of Frankfort’s WWTP?

Answer: No, the City of Frankfort does not provide service to the Farmdale subdivision.

16. Does this conclude your pre-filed testimony?

Answer: Yes.

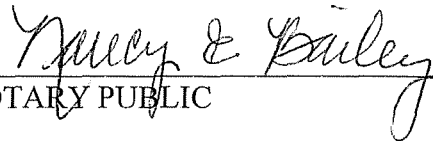

Carroll F. Cogan

STATE OF KENTUCKY

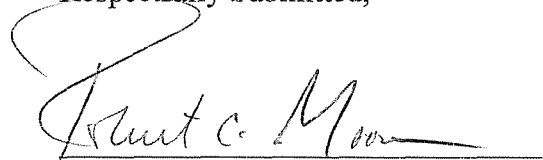
COUNTY OF Franklin

SUBSCRIBED AND SWORN to before me by Carroll F. Cogan, this the 25th day of October, 2006.

My Commission expires: 3/11/10.


NOTARY PUBLIC

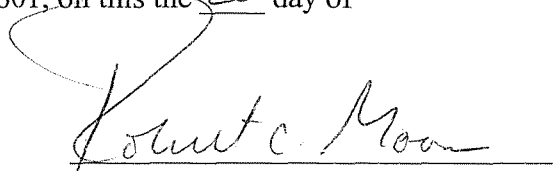
Respectfully Submitted,



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

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by first class mail, postage prepaid 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 25th day of October, 2006.



Robert C. Moore

**Smither Consulting Company
P. O. Box 1077
Louisville, KY 40014**

September 27, 2005

Revised Quote

Mr. Carroll Cogan
Farmdale Utilities
1706 Bardstown Road
Louisville, KY 40205

Re: Farmdale WWTP

Dear Mr. Cogan:

For your information, the following items of repair or replacement need to be considered for the very near future at the referenced facility:

1. The old grating on top of the lift station at the plant is deteriorated to the point that it is unsafe to step on. New grating needs to be installed.

\$1,405.00 Installed

2. The larger plant needs new diffuser drop pipes complete with diffusers. There are fourteen (14) drops in all.

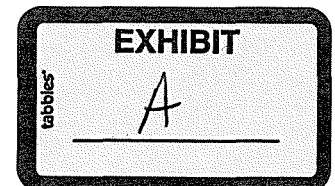
\$4,120.00 Installed

3. The small plant needs to be cleaned, scraped and painted outside and to the water line on the inside.

\$3,050.00

4. The small plant also needs a standby blower motor assembly. If the existing blower, which is quite old, should need repair there would then be nothing to aerate that plant. A new Roots 45 UR4I blower-motor assembly, complete with mounting base, all accessories, duplex control panel and installation would cost

\$9,320.00



5. The existing chlorine contact tank is in very bad condition and needs to be replaced with a new 1700 gallon steel tank.

\$17,225.00 Installed

Note: I would recommend that this be done after the tertiary lagoon is pumped down and cleaned out and before the secondary effluent is routed back into the lagoon.

6. The remote lift station, which consists of a 60" x 10' fiberglass basin, two (2) 5 H.P. 230 volt 3 phase grinder pumps, guide rail assemblies and control panel, is also in very bad condition and needs to be completely replaced.

\$30,425.00

Note: This price includes taking down the fence, removing trees, excavating around the existing station, furnishing the new fiberglass basin, pumps, control panel, taking out the old station, installing the new, making external piping connections, electric connections, back fill, finish grade, and reinstall the fence. Does not include tank truck expense to haul sewage away while station is out of service.

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.

No sales tax has been included.

If you have any questions or need additional information, please let me know.

Sincerely,

Lawrence W. Smither