

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF PURCHASE) CASE NO.
PUBLIC SERVICE CORPORATION) 2010-00231

ORDER

On June 10, 2010, Purchase Public Service Corporation ("Purchase") submitted its application for Commission approval of proposed sewer rates. Commission Staff has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments about Staff's findings and recommendations or requests for a hearing or an informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

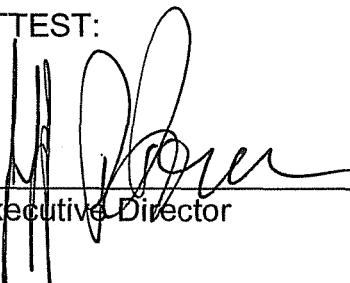
1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings set forth in the Staff Report and provide a brief summary of testimony that it would present at hearing.
3. A party's failure to object to a finding or recommendation contained in the Staff Report within 14 days of the date of this Order shall be deemed as agreement with that finding or recommendation.

4. If no request for a hearing or an informal conference is received within the 14 days, this case shall stand submitted to the Commission for decision.

By the Commission

ENTERED *sw*
AUG -3 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

STAFF REPORT
ON
PURCHASE PUBLIC SERVICE CORPORATION
D/B/A CARDINAL GROUP
CASE NO. 2010-00231

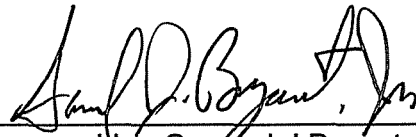
Pursuant to a request by Purchase Public Service Corporation ("Purchase") for assistance with the preparation of a rate application, Sam Bryant and Jason Green of the Commission Staff ("Staff") performed a limited review of Purchase's test year, the calendar year ending December 31, 2008, to determine the reasonableness of the application. The scope of Staff's review was limited to obtaining information as to whether the test year's operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

On June 10, 2010, with Staff assistance, Purchase submitted its application seeking to increase its rates for sewer service pursuant to Administrative Regulation 807 KAR 5:076. Purchase's current flat monthly rate is \$29.25 to each customer receiving sewer service. Purchase proposes to increase this rate 35.28 percent to \$39.57. According to the information provided in Purchase's application, the proposed rate will produce revenues of \$49,860.

This report summarizes Staff's findings and recommendations resulting from its review. Mr. Bryant is responsible for all areas of this report concerning revenue requirements, and Mr. Green is responsible for normalized revenues and rate design.

Attachment A of this report details Purchase's reported test year operations and Staff's adjustments thereto. Attachment A also includes narrative explanations for all test year adjustments proposed by Purchase and proposed by Staff.

Attachment B to this report shows the calculation of the revenue requirement of \$49,860, and Attachment C shows the rate that will produce the revenue requirement calculated at Attachment B.



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



Prepared by: Jason Green
Rate Analyst, Water and Sewer
Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
 OPERATING STATEMENT
 CASE NO. 2010-00231

	<u>2008 AR</u>	<u>Adjustments</u>		<u>Adjusted Balance</u>
Revenues-Residential	\$ 34,483	\$2,372	a	\$36,855
Forfeited Discount	<u>533</u>			<u>533</u>
Total Operating Revenues	\$ 35,016	\$2,372		\$37,388
<u>Operating Expenses:</u>				
Sludge Hauling	14,200	(7,298)	b	6,902
Water Costs	743			743
Material & expense	711			711
Fuel For Pumping & Treatment	5,499			5,499
Supplies & Expense	2,936			2,936
Routine Maint. Service Fee	17,743			17,743
Uncollectible Accounts	797			797
Office Supplies & Expenses	542			542
Outside Services Employed	1,127			1,127
Insurance Expenses	1,469			1,469
Regulatory Expenses	<u>56</u>			<u>56</u>
Total Sewer O&M Expense	\$45,823	\$(7,298)		\$38,525
Depreciation Expense	<u>2,585</u>	<u>2,767</u>	c	<u>5,352</u>
Total Operating Expense	<u>\$48,408</u>	<u>\$(4,531)</u>		<u>\$43,877</u>
Net Income	\$(13,392)	\$6,903		\$(6,489)

A. **Revenues** were adjusted for normalization. Purchase reported 105 customers in its application receiving sewer service. Purchase reported test year revenues of \$34,483. Staff recommends that test year revenue be increased by \$2,372 to \$36,855.

Present Flat Rate	\$	29.25
Times: Number of Customers		105
Times: 12 Months		12
Pro forma	\$	36,855.00
Less: Test Year	\$	<u>34,483.00</u>
Increase	\$	<u>2,372.00</u>

B. **Sludge Hauling Expense.** During the test period, Purchase experienced damage to its Holifield Heights treatment plant that necessitated hauling sludge away on a daily basis, resulting in an increased cost. After repairs, the expense returned to normal. In 2009, sludge hauling expense was \$6,902. This results in a decrease in expense of \$7,298.

C. **Depreciation Expense.** Purchase replaced the Holifield Heights lagoon during the test year at a cost of \$77,222. The depreciation expense for one year is \$3,089 (77,222/25 years). \$322 of the \$3,089 expense has already been recorded by Purchase during the test period. Therefore, the pro forma adjustment to this expense is an increase of \$2,767.

ATTACHMENT B
REVENUE REQUIREMENT
CASE NO. 2010-00231

Revenue Requirement

Adjusted Operating Exp.	\$43,877
Divided by .88	<u>\$ 5,983</u>
Revenue Requirement	\$49,860
Normalized Revenue	<u>\$ 36,855</u>
Increase Required	\$13,005

ATTACHMENT C
STAFF REPORT
CASE NO. 2010-00231

Flat Rate Residential

\$39.57

Mark Davis
Executive Officer
Purchase Public Service Corporation d/b/a
1002 Medical Drive
P. O. Box 5100
Mayfield, KY 42066