

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF RIVER ROAD DISPOSAL)
SYSTEM FOR AN ADJUSTMENT OF RATES) CASE NO. 2011-00458
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

ORDER

Pursuant to 807 KAR 5:076, River Road Disposal System ("River Road Disposal"), has applied for an adjustment of its monthly rate for sewer service. By this Order, the Commission authorizes an increase in the monthly rate from \$39.28 to \$57.38, an increase of 46.1 percent. The approved rate will produce additional annual revenues of \$2,172.56, a 46.1 percent increase over normalized test-period revenues from rates of \$4,713.60.

River Road Disposal System is a privately owned sewage collection and treatment system that provides sewerage service to ten customers in the Powell Addition Subdivision of Johnson County, Kentucky.¹ Its last general rate adjustment occurred in October 2001.²

¹ *Annual Report of River Road Disposal System to the Public Service Commission for the Calendar Year Ended December 31, 2010* ("Annual Report") at 1, 12. Commission records indicate that Rick Cantrell is the owner of River Road Disposal's facilities. See Case No. 96-458, *River Road Disposal System: Investigation Into the Jurisdictional Status of Sewage Treatment Facilities* (Ky. PSC Mar. 5, 1997). River Road Disposal's most recent annual report lists Marsha Cantrell as the responsible party for the facilities. *Annual Report* at 1.

² Case No. 2001-239, *The Application of River Road Disposal System for a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Oct. 11, 2001).

On November 28, 2011, River Road Disposal filed with the Commission its application for an adjustment of its monthly rate for sewer service. It proposed an increase in its monthly rate from \$39.28 to \$57.38, an increase of 46.1 percent. The proposed rate would produce additional annual revenues of \$2,172.56, a 46.1 percent increase over normalized test-period revenues from rates of \$4,713.60.

On February 1, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and River Road Disposal's operations during the test period. It found that, based upon River Road Disposal's test-period operations, River Road Disposal required total annual revenues of \$6,886.16 to meet its reasonable operating expenses and provide for reasonable equity growth. It further found that, to reach this level of revenue, River Road Disposal required a rate adjustment to generate additional annual revenue of \$2,172.56 over normalized revenue from rates of \$4,713.60.

River Road has responded to the findings and recommendation contained in Commission Staff's report. It stated no objections to those findings and recommendations and further advised that the matter should be submitted to the Commission based upon the existing record. The Attorney General, who was permitted to intervene in this matter on February 16, 2012, has likewise advised the Commission. Pursuant to the Commission's Orders of December 22, 2012 and February 16, 2012, this matter stands submitted for decision.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings and recommendations contained in Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2010, should be used as the test period to determine the reasonableness of River Road Disposal's existing and proposed rates.

3. Based upon pro forma test-period operations, River Road Disposal's pro forma annual revenues are \$4,713.60.

4. Based upon pro forma test-period operations, River Road Disposal's pro forma total operating expenses, after adjusting for known and measurable changes, are \$6,059.82.

5. The use of an operating ratio³ to determine River Road Disposal's total revenue requirement is appropriate.⁴

6. An operating ratio of 0.88 will permit River Road Disposal to meet its reasonable operating expenses and provide for fair and reasonable equity growth and should be used to determine River Road Disposal's total revenue requirements.

7. Applying an operating ratio of 0.88 to River Road Disposal's pro forma total operating expenses of \$4,713.60 produces a total revenue requirement of \$6,886.16. River Road Disposal requires \$2,172.56 of revenue more than its current monthly rate produces.

8. River Road Disposal's proposed monthly rates of \$57.38 will produce revenues of \$6,886.16 and should be approved.

³ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

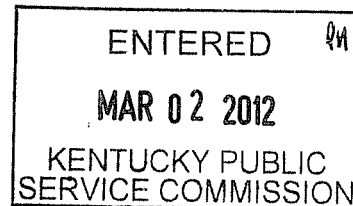
$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

⁴ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

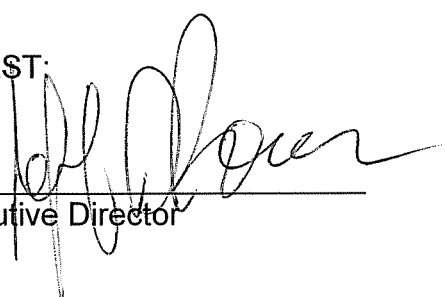
IT IS THEREFORE ORDERED that:

1. The findings and recommendations contained in Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.
2. A monthly rate of \$57.38 is approved for sewer service that River Road Disposal renders on and after the date of this Order.
3. Within 20 days of the date of this Order, River Road Disposal shall file a revised tariff sheet with the Commission setting forth the rate approved in this Order.
4. The informal conference and hearing scheduled in this matter are cancelled.
5. This matter is closed and shall be removed from the Commission's docket.

By the Commission



ATTEST:



Executive Director

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