

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF RIVER ROAD DISPOSAL)
SYSTEM FOR A RATE ADJUSTMENT PURSUANT) CASE NO.
TO THE ALTERNATIVE RATE FILING PROCEDURE) 2001-239
FOR SMALL UTILITIES)

ORDER

On July 31, 2001, River Road Disposal System ("River Road") filed its application for Commission approval of its proposed sewer rate. Commission Staff, having performed a limited financial review of River Road's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rate. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 17th day of September, 2001.

ATTEST:

By the Commission


Executive Director

STAFF REPORT
ON
RIVER ROAD DISPOSAL SYSTEM
CASE NO. 2001-239

Pursuant to a request by River Road Disposal System ("River Road") for assistance with the preparation of a rate application, Commission Staff ("Staff") performed a limited financial review of River Road's test year operations for the calendar year ending December 31, 2001. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of the review, Staff assisted River Road in the development and preparation of a rate application. The application included an adjusted pro forma operating income statement wherein adjustments were made to test year operating revenues and expenses that were known and measurable and deemed to be reasonable. The rate proposed by River Road was based on the pro forma income statement as shown in Attachment A of the application. Attachment A also includes the calculation of River Road's revenue requirement using an 88% operating ratio, which is frequently used by the Commission to determine revenue requirements for small sewer utilities. To generate the revenue requirement of \$4,713, River Road is proposing to increase its monthly rate for service to its 10 customers from \$17.00 to \$39.28, an increase of 131%.

It should be noted that River Road is a very small system with no plant assets reported on its PSC annual report, and therefore it has no depreciation schedule and no records to develop such a schedule. Its plant was originally constructed in 1968, and it is estimated that the plant would be fully depreciated if the appropriate records had been maintained.

In addition, River Road's operating expenses are minimal, totaling only \$2,695 for the year 2000 and \$4,147 when adjusted for known and measurable changes. Several expenses normally allowed by the Commission have not been incurred or requested by River Road. For instance, the Commission normally allows small sewer utilities to recover an owner/manager fee, generally \$3,600, to compensate for the duties and responsibilities of owning and managing a sewer utility. River Road is not charging such a fee. Commission Staff also noted during its review that River Road does not carry liability insurance on its system. Had these and other normal and reasonable operating expenses been incurred, River Road could have justified a higher revenue requirement.

On July 31, 2001, River Road filed its rate application to the Commission for consideration. Staff is hereby adopting the contents of that application as its recommendation in this report as if fully set out herein. Eddie Beavers is responsible for all revenue adjustments and calculation of the proposed rate. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on the information included in River Road's application, Staff is of the opinion that the rate proposed by River Road, as shown in Attachment A of this report, is reasonable and should be approved by this Commission.

Signatures:

Prepared by: Jack Kaninberg
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Eddie Beavers
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT CASE NO. 2001-239
STAFF'S RECOMMENDED RATE

Monthly Sewer Rate

\$39.28 per month