

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF RIVER BLUFFS, INC.)
FOR A RATE ADJUSTMENT PURSUANT TO) CASE NO.
THE ALTERNATIVE RATE FILING) 2001-00252
PROCEDURE FOR SMALL UTILITIES)

ORDER

On August 13, 2001, River Bluffs, Inc. (River Bluffs) submitted its application seeking to increase its rates pursuant to Administrative Regulation 807 KAR 5:076. However, there were deficiencies in the application and it was not considered filed until the deficiencies were cured. River Bluffs is a sewer utility that charges its customers a single class residential rate of \$36.55 per month, plus a surcharge of \$6.18 per month. In its application, River Bluffs proposed to increase its monthly rate to \$50.50 inclusive, an increase of approximately 15 percent over its existing rates.

Commission Staff (Staff) performed a limited financial review of River Bluffs operations, and on April 12, 2002 released its initial report containing Staff s findings and recommendations regarding the proposed rates. Pursuant to River Bluffs request, an informal conference was held on June 7, 2002. At the conference River Bluffs agreed to file supplemental information, which it filed on June 18, 2002. Based upon the issues raised at the June 7, 2002 informal conference and the supplemental information filed by River Bluffs, Staff amended its original findings and recommendations, which are contained in the amended report attached hereto.

The rates proposed by River Bluffs application were based on its determination that the utility's pro forma operations support a revenue requirement of \$106,050, an increase of \$28,422 or 36.6 percent above Staff's normalized revenue of \$77,628 from current rates. Staff's initial April 12, 2002 report recommended that River Bluffs be granted an increase in rates sufficient to produce annual operating revenues of \$82,486, an increase of \$4,858 or 6.3 percent above Staff's normalized revenues. Based on the additional information received since the June 7, 2002 informal conference, Staff now recommends in its amended report that River Bluffs be granted an increase in rates sufficient to produce annual operating revenues of \$87,592, an increase of \$9,964 or 12.8 percent above Staff's normalized revenues.

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

1. The recommendations and findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The rate recommended by Staff and contained in Attachment D to the attached report will produce Staff's recommended revenue requirement of \$87,592.

IT IS THEREFORE ORDERED that:

1. The recommendations and findings contained in the Amended Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The rate proposed by Staff and contained in Attachment D to the attached report is approved for service rendered by River Bluffs on and after the date of this Order.

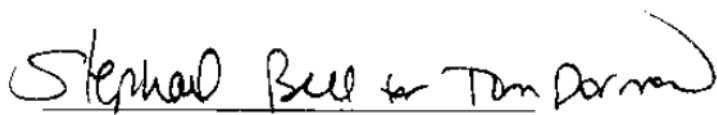
3. Within 30 days of the date of this Order, River Bluffs shall file with the Commission its revised tariff setting out the rates approved herein.

4. Three years from the date of this Order, River Bluffs shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rate approved herein is sufficient to meet its operating expenses and annual debt service requirements.

Done at Frankfort, Kentucky, this 29th day of July, 2002.

By the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF RIVER BLUFFS)	
DISPOSAL, INC. FOR A RATE ADJUSTMENT)	CASE NO.
PURSUANT TO THE ALTERNATIVE RATE)	2001-00252
FILING PROCEDURE FOR SMALL UTILITIES)	

AMENDED
STAFF REPORT

Prepared by: Mark C. Frost
Public Utilities Financial Analyst
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis

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

AMENDED
STAFF REPORT
ON
RIVER BLUFFS DISPOSAL, INC.
CASE NO. 2001-00252

On August 13, 2001, River Bluffs, Inc. (River Bluffs) submitted its application seeking to increase its rates pursuant to 807 KAR 5:076. However, it was not considered filed until September 17, 2001, the date the deficiencies in the application were cured. River Bluffs determined that its pro forma operations support a revenue requirement of \$106,050, an increase of \$28,422 or 36.6 percent above Staff s normalized revenue from rates of \$77,628.

In order to evaluate the requested increase Commission Staff (Staff) performed a limited financial review of River Bluffs test period operations for the 2000 calendar year. Mark C. Frost of the Commission s Division of Financial Analysis accompanied by David E. Spenard of the Office of the Attorney General, performed Staff s limited review on December 27, 2001, and January 11, 2002.

Staff s initial report was released on April 12, 2002, recommending River Bluffs be granted an increase in rates sufficient to produce annual operating revenues from sewer rates of \$82,486, an increase of \$4,858 or 6.3 percent above its normalized revenue from rates of \$77,628. The report also gave the parties leave to file written comments upon Staff s findings and recommendations or to request a conference or hearing no later than April 22, 2002.

In its filing of April 19, 2002, River Bluffs requested an informal conference be scheduled to address and resolve issues raised in the April 12, 2002 Staff Report. An informal conference was scheduled and held on June 7, 2002 at the Commission's offices in Frankfort, Kentucky. Based upon the issues raised at the informal conference and the supplemental information filed by River Bluffs on June 18, 2002, Staff has amended its original recommendations and findings, which are shown in the operating statement as set forth in Attachment A and the discussions of those amendments are contained in Attachment B.

As shown in Attachment C, Staff's amended operations, an allowance for income taxes and an 88 percent operating ratio, results in an amended revenue requirement from sewer rates of \$87,592 an increase of \$9,964 or 12.8 percent above Staff's normalized revenue from rates of \$77,628. The rate contained in Attachment D produces the revenue requirement determined reasonable herein and therefore, Staff recommends that the Commission accept that rate.

Signatures

Prepared by: Mark C. Frost
Public Utilities Financial Analyst
Water and Sewer Revenue
Requirements Branch
Division of Financial Analysis

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

ATTACHMENT A
 AMENDMENT TO STAFF REPORT
 CASE NO. 2001-00252
 STAFF S
 AMENDED OPERATIONS

	Pro Forma Operations	Amended Adjustments	Adj Ref	Amended Operations
Operating Revenues:				
Residential - Flat Rate	\$ 77,628	\$ 0		\$ 77,628
Interest	59	0		59
Surcharge Fees	0	0		0
Total Operating Revenues	<u>\$ 77,687</u>	<u>\$ 0</u>		<u>\$ 77,687</u>
Operating Expenses:				
Amortization - Tax Only	\$ 50	\$ 0		\$ 50
Collection Fee - Louisville Water	1,975	0		1,975
Amortization Expense	100	0		100
Salary	5,400	0		5,400
Rent	4,800	0		4,800
Office Supplies	282	0		282
Gas, Oil, & Misc. Equip Repairs	192	0		192
Electricity Expense	4,927	0		4,927
Water	81	0		81
Operations	9,600	0		9,600
Repairs - Pump	2,748	0		2,748
Repairs - Collection System	3,445	0		3,445
Telephone	744	480	(a)	1,224
Testing	9,360	0		9,360
Chemicals	835	0		835
Supplies	196	0		196
Repairs - Lift Station & Tanks	520	0		520
Repairs - Electrical Controls	1,019	0		1,019
Sludge Hauling	11,684	1,103	(b)	12,787
Postage	165	0		165
Seminars & Meetings	0	0		0
Misc. Labor	87	0		87
Bank Service Charges	95	0		95
Taxes	1,071	0		1,071
Casualty Insurance	587	0		587
Legal	0	0		0
Accounting	2,000	0		2,000
Subscriptions	501	0		501
Insurance	3,240	324	(c)	3,564
Charitable Contributions	0	0		0
Interest	0	0		0
Permits	340	0		340
Automobile Expense	407	0		407
Depreciation Expense	3,235	0		3,235
Amortization Expense	989	1,920	(d)	2,909
Payroll Taxes	0	599	(e)	599
Total Operating Expense	<u>\$ 70,675</u>	<u>\$ 4,426</u>		<u>\$ 75,101</u>
Net Income	<u>\$ 7,012</u>	<u>\$ (4,426)</u>		<u>\$ 2,585</u>

ATTACHMENT B
AMENDMENT TO STAFF REPORT
CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
AMENDED ADJUSTMENTS

(a) Telephone. In its application, River Bluffs proposed to increase its test-period telephone expense to reflect the estimated cost of installing a commercial telephone line. To support its proposed adjustment, River Bluffs provided a January 30, 2002, letter from BellSouth showing that the fee would be \$40 per month or \$480 annually. However, River Bluffs stated that it would postpone installing its new commercial telephone line until its rate application is granted.¹ Since River Bluffs was unable to commit to a date certain for installing its commercial telephone line, the proposed adjustment failed to meet rate-making criteria of being both known and measurable. Therefore, Staff recommended River Bluffs proposed adjustment be denied.

In its June 18, 2002 filing, River Bluffs made a commitment that its new commercial telephone line will be installed on August 1, 2002. Given this commitment and the previously submitted cost documentation, Staff believes that an adjustment to reflect the installation of the commercial telephone line now meets rate-making criteria of being both known and measurable. Accordingly, pro forma telephone expense has been increased by \$480 to reflect the annual cost of the commercial line.

(b) Sludge Hauling. In its application, River Bluffs proposed to increase its test-period sludge hauling expense by \$4,422 to a pro forma level of \$15,300 to reflect River Bluffs estimate that 15.3 loads of sludge will be removed per year at a cost of \$1,000 per load. In reviewing the James Headden Septic System (James Headden) invoices,

¹ Response to Item 2(a) of the First Data Request of the Commission Staff released January 24, 2002.

ATTACHMENT B
AMENDMENT TO STAFF REPORT
CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
AMENDED ADJUSTMENTS

Staff determined that in the test-period River Bluffs removed 24 loads or 118,000 gallons of sludge from its treatment system. James Headden is currently charging River Bluffs a sludge hauling fee of \$98 per 1,000 gallons. Based on this fee, Staff calculated a pro forma sludge hauling expense of \$11,684,² resulting in an increase of \$806.

In its June 18, 2002 filing, River Bluffs provided copies of the James Headden invoices for the test period and the 2002 calendar year. In its review of the 2002 invoices, Staff determined that 29 loads or 129,000 gallons of sludge were removed from River Bluffs facilities at a cost of \$12,787.³ Upon conferring with the Commission's Engineering Division, Staff believes that given the age and condition of River Bluffs treatment facilities, annual sludge removal of 129,000 gallons is a reasonable reflection of the ongoing level. Therefore, pro forma sludge hauling expense has been increased by \$1,103 to reflect the amended level of \$12,787.

(c) Insurance. In its application, River Bluffs proposed a pro forma level of insurance expense of \$9,600 to reflect an increase in health insurance deductibles. River Bluffs provides its two employees⁴ with 100 percent of their medical expense coverage, which includes premiums and deductibles. In its initial report, Staff cited River Bluffs last rate

² 118,000 (Gallons of Sludge) x \$98 (Rate per 1,000 Gallons) + \$120(Fuel Surcharge: \$5 x 24 Loads) = \$11,684.

³ 129,000 (Gallons of Sludge) x \$98 (Rate per 1,000 Gallons) + \$145 (Fuel Surcharge: \$5 x 29 Loads) = \$12,787.

⁴ Harold Helm, II President Owner/Manager
Anne Helm Vice President/Treasurer.

ATTACHMENT B
AMENDMENT TO STAFF REPORT
CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
AMENDED ADJUSTMENTS

proceeding,⁵ where the Commission found that the deductibles/co-payments are the personal responsibility of Mr. Helm, that Mr. Helm's employment status did not entitle him to family insurance coverage, and that Ms. Helm was not entitled to single coverage because she only held a part-time position with River Bluffs. Since, River Bluffs did not present any evidence in this proceeding to persuade Staff that the Commission's findings in the previous rate proceeding should be modified, insurance expense was decreased by \$5,690 to reflect the cost of Mr. Helm's single health insurance coverage.

In its June 18, 2002 filing, River Bluffs provided a statement from its insurance agent that the monthly cost of single health insurance coverage for Mr. Helm and Mrs. Helm would be \$297 and \$318, respectively. River Bluffs did not present any new evidence either at the informal conference or in its June 18, 2002 filing that would cause Staff to deviate from the previous Commission decision on the issue of health insurance coverage. However, insurance expense has been increased by \$324 to reflect the premium that became effective July 1, 2002.

(d) Amortization. River Bluffs originally estimated that this current proceeding would cost \$5,000. To support its estimate River Bluffs provided a letter from its accountant estimating that his fee would be \$650 and an invoice from Masters, Mullins & Arrington listing legal fees of \$3,807, but the invoice did not include a description of the services provided. Given River Bluffs failure to provide sufficient documentation of its actual rate

⁵ Case No. 95-365, The Application of River Bluffs, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure, Order dated May 9, 1996.

ATTACHMENT B
AMENDMENT TO STAFF REPORT
CASE NO. 2001-00252
STAFF S DISCUSSIONS OF ITS
AMENDED ADJUSTMENTS

case cost incurred to date, Staff did not include an adjustment to reflect rate case amortization.

In its June 18, 2002 filing, River Bluffs provided detailed invoices showing that its accounting and legal fees incurred in filing this rate case are \$650 and \$5,111, respectively. Amortizing these fees over a 3-year period results in a rate case amortization expense of \$1,920. Accordingly, pro forma operating expenses have been increased by that amount.

(e) Payroll Taxes. River Bluffs did not record the payment of payroll taxes in its test-period operations. However, at the informal conference Lamar Moore, River Bluffs accountant, stated that River Bluffs is now required to pay unemployment and FICA taxes. In its June 18, 2002 filing, River Bluffs provided a workpaper showing that based upon the salaries and wages included in the Staff Report, its payroll taxes would be \$599. Upon review of the workpaper, Staff believes that the calculation is accurate and, therefore, pro forma operating expenses have been increased by \$599 to reflect payroll taxes.

ATTACHMENT C
STAFF REPORT CASE NO. 2001-00252
DETERMINATION OF
REVENUE REQUIREMENT
AND INCREASE

	<u>Revenue Requirement</u>	
	<u>Initial</u>	<u>Amended</u>
	<u>Staff Report</u>	<u>Staff Report</u>
Operating Expenses	\$ 70,675	\$ 75,101
Divided by: Operating Ratio	÷ 88%	÷ 88%
Subtotal	<u>\$ 80,313</u>	<u>\$ 85,342</u>
Less: Operating Expenses	<u>- 70,675</u>	<u>- 75,101</u>
Net Operating Income after Income Taxes	\$ 9,638	\$ 10,241
Multiplied by: Gross-Up Factor	<u>x 1.2254902</u>	<u>x 1.2254902</u>
Net Operating Income before Income Taxes	\$ 11,811	\$ 12,550
Add: Operating Expenses	<u>+ 70,675</u>	<u>+ 75,101</u>
Revenue Requirement	<u><u>\$ 82,486</u></u>	<u><u>\$ 87,651</u></u>

	<u>Recommended Increase</u>	
	<u>Initial</u>	<u>Amended</u>
	<u>Staff Report</u>	<u>Staff Report</u>
Revenue Requirement	\$ 82,486	\$ 87,651
Less: Interest Income	<u>- 59</u>	<u>- 59</u>
Revenue Requirement from Rates	\$ 82,427	\$ 87,592
Less: Normalized Revenue from Rates	<u>- 77,687</u>	<u>- 77,687</u>
Recommended Increase	<u><u>\$ 4,740</u></u>	<u><u>\$ 9,905</u></u>

ATTACHMENT D
STAFF REPORT CASE NO. 2001-252
RECOMMENDED RATE

MONTHLY RATE

Residential Flat Rate	\$	41.25
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