

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION TO REQUEST COMMISSION)	
APPROVAL FOR AN INCREASE IN FARMDALE)	CASE NO.
DEVELOPMENT CORPORATION SEWAGE)	2006-00028
TREATMENT PLANT'S RATE PURSUANT TO)	
THE ALTERNATIVE RATE FILING PROCEDURE)	
FOR SMALL UTILITIES)	

O R D E R

Farmdale Development Corporation ("Farmdale") applied, pursuant to 807 KAR 5:076, for Commission approval of a monthly rate for sewer service of \$34.49, an 81 percent increase in its current rate, and for the assessment of a monthly surcharge of \$27.92 for 3 years to finance the cost of certain system repairs and improvements. By this Order, the Commission establishes base monthly rates in the amount of \$28.00 per customer. The Commission also establishes a monthly surcharge in the amount of \$9.92 per month for a period of 5 years or the collection of \$146,307.00, whichever occurs first.

BACKGROUND

Farmdale, a Kentucky corporation organized pursuant to KRS Chapter 271B, is a utility subject to Commission jurisdiction. It owns and operates wastewater collection and treatment facilities that serve approximately 246 customers for compensation in the Farmdale Subdivision of Franklin County, Kentucky. It last applied for a rate adjustment in 1997.

PROCEDURE

On January 12, 2006, Farmdale made its initial application for an adjustment of rates. On June 14, 2006, Farmdale applied for a Certificate of Public Convenience and Necessity ("CPCN") to replace a remote lift station that conveys wastewater to its wastewater treatment facilities in Franklin County, Kentucky, and for authority to assess a monthly surcharge of \$3.99 for a period of 3 years to finance the proposed replacement.¹ On June 14, 2006, Farmdale amended its application in the case sub judice to reflect its CPCN application and requested a separate, revised monthly surcharge of \$25.43. Farmdale's submission of the latter schedule of rates constitutes withdrawal of the original schedule of rates.

STIPULATION AND AGREEMENT

By Order dated February 27, 2007, the Commission ordered that an informal conference be convened on March 14, 2007 to consider the possibility of settlement, the simplification of issues, and any other matters that may aid in the handling and disposition of this case. A hearing was scheduled for March 15, 2007. The applicant Farmdale, the Office of Attorney General of the Commonwealth of Kentucky ("AG"), and customer intervenors Kenny and Marilyn Glass, along with Commission Staff, participated in the informal conference.²

The conference participants, having been unable to resolve all issues at the informal conference, agreed to reconvene on the following morning prior to the hearing

¹ The Commission docketed the CPCN case as Case No. 2006-00209, which was subsequently consolidated back into this Case No. 2006-00028.

² Intervenors Mary Pennington and Beverly J. Hunt did not participate in either the March 14, 2007 informal conference or the March 15, 2007 settlement negotiations and subsequent hearing.

with the goal of resolving some or all of the remaining issues. After significant review and discussion of the issues and their impact on the ratepayers and the utility, the attached Stipulation and Agreement was reached and has been filed with the Commission.³ The following is a brief synopsis of the Stipulation and Agreement:

1. Farmdale's rate should be a monthly rate for service and should be based upon serving 246 customers. Based upon an annual revenue requirement of \$82,629.00 and a customer base of 246 customers, Farmdale's monthly rate should be \$28.00.

2. Farmdale requires certain system improvements and repairs that are listed and described in Appendix A to the Stipulation and Agreement to maintain the continuity and reliability of the service provided to its customers. The reasonable cost of these repairs for purposes of rate recovery is \$146,307.00.

3. Assuming a customer base of 246 customers, a monthly surcharge of \$9.92 for a period of 5 years will generate \$146,307.00. Therefore, Farmdale should be allowed to collect a monthly surcharge of \$9.92 for a period of 5 years or collect \$146,307.00, whichever occurs first, for the purpose of recovering the costs of the repairs and improvements as agreed upon.

4. The loan to fund the surcharge and the completion of the surcharge repairs are to be completed pursuant to the timeline provided in the Stipulation and Agreement. Failure to timely obtain financing or complete the surcharge projects may

³ The AG participated in the conference held in this matter on March 14, 2007 and the settlement negotiations held prior to the scheduled hearing on March 15, 2007 and thereafter stated on the record that he had no objection to the terms of the attached Stipulation and Agreement.

result in suspension of the surcharge or termination of the surcharge and the refund of all surcharge proceeds.

The signatories to the Stipulation and Agreement agree that it is a mutually satisfactory resolution of all of the issues in this case. Therefore, they urge the Commission to accept this Stipulation and Agreement in its entirety. While the overall reasonableness of the Stipulation and Agreement is an important factor, the Commission is bound by law to act in the public interest and review all elements of the Stipulation and Agreement. In determining whether the results of the proposed settlement are in the public interest and beneficial to the ratepayers, the Commission considered the considerable effort made by the signatories to reach this Stipulation and Agreement and the participation of intervenors to ensure that a wide range of interests are represented.

5. The Stipulation and Agreement sets forth only the amount of revenue agreed to and not the underlying calculations and adjustments. In determining the overall reasonableness of the proposed total annual revenue requirement of \$82,629.00, the Commission evaluated Farmdale's proposed adjustments to capital, rate base, operating revenues, and operating expenses in light of our normal rate-making treatment. In addition, consideration was given to the rates of return on common equity authorized by the Commission in recent rate cases. Based upon a review of all of these factors and the evidence of record, the Commission finds that the annual revenue resulting from the Stipulation and Agreement falls within a range reasonable for both Farmdale and its ratepayers and will result in fair, just, and reasonable rates.

6. In determining the overall reasonableness of the proposed surcharge of \$9.92 per month for 5 years, the Commission carefully evaluated the requested improvements to be funded by the surcharge and determined that certain improvements and repairs were necessary and that \$146,307.00 is needed to fund these improvements and repairs. Farmdale initially requested a 3-year surcharge. However, the Commission agrees that by extending the surcharge an additional 2 years, the longer 5-year surcharge period, among other things, will more fairly allocate the expense to customers who will benefit from the improvements. A monthly surcharge of \$9.92 for a period of 5 years or the collection of \$146,307.00, whichever occurs first, for the purpose of recovering the costs of the necessary repairs and improvements is reasonable for both Farmdale and its ratepayers and will result in fair, just, and reasonable rates.

Based upon a review of all aspects of the Stipulation and Agreement, an examination of the record, and being otherwise sufficiently advised, the Commission finds that the Stipulation and Agreement is in the public interest and should be approved. The Commission's approval of this settlement is based solely on its reasonableness in toto and does not constitute the approval of any particular rate-making adjustment or revenue allocation.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Farmdale in its application are denied.
2. The rates and terms set forth in the Stipulation and Agreement are approved for service rendered by Farmdale on and after the date of this Order and will

produce gross annual revenues that are reasonable and will fund and ensure the necessary system improvements and repairs.

3. Within 30 days from the date of this Order, Farmdale shall file with this Commission revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 11th day of April, 2007.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00028 DATED April 11, 2007.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION TO REQUEST COMMISSION)	
APPROVAL FOR AN INCREASE IN FARMDALE)	
DEVELOPMENT CORPORATION SEWAGE)	CASE NO. 2006-00028
TREATMENT PLANT'S RATE PURSUANT TO)	
THE ALTERNATIVE RATE FILING PROCEDURE)	
FOR SMALL UTILITIES)	

STIPULATION AND AGREEMENT

This Stipulation and Agreement is made and entered March 30, 2007, by and between the Staff of the Public Service Commission of Kentucky ("Commission Staff"), Farmdale Development Corporation ("Farmdale"), and Marilyn and Kenny Glass.

WITNESSETH:

WHEREAS, Farmdale, a corporation organized pursuant to KRS Chapter 271B, owns and operates wastewater collection and treatment facilities that serve approximately 246 customers in the Farmdale Subdivision of Franklin County, Kentucky;

WHEREAS, Farmdale is a utility whose rates and service are subject to the jurisdiction of the Public Service Commission ("Commission");

WHEREAS, on January 12, 2006, Farmdale applied, pursuant to 807 KAR 5:076, for Commission approval of a monthly rate for sewer service of \$34.49, an 81 percent increase in its current rate, and for the assessment of a monthly surcharge of \$27.92 for 3 years to finance the cost of certain system repairs and improvements;

WHEREAS, the Commission docketed Farmdale's application as Case No. 2006-00028;

WHEREAS, on June 14, 2006, Farmdale applied for a Certificate of Public Convenience and Necessity to replace a remote lift station that conveys wastewater to its wastewater treatment facilities in Franklin County, Kentucky and for authority to assess a monthly surcharge of \$3.99 for a period of 3 years to finance the proposed replacement;

WHEREAS, the Commission docketed Farmdale's application for a Certificate of Public Convenience and Necessity and a surcharge as Case No. 2006-00209;

WHEREAS, on June 14, 2006, Farmdale amended its application in Case No. 2006-00028 to reflect its application in Case No. 2006-00209 and requested a monthly surcharge of \$25.43;

WHEREAS, on February 26, 2007, the Commission granted Farmdale's application for a Certificate of Public Convenience and Necessity to replace its lift station, but deferred all issues related to that facility's cost and financing to Case No. 2006-00028;

WHEREAS, on February 26, 2007, Commission Staff issued a report of its findings and recommendations regarding Farmdale's proposed rate adjustment;

WHEREAS, in its report Commission Staff found that, based upon Farmdale's operations for Calendar Year 2005 and considering pro forma adjustments as well as adjustments for known and measurable changes, Farmdale's pro forma operating expenses were \$70,714 and its revenue requirement was \$80,357;

WHEREAS, in its report, Commission Staff did not recommend approval of Farmdale's proposed surcharges;

WHEREAS, since the issuance of Commission Staff's report, Farmdale has submitted additional evidence regarding the cost of and need for the proposed repairs;

NOW, THEREFORE, the Signatories stipulate and agree:

1. Based upon its operations for Calendar Year 2005 and considering pro forma adjustments as well as adjustments for known and measurable changes, Farmdale's pro forma operating expenses are \$72,714.

2. An operating ratio of 88 percent should be applied to Farmdale's pro forma operating expenses to determine Farmdale's total annual revenue requirement. When such ratio is applied to the stipulated operating expenses, a total annual revenue requirement of \$82,629 results.

3. Farmdale's rate should be a monthly rate for service and should be based upon serving 246 customers. Based upon an annual revenue requirement of \$82,629 and a customer base of 246 customers, Farmdale's monthly rate is \$28.00.

4. A monthly rate of \$28.00 is a fair, just, and reasonable rate for the sewer services that Farmdale provides.

5. Farmdale requires the system improvements that are listed and described in Appendix A to maintain the continuity and reliability of the service provided to its customers. The reasonable cost of these repairs for purposes of rate recovery is \$146,307.

6. Assuming a customer base of 246 customers, a monthly surcharge of \$9.92 for a period of five years will generate \$146,307.

7. A monthly surcharge of \$9.92 for a period of five years or collection of \$146,307, whichever occurs first, for the purpose of recovering the costs of the repairs

and improvements set forth in Appendix A is fair, just and reasonable, provided the following conditions are imposed:

a. Assessment and collection of the surcharge may begin upon Commission approval.

b. Within 90 days of the date of the Order in which such surcharge is authorized, Farmdale will obtain financing for the repairs and improvements set forth in Appendix A. If Farmdale fails to obtain such financing within 90 days of Commission authorization of the surcharge, the proposed surcharge shall be temporarily suspended until Farmdale obtains such financing. If Farmdale fails to obtain such financing within 180 days of Commission authorization of the surcharge, the surcharge shall terminate and all surcharge proceeds shall be refunded.

c. Farmdale will complete the repairs and improvements set forth in Appendix A in accordance with the time schedule set forth in Appendix B.

d. Until all repairs and improvements are completed, Farmdale will file with the Commission and serve upon all parties in Case No. 2006-00028, a monthly written report on the status of such repairs and improvements. Farmdale will file this report no later than the last business day of the month. It will also provide Commission Staff with reasonable access to its facilities to inspect and verify the status of such repairs and improvements.

e. Upon completion of the 5-year period, Farmdale will apply to the Commission for a general rate adjustment.

f. If Farmdale fails to comply with any stated condition, the Commission may terminate the surcharge immediately and may order all collected surcharge proceeds be refunded.

8. Farmdale intends to finance the cost of the repairs and improvements set forth in Appendix A through a loan from a commercial bank.

9. Farmdale has yet to secure a loan to finance the cost of the repairs and improvements set forth in Appendix A.

10. Any interest expense for loans to finance the cost of the repairs and improvements set forth in Appendix A cannot be determined presently and any estimate of such expense at this time is speculative. Therefore, any surcharge or general rates that are approved in this proceeding for Farmdale should not reflect or include the recovery of any interest expenses that may be incurred in the future to finance these repairs and improvements.

11. Provided that Farmdale obtains a loan to finance these repairs and improvements through an arms-length transaction and under reasonable terms, the interest expense related to such loan would be reasonable and appropriate for recovery through general rates.

12. Upon obtaining a loan to finance the repairs and improvements, Farmdale intends to apply for a general rate adjustment pursuant to 807 KAR 5:076 to obtain recovery in its general rates for interest expense related to this loan.

13. Commission Staff will assist Farmdale in the preparation of any application for general rate adjustment pursuant to 807 KAR 5:076 to recover interest expense related to any loan to finance the system repairs and improvements set forth in Appendix B.

14. Nothing in this Stipulation and Agreement limits Farmdale's right to apply for a general rate adjustment while the surcharge is in effect.

15. Each signatory waives all right to a hearing in this matter and to cross-examine any witness unless the Commission disapproves this Stipulation and Agreement.

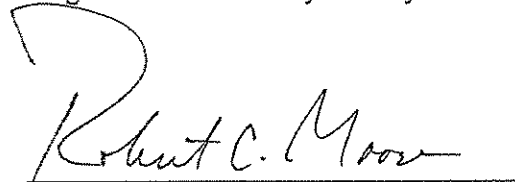
16. This Stipulation and Agreement is subject to the Commission's acceptance and approval.

17. If the Commission fails to accept and approve this Stipulation and Agreement in its entirety, this proceeding shall go forward and neither the terms of this Stipulation and Agreement nor any matters raised during settlement negotiations shall be binding on any signatory.

18. If the Commission accepts and adopts this Settlement Agreement in its entirety and enters an order in this proceeding to that effect, Farmdale and Kenny and Marilyn Glass shall not apply for rehearing in this proceeding nor bring an action for review of that order.

19. This Settlement Agreement is submitted for the purpose of resolving the administrative proceedings referenced herein and is not binding upon the signatories in any other judicial or administrative proceeding.

IN WITNESS WHEREOF, Commission Staff, Farmdale, and Kenny and Marilyn Glass, have executed this Stipulation and Agreement the day and year first above written.



Robert C. Moore
Hazelrigg and Cox, LLP
Post Office Box 676
Frankfort, Kentucky 40602

Counsel for Farmdale Development
Corporation

Kenny Glass

Kenny Glass, Pro Se
223 Briarwood Drive
Frankfort, Kentucky 40601

Marilyn Glass

Marilyn Glass, Pro Se
223 Briarwood Drive
Frankfort, Kentucky 40601

A. Rolt Cowan

Gerald Wuetcher
Robert Cowan
Post Office Box 615
Frankfort, Kentucky 40602

Counsel for Commission Staff

HAVE SEEN AND DO NOT OBJECT:

David Edward Spenard

David Edward Spenard
Assistant Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40601

Counsel for Office of Attorney General

APPENDIX A

SYSTEM REPAIRS AND IMPROVEMENTS

- Installation of Remote Lift Station Cost: \$30,425

Perform all repairs and install all facilities for which the Commission issued a Certificate of Public Convenience and Necessity in Case No. 2006-00209. A description of all equipment and services is set forth in the price quote of September 27, 2005 that Smither Consulting Company provided.

- Small Plant Maintenance Cost: \$ 3,050

- Supervision Cost: \$ 2,640

Addresses the cost of supervising the system repair work listed immediately below.

- System Repairs Cost: \$26,402

A description of the services involved is contained in the price quote that Martin's Pipeline Inspection submitted. These services include an examination of Farmdale's sewer collection mains with a video camera, main cleaning, removal of tree roots and the application of a root treatment. Services do not include repair of sewer collection mains, misaligned piping, and manholes.

- Chlorine Tank Cost: \$17,225

A description of the necessary equipment and necessary installation services is contained in the price quote that Smither Consulting Company provided.

- Standby Blower Motor Assembly Cost: \$ 7,815

A description of the necessary equipment is contained in the price quote that Tipton Environmental International, Inc. provided November 20, 2006. Installation services are also included in this cost.

- Lagoon Pumping and Cleaning Cost: \$58,750

A description of the pumping and cleaning services is set forth in the price quote of H&A Resource Management, which is found at Attachment E of Farmdale's Answer to Commission Staff's First Information Request.

APPENDIX B

TIMETABLE FOR COMPLETION OF
SYSTEM REPAIRS AND IMPROVEMENTS

Repair/System Improvement	Completion Within Number of Days After <i>Issuance of Commission Order</i>
Installation of Remote Lift Station	180 days
Completion of System Repairs (Video of collection mains, removal of tree roots, application of root treatment)	270 days
Replacement of Chlorine Tank	360 days
Purchase/Installation of Standby Blower Motor Assembly	360 days
Small Plant Maintenance	360 days
Removal of Sludge from Lagoon	360 days