

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF RIVER BLUFFS, INC. FOR)	
AN ADJUSTMENT IN RATES PURSUANT TO)	CASE NO.
THE ALTERNATIVE RATE FILING)	2007-00433
PROCEDURE FOR SMALL UTILITIES)	

ORDER

On October 3, 2007, River Bluffs, Inc. ("River Bluffs") applied to the Commission for an adjustment in water rates. Commission Staff, having performed a limited financial review of River Bluffs' operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 14 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or an informal conference.
2. Any party requesting a hearing shall include in its request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony that it would present at hearing.
3. 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.

Done at Frankfort, Kentucky, this 28th day of November, 2007.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Executive Director

STAFF REPORT
ON
RIVER BLUFFS, INC.
CASE NO. 2007-00433

Pursuant to a request by River Bluffs, Inc. ("River Bluffs") for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of River Bluffs' test period operations, the calendar year ending December 31, 2006. 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 its limited review, Staff assisted River Bluffs in the development and preparation of its rate application, which River Bluffs filed with the Commission on October 3, 2007. Staff hereby adopts the contents of River Bluffs' application as its recommendation in this report as if fully set out herein. Jason Green of the Commission's Division of Financial Analysis is responsible for the pro forma revenue adjustment and the calculation of the recommended rate. Mark Frost of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

On page 2 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, Exhibit B of the application and

Appendix B of Staff's Report, shows that River Bluffs' pro forma operations support a revenue requirement from water rates of \$125,597, an increase of \$36,497 or 40.962 percent above the normalized revenue from water rates of \$89,100. The rates proposed by River Bluffs will increase the average residential bill from \$41.25 to \$58.16, an increase of \$16.91 or 40.994 percent.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$125,597 will allow River Bluffs to pay its adjusted operating expenses, meet its debt service obligations, and provide for future equity growth. Staff further finds that River Bluffs' proposed rate, as calculated in Appendix B, will generate the annual revenue requirement of \$125,597 and is reasonable. Staff recommends that River Bluffs' proposed rate be approved.

Signatures

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

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

APPENDIX A
STAFF REPORT CASE NO. 2007-00433
PRO FORMA INCOME STATEMENT

<u>Account Titles</u>	<u>Test-Period Operations</u>	<u>Pro Forma Adjustments</u>	<u>Adj Ref</u>	<u>Pro Forma Operations</u>
Operating Revenues:				
Residential - Flat Rate	\$ 87,913	\$ 1,187	(a)	\$ 89,100
Operating Expenses:				
Operation & Maint. Exp:				
Owner/Manager Fee	\$ 3,600	\$ 0		\$ 3,600
Treat. Sys. - Sludge Hauling	13,048	1,650	(b)	14,698
Treat. Sys. - Water	563	0		563
Treat. Sys. - Routine Maint.	9,600	1,200	(c)	10,800
Rents	4,800	1,200	(d)	6,000
Fuel & Power	5,233	0		5,233
Chemicals	2,926	0		2,926
Misc Sup & Exp – Treat. & Disp.	423	0		423
Maint. - Pumping	637	0		637
Maint. - Treatment & Disp.	7,193	(2,193)	(e)	5,000
Maint - Other Plant:	3,352	0		3,352
Agency Collection Fee	2,346	2,346	(f)	4,692
Administrative & General	2,100	0		2,100
Office Supplies	1,987	0		1,987
Outside Services Employed	2,378	0		2,378
Insurance - Casualty	874	0		874
Insurance - Emp. Health	16,424	(11,460)	(g)	4,964
Misc. - Telephone	2,213	(811)	(h)	1,402
Misc. - Charitable Contrib.	785	(785)	(i)	0
Testing/Analysis	9,840	1,600	(j)	11,440
Total Operation & Maint. Exp.	\$ 90,322	\$ (7,253)		\$ 83,069
Depreciation	1,056	17,344	(k)	18,400
Amortization	673	0		673
Taxes Other than Income Tax	1,228	(175)	(l)	1,053
Total Operating Expenses	\$ 93,279	\$ 9,916		\$ 103,195
Net Operating Income	\$ (5,366)	\$ (8,729)		\$ (14,095)
Other Deductions:				
Interest Expense	0	5,156	(m)	5,156
Seminars; Memberships; & Sub.	1,222	(1,222)	(n)	0
Net Income	\$ (6,588)	\$ (12,663)		\$ (19,251)

- a. **Normalized Operating Revenue:** Revenue normalization using end-of-period customer level and the current tariffed rate.
- b. **Sludge Hauling:** Current sludge hauling fees and charges have been applied to the amount of sludge removed from the treatment facilities during the test-period.
- c. **Routine Maintenance:** To reflect the increased plant visits required by the Division of Water, the monthly fee has been increased from \$800 to \$900 per month.
- d. **Rent:** Office rent has been increased to reflect the current office rents charged in the general area.
- e. **Main Plant Repairs:** Items viewed as capital expenditures have been removed from test-period operating expenses. The collection line repairs will decrease the I/I problem, and therefore the cost of extra plant visits for storms has been removed. Depreciation of the capital expenditures is included in a separate adjustment.
- f. **Collection Fee:** The fee has been increased to reflect monthly billing by the Louisville Water Company.
- g. **Insurance - Health:** The current cost of health insurance coverage is being reduced by 50 percent to reflect the allocation of these costs to Mr. Helm's other business interests. Because the deductibles/co-payments, are the personal responsibility of Mr. Helm, they are not included in the allocation.
- h. **Telephone:** In Case No. 2001-00252, the Commission determined that 50 percent of the cellular telephone expense should be allocated to Mr. Helm's other business interests. Based upon this prior determination, Cellular telephone expense has been decreased by 50 percent.
- i. **Charitable Contributions:** The Commission previously found that charitable contributions are not a cost incurred in providing utility service and should be borne by the stockholder. Accordingly, these contributions have been removed from operating expenses.
- j. **Testing:** Testing expense has been increased to reflect the current fees.
- k. **Depreciation:** Depreciation increase has been adjusted to reflect: (1) removal of depreciation for plant that will be fully depreciated in 2007; (2) the capital items removed from test-period expenses; (3) a pump replaced post-test period; and (4) the renovations necessary to correct the I/I problems.
- l. **Corporate Income Taxes:** Income tax expense is removed because the allowance for this cost is included in the revenue gross-up calculation.
- m. **Interest:** Interest for the proposed 2 year term loan is included in test-period operations.
- n. **Seminars; Memberships; & Subscriptions:** To reflect the Commission's decision in Case No. 2001-00252 that costs of subscriptions are not warranted, they have been removed.

APPENDIX B
 STAFF REPORT CASE NO. 2007-00433
 REVENUE REQUIREMENT DETERMINATION
 AND CALCULATION OF THE RECOMMENDED RATE

Operating Ratio Determination

	Actual	Pro Forma
Operating Revenues	\$ 87,913	\$ 89,100
Divided by: Operating Expenses	÷ 93,279	÷ 103,195
Operating Ratio	94.247%	86.342%

Revenue Requirement

Operating Expenses	\$ 103,195
Divided by: Operating Ratio	÷ 88%
Revenue Requirement before Income Tax Gross-up & Interest Exp.	\$ 117,267
Less: Operating Expenses	- 103,195
Net Income After Income Taxes	\$ 14,072
Multiplied by: Income Tax Gross-up	x 1.2254902
Net Income Before Income Tax	\$ 17,246
Add: Operating Expenses	+ 103,195
Revenue Requirement before Interest Exp.	\$ 120,441
Add: Interest Expense	+ 5,156
Revenue Requirement - Sewer Rates	\$ 125,597
Less: Normalized Operating Revenue	- 89,100
Requested Increase in Revenue from Rates	\$ 36,497

Rate Determination

Requested Revenue Requirement	\$ 125,597
Divided by: 12-Months	÷ 12
Monthly Requested Revenue Requirement	\$ 10,466.40
Divided by: End-of-Period Customer Level	÷ 180.0
Monthly Rate per Customer	\$ 58.16