

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE R. A. WILLIAMS)	
DEVELOPMENT CO., INC. D/B/A)	
CEDARBROOK TREATMENT PLANT FOR THE)	CASE NO.
APPROVAL OF THE PROPOSED INCREASE IN)	2008-00042
RATES FOR WATER SERVICE)	

ORDER

On February 4, 2008, R. A. Williams Development Co., Inc. d/b/a Cedarbrook Treatment Plant ("Cedarbrook") applied to the Commission for an adjustment in water rates. Commission Staff, having performed a limited financial review of Cedarbrook's operations, prepared a report of its findings and recommendations which the Commission issued on April 1, 2008. Subsequently, Staff amended its findings and recommendations and has prepared an Amended Staff Report, which is attached hereto.

IT IS THEREFORE ORDERED that:

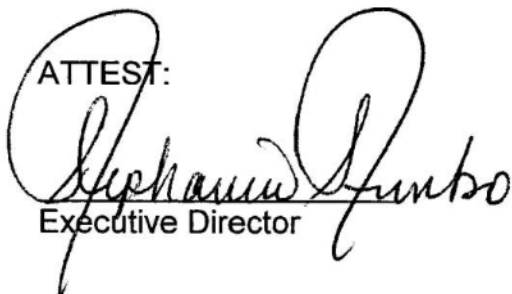
1. All parties shall, no later than 7 days from the date of this Order, submit written comments, if any, regarding the attached Amended Staff Report or requests for a hearing or an informal conference.
2. Any party requesting a hearing in this matter shall, with its request, identify the findings and recommendations of the Staff Report to which it objects and provide a brief summary of testimony that it expects to present at hearing.
3. If no request for a hearing or an informal conference is received within 7 days of the date of this Order, this case shall stand submitted for decision.

4. The procedural schedule set forth in Appendix A to our Order dated May 29, 2008 is suspended.

Done at Frankfort, Kentucky, this 24th day of June, 2008.

By the Commission

ATTEST:


Executive Director

AMENDED STAFF REPORT

ON

R. A. WILLIAMS DEVELOPMENT CO., INC.

D/B/A CEDARBROOK TREATMENT PLANT

CASE NO. 2008-00042

On February 4, 2008, R. A. Williams Development Co., Inc. d/b/a Cedarbrook Treatment Plant (“Applicant”) applied to the Commission for an adjustment in its sewer rate. Applicant proposes to increase its monthly rate for residential service from \$23.55 to \$62.00, an increase of \$38.45 or 163.2 percent. The proposed sewer rate will generate annual revenues of \$37,937, an increase of \$23,525 or 163.23 percent above the normalized revenue from rates of \$14,412.

Citing the proposed transfer of the wastewater treatment plant,¹ the Commission Staff (“Staff”) revised its original findings and recommendations by eliminating the \$12,000 management fee from Applicant’s pro forma operations and replacing it with a \$3,600 owner/manager fee. In defense of its position Staff stated:

[I]f the proposed transfer is approved the compensation paid to Mr. Cogan and Mr. Smither for their management duties will become a less-than-arms-length transaction. At that time Mr. Smither and Mr. Cogan will be entitled to be compensated for their managerial services and will be at liberty to share in any profits from the utility operations.²

Combining its revised pro forma operations with an 88 percent operating ratio, Staff calculated a revenue requirement from rates of \$28,392, \$9,545 below Applicant’s

¹ Case No. 2008-00040, Joint Application of R.A. Williams Construction Company, Inc. and Cedarbrook Utilities, LLC for Approval of the Transfer of Wastewater Treatment Plant to Cedarbrook, Utilities, LLC.

² Staff Report issued April 1, 2008, Exhibit B, Staff’s Revised Pro Forma Operations at 2.

requested revenue requirement of \$37,937. The revised revenue requirement of \$28,392 resulted in a flat residential rate of \$46.40.

In its June 13, 2008 Order, the Commission denied without prejudice the proposed transfer of the sewage treatment and collection facilities that serve the Cedarbrook Subdivision from Applicant to Cedarbrook Utilities, LLC. Given the Commission's decision, Staff is uncertain of when or if the transfer will take place, and therefore, is reversing its position on the management fee.

Amending Staff's original report to include the contract management fee results in an increase in Applicant's operating expenses of \$8,400³ and a corresponding increase to the revenue requirement of \$9,545⁴ to an amended level of \$37,937.⁵ Using its amended revenue requirement of \$37,937 and end-of-period customer level of 51, Staff calculates an amended monthly rate of \$62.⁶ The \$62 monthly rate will produce the revenue requirement determined reasonable herein of \$37,937, and therefore, Staff recommends that the Commission accept that rate.

³ \$12,000 (Contract Management Fee) - \$3,600 (Owner/Manager Fee) = \$8,400.

⁴ \$8,400 (Operating Expense Increase) ÷ 88% (Operating Ratio) = \$9,545.

⁵ \$28,392 (Staff's Original Revenue Requirement) + \$9,545 (Impact of Amended Expense Increase) = \$37,937.

⁶ \$37,937 (Amended Revenue Requirement ÷ 12 (Months) ÷ 51 (End-of-Period Customer Level) ≈ \$62.

Signatures

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