

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

R. A. Williams Construction Co., Inc. d/b/a Cedarbrook Treatment Plant (“Applicant”) applied to the Commission for an adjustment in water rates.¹ Applicant proposes to increase its monthly rate for residential sewer service from \$23.55 to \$62, an increase of \$38.45 or 163.2 percent. The proposed sewer rate will generate annual revenues of approximately \$37,937, an increase of \$23,525 or 163.23 percent above the normalized revenue from rates of \$14,412. By this Order, we approve the requested monthly rate for residential sewer service of \$62.

Commission Staff (“Staff”) performed a limited financial review of Applicant’s test-period operations, and on April 1, 2008 issued a report containing its findings and recommendations. Citing the proposed transfer of the wastewater treatment plant,²

¹ On February 4, 2008, Applicant tendered its Application to the Commission. On March 20, 2008, the Attorney General moved to intervene in this matter, which the Commission granted in its March 28, 2008 Order. Cedarbrook Utilities, LLC (“Cedarbrook”) submitted its motion to intervene on April 15, 2008, which was granted on April 22, 2008.

² 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.

Staff eliminated the \$12,000 management fee from Applicant's pro forma operations and replaced it with a \$3,600 owner/manager fee. Combining its pro forma operations with an 88 percent operating ratio, Staff calculated a revenue requirement from rates of \$28,392, \$9,545 below Applicant's requested revenue requirement of \$37,937. Staff's revenue requirement of \$28,392 resulted in a flat residential rate of \$46.40. By its Order of April 1, 2008, the Commission directed the parties to file any written comments upon Staff's findings and recommendations or to request a conference or hearing no later than April 15, 2008.

On April 15, 2008, Applicant and Cedarbrook moved for an extension of time to submit written responses to Staff's findings and recommendations and requested that an informal conference be scheduled. By our Order dated April 22, 2008, the Commission granted Applicant's and Cedarbrook's motions to extend the date to file written responses to Staff's findings and recommendations to April 22, 2008. Applicant and Cedarbrook submitted their written comments to Staff's findings and recommendations on April 21, 2008 and April 22, 2008, respectively. Pursuant to Applicant's and Cedarbrook's requests, an informal conference was held on April 30, 2008.

Based upon the issues raised at the informal conference, Applicant amended its application on May 9, 2008, to adjust its pro forma operating expenses to reflect operating costs that were not reported in the 2006 annual report. Finding it necessary to establish a procedural schedule to ensure the orderly and prompt review of the amended application, the Commission established a procedural schedule in this matter on May 29, 2008.

In light of the Commission's decision to deny without prejudice the proposed transfer of the sewage treatment and collection facilities that serve the Cedarbrook Subdivision from Applicant to Cedarbrook,³ Staff on June 24, 2008 issued an amended report in which it revised its recommendations regarding the contract management fee and recommended its inclusion in Applicant's pro forma operations. This recommended inclusion resulted in an increase to operating expenses of \$8,400⁴ and a corresponding increase to the revenue requirement of \$9,545.⁵ Using its amended revenue requirement of \$37,937⁶ and end-of-period customer level of 51, Staff calculated an amended monthly rate of \$62.⁷

On June 24, 2008, the Commission directed the parties to file any written comments upon Staff's amended findings and recommendations or to request a conference or hearing no later than July 1, 2008. In its comments submitted June 27, 2008, Applicant accepted Staff's amended findings and recommendations and requested that the Commission approve the \$62 per month rate determined reasonable by Staff.

In reviewing the record in this case, the Commission recognizes the significant difference between the management fee and owner/manager fee proposed by Staff.

³ Case No. 2008-00040, Order of June 13, 2008.

⁴ \$12,000 (Contract Management Fee) - \$3,600 (Owner/Manager Fee) = \$8,400.

⁵ \$8,400 (Operating Expense Increase) ÷ 88% (Operating Ratio) = \$9,545.

⁶ \$28,392 (Staff's Original Revenue Requirement) + \$9,545 (Impact of Amended Expense Increase) = \$37,937.

⁷ \$37,937 (Amended Revenue Requirement) ÷ 12 (Months) ÷ 51 (End-of-Period Customer Level) ≈ \$62.

The management contract between Applicant and Covered Bridge Utilities (“Covered Bridge”) is an arms-length transaction that was negotiated between two unaffiliated companies.⁸ The duties that are performed by Covered Bridge and listed in the contract are:

1. Supervise the daily operation of the facility, application of chemicals as needed and performance of daily maintenance and repairs as needed;
2. Communicate with the private laboratory performing the required analysis to comply with the requirements of the KPDES permit;
3. Perform a consulting inspection and complete an inspection report sheet thereafter on a monthly basis;
4. Perform the necessary accounting services, including the payment of bills and a written report of the status of the account.

The contract fee covers the costs of the above services, and it allows for recovery of overhead costs and profit to Covered Bridge. Upon review of the Staff’s recommendations and the management contract, the Commission finds that the management fee is reasonable in this instance.

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, as amended, are supported by the evidence of record and are reasonable.
2. Applicant’s proposed sewer rate will produce annual revenues of approximately \$37,937.

⁸ Staff Report issued by Order dated April 8, 2008, Appendix B at 2.

IT IS THEREFORE ORDERED that:

1. The recommendations and findings contained in the Staff Report, as amended, are adopted and incorporated by reference into this Order as if fully set out herein.

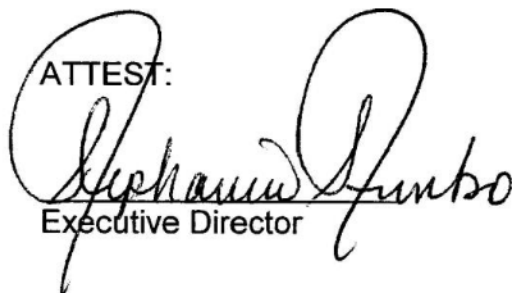
2. Applicant's proposed sewer rate, which is set forth in Appendix A, is approved for service rendered by Applicant on and after the date of this Order.

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

4. The hearing set for September 18, 2008 is cancelled.

Done at Frankfort, Kentucky, this 29th day of July, 2008.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00042 DATED JULY 29th, 2008.

The following rate is prescribed for the customers in the area served by R. A. Williams Construction Co., Inc. d/b/a Cedarbrook Treatment Plant. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

MONTHLY SEWER RATE

Residential Rate

\$ 62.00