

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR ALTERNATIVE ) CASE NO. 2013-00172  
RATE FILING OF FERN LAKE COMPANY )

ORDER

On April 30, 2013, Fern Lake Company ("Fern Lake") applied for a rate adjustment pursuant to 807 KAR 5:076. On July 29, 2013, after reviewing the application and Fern Lake's records, Commission Staff issued a report regarding the proposed rate adjustment. Commission Staff found that Fern Lake's proposed rates would generate additional revenues of \$64,596.<sup>1</sup>

Commission Staff did not make a finding regarding the revenue requirement necessary for Fern Lake's financial condition. Alternative revenue requirements were presented in the Staff Report due to concerns about a fishing club/boat dock that operates on the lake but does not contribute to any expenses incurred by Fern Lake.<sup>2</sup> One alternative revenue requirement was to grant Fern Lake's requested rate adjustment by increasing the minimum monthly purchase of 41,667,000 gallons from \$7,100 to \$12,483.<sup>3</sup> The other alternative revenue requirement was to reduce the cost from \$7,100 to \$6,581 for the minimum monthly purchase of 41,667,000 gallons by allocating 50 percent of the expenses to the fishing club/boat dock.<sup>4</sup>

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<sup>1</sup> Staff Report at 1.

<sup>2</sup> *Id.* at 8.

<sup>3</sup> *Id.* at Appendix A.

<sup>4</sup> *Id.* at Appendix B.

On August 12, 2013, both Intervenors, the Attorney General and Water Service Corporation of Kentucky,<sup>5</sup> filed responses to the Staff Report indicating approval of the rate reduction to \$6,581 for a minimum purchase of 41,667,000 gallons.

In Fern Lake's August 12, 2013 response to the Staff Report, expenses incurred filing for the rate adjustment were requested for the first time. Fern Lake also objected to any allocation of expenses to the fishing club/boat dock.

An informal conference was held on August 26, 2013, with all parties in attendance. Fern Lake expressed an interest in eliminating the fishing club/boat dock as a result of the allocation of expenses stated in the Staff Report.

On September 9, 2013, Fern Lake filed a Stipulation, Settlement Agreement and Recommendation ("Agreement") executed by Fern Lake, Water Service Corporation of Kentucky, and the Attorney General. Under the terms of the Agreement, Fern Lake agreed to accept rates for service that would produce additional annual revenues of \$54,905, \$9,689 less than its proposed rates would produce and to forego recovery through rates of any expenses incurred to bring its application.<sup>6</sup>

On September 10, 2013, the Commission conducted a hearing on the Agreement. The evidence from this hearing showed that all Fern Lake employees are related to Gary Asher and Larry Asher who each own 50 percent of Fern Lake; Fern Lake's two full time employees have additional employment at locations away from the lake; although Fern Lake reported that Thomas Lewis annually works 1,000 hours of overtime, Fern Lake does not keep records regarding the amount of overtime Mr. Lewis

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<sup>5</sup> Water Service Corporation of Kentucky is Fern Lake's sole customer.

<sup>6</sup> Agreement at 2.

works; and Fern Lake is uncertain whether health insurance coverage will be provided to its employees in 2014.

Fern Lake's employees consist of a married couple, Shelly and Thomas Lewis, who work full time for Fern Lake, and one of their children/step-children who works part time. Fern Lake provides health insurance to Ms. Lewis. This health insurance policy covers Ms. Lewis's family, and hence all of Fern Lake's employees. If Fern Lake provides family insurance coverage to Ms. Lewis in 2014, the annual cost of this coverage will be \$18,000. Commission Staff included this amount as an operating expense in its Pro Forma Operating Statement.<sup>7</sup> Family insurance is available to Ms. Lewis at an annual cost of \$7,200 through Bell County Board of Education, where she is employed as a full-time employee.

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The Agreement has not been shown by the record to be reasonable and should be rejected.
2. Comparable labor costs for work performed by Shelly Lewis and Thomas Lewis for Fern Lake need to be developed and included in the record.
3. An informal conference should be held to discuss the procedures that need to be followed to supplement the evidentiary record.
4. Another evidentiary hearing should be scheduled.

IT IS THEREFORE ORDERED that:

1. The Agreement tendered by Fern Lake is rejected.

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<sup>7</sup> Staff Report at 2.

2. An informal conference shall be held at the Commission's offices in Frankfort, Kentucky, to discuss procedural issues and any other matters that may aid in the handling or disposition of this case, beginning at 1:00 p.m. Eastern Standard Time, on November 21, 2013.

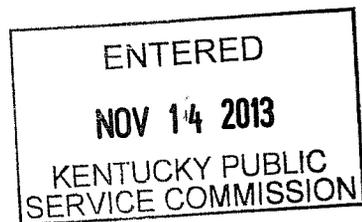
3. A public hearing for the purpose of cross-examination of witnesses of Fern Lake and Intervenor will be held at the Commission's offices in Frankfort beginning at 10:00 a.m. Eastern Standard Time, on December 16, 2013.

4. Pursuant to KRS 278.360 and 807 KAR 5:001, Section 9(9)(a), the record of the formal hearing in this matter shall be by videotape.

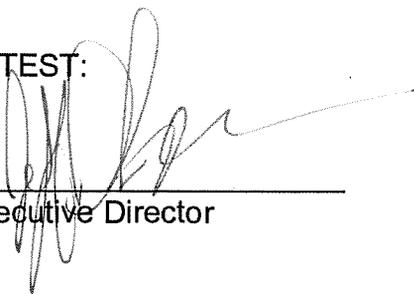
5. Commission Staff shall prepare a written list of all exhibits presented at the hearing and shall file this list, with all hearing exhibits, and a copy of the video transcript of the hearing with the Commission.

6. Any request to cancel or postpone this hearing shall be made by motion filed with the Commission at least one week before the hearing is scheduled to commence.

By the Commission



ATTEST:

  
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Executive Director

Case No. 2013-00172

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