

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT            )  
FILING OF EVERGREEN DISPOSAL        ) CASE NO. 2009-00403  
SYSTEM, INC.                                )

ORDER

On October 6, 2009, Evergreen Disposal System, Inc. (“Evergreen”) filed its application for Commission approval of proposed sewer rates. On March 16, 2010, Commission Staff prepared the initial report containing its findings and recommendations regarding the proposed rates. Pursuant to Evergreen’s request, an informal conference was held on April 27, 2010. Due to issues raised in the informal conference, Staff has amended the original findings, which are shown in this Amended Staff Report. All parties should review the amended report carefully and submit any written comments about Staff’s findings and recommendations or requests for a hearing or an informal conference no later than 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall have 14 days from the date of this Order to submit to the Commission written comments, if any, regarding the attached Amended Staff Report and to request a hearing or an informal conference in this matter.
2. Any party requesting a hearing in this matter shall state in its request its objections to the findings set forth in the Amended Staff Report and provide a brief summary of testimony that it would present at hearing.

3. A party's failure to object to a finding or recommendation contained in the Amended Staff Report within 14 days of the date of this Order shall be deemed as agreement with that finding or recommendation.

4. 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.

By the Commission

ENTERED  
JUL 12 2010 *M*  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
\_\_\_\_\_  
Executive Director

AMENDED STAFF REPORT  
ON  
EVERGREEN SEWAGE DISPOSAL, INC.  
CASE NO. 2009-00403

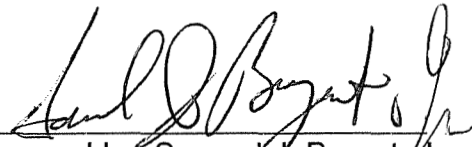
On October 6, 2009, Evergreen Disposal System, Inc. ("Evergreen") filed its application seeking to increase its rates for sewer service pursuant to Administrative Regulation 807 KAR 5:076. The test year upon which the application is based is the calendar year ended December 31, 2008. Evergreen's current flat monthly rate is \$27.47 for each customer receiving sewer service. Evergreen proposes to increase this rate by 45.6 percent to \$40.00. According to the information provided in Evergreen's application, the proposed rate will produce revenues of \$19,830. Evergreen's application does not clearly detail how the revenue requirement of \$19,830 was determined.

Sam Bryant and Jason Green of the Commission Staff ("Staff") performed a limited review of Evergreen's test-year operations to determine the reasonableness of the application and, on March 16, 2010, issued its initial report containing Staff's findings and recommendations regarding the proposed rates. Pursuant to Evergreen's request, an informal conference was held on April 27, 2010. Based upon the issues raised at the informal conference and the supplemental information filed by Evergreen on May 28, 2010, Staff has amended its original recommendations and findings, which are shown in the operating statement as set forth in Attachment A, and the discussions of those amendments are also contained in Attachment A.

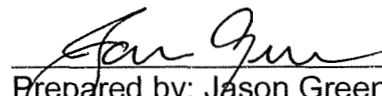
The rates proposed by Evergreen will not produce the amended revenue requirement of \$22,234 as calculated in Attachment A. However, the Staff believes that

the proposed rate of \$40 shown in Attachment B will generate sufficient revenue for Evergreen to pay its operating expenses and provide for equity growth, even though it will generate less revenue than found justifiable by Staff. Therefore, Staff recommends that the Commission accept Evergreen's proposed rate of \$40 as set out in Attachment B.

Should Evergreen decide to increase its rate to \$45.19 as shown in Attachment C to generate the revenue requirement found justifiable by Staff, it should amend its application to reflect that rate and provide the Commission with confirmation that it has published notice of that rate pursuant to 807 KAR 5:011, Section 8.



Prepared by: Samuel J. Bryant, Jr.  
Financial Analyst, Water and Sewer  
Revenue Requirement Branch  
Division of Financial Analysis



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

ATTACHMENT A  
 AMENDED STAFF REPORT CASE NO. 2009-00403

**PRO FORMA OPERATING STATEMENT**

	<u>Initial Staff Report</u>	<u>Supplemental Adjustments</u>		<u>Amended Staff Report</u>
<b>Revenues</b>	\$ 13,515	0		\$ 13,515
Total Revenues	\$ 13,515	0		\$ 13,515
 <b><u>Expenses:</u></b>				
Owner/Manager Fee	0	3,600	A	3,600
Operator Fee	5,100	0		5,100
Bookkeeping Fee	0	1,500	B	1,500
Sludge Hauling	875	0		875
Utility-Water	111	0		111
Fuel Purchased	1,250	0		1,250
Chemicals	168	0		168
Collection System	1,097	425	C	1,522
Maint. Structures & Improve.	968	0		968
Maint. Collection System	1,060	0		1,060
Maint. Pumping System	726	0		726
Meter Reading Flat Rate Insp.	1,055	0		1,055
Office Supplies and Expenses	196	0		196
Outside Services Employed	<u>600</u>	<u>0</u>		<u>600</u>
<b>Total Operating Expenses</b>	<b>\$ 13,206</b>	<b>\$ 5,525</b>		<b>\$ 18,731</b>
Taxes Other Than Income	<u>261</u>	<u>0</u>		<u>261</u>
<b>Total Expense Before Income Tax</b>	<b>\$ 13,467</b>	<b>\$ 5,525</b>		<b>\$ 18,992</b>
Operating Income	\$ 48	\$(5,525)		\$(5,477)

**EXPLANATION OF ADJUSTMENTS**

**A. Owner/Manager Fee.** At the informal conference, Evergreen informed the Staff that it had not been collecting the Owner/Manager Fee. In the past, the Commission has allowed an owner/manager fee for sewer utilities of \$3,600. Evergreen had not

proposed this fee before and the Staff believes it is justified. Therefore, Staff recommends an increase in Evergreen's expenses of \$3,600 for this fee.

**B. Bookkeeping Fees.** At the informal conference, Evergreen provided information showing that, during the test period, it had incurred \$1,500 in accounting and bookkeeping fees. Staff is of the opinion that these fees are reasonable and recommends that Evergreen's bookkeeping fees be increased by this amount.

**C. Maintenance of Collection System.** In the Staff Report, this expense was amortized over a three-year period as Staff believed the expense showed an unusual increase in the test year. At the informal conference, Evergreen provided invoices showing that its monthly testing expense had increased during the test year. The new rate was \$127 per month, which is \$1,522 per year, the amount Evergreen initially reported. Therefore, the Staff recommends increasing this expense by \$425 to 1,522.

**CALCULATION OF REVENUE REQUIREMENT**

	<b><u>INITIAL STAFF REPORT</u></b>	<b><u>AMENDED STAFF REPORT</u></b>
Operating Expenses Before Taxes	\$ 13,467	\$ 18,992
Divide By: Operating Ratio	<u>88%</u>	<u>88%</u>
Total Revenue Required Before Taxes	\$ 15,303	\$ 21,582
Less: Operating Expenses Before Taxes	<u>(13,467)</u>	<u>(18,992)</u>
Net Income Allowed After Taxes	\$ 1,836	\$ 2,590
Multiply By: Tax Gross Up Factor	<u>1.251564456</u>	<u>1.251564456</u>
Net Operating Income Before Taxes	\$ 2,298	\$ 3,242
Plus: Operating Expenses Before Taxes	<u>\$ 13,467</u>	<u>\$ 18,992</u>
Revenue Requirement	\$ 15,765	\$ 22,234
Revenue	100.00000	100.00000
Less: State Income Tax	<u>6.00000</u>	<u>6.00000</u>
Subtotal	94.00000	94.00000
Less: Federal Income Tax, 15% of Subtotal	<u>14.10000</u>	<u>14.10000</u>
Percent Change in NOI	79.90000	79.90000
Revenue Conversion Factor	1.251564456	1.251564456
(Revenue of 1 divided by Percent Change In NOI)		

ATTACHMENT B  
AMENDED STAFF REPORT CASE NO. 2009-00403  
PROPOSED MONTHLY RATE

**FLAT RESIDENTIAL RATE**

**\$40.00**

ATTACHMENT C  
AMENDED STAFF REPORT CASE NO. 2009-00403  
JUSTIFIED MONTHLY RATE

**FLAT RESIDENTIAL RATE**

**\$45.19**



Secretary Clarice Howard  
Evergreen Sewage Disposal System  
2770 Military Pike  
Lexington, KY 40513

Honorable David Edward Spenard  
Assistant Attorney General  
Office of the Attorney General Utility & Rate  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601-8204

Earlene P Stone  
President/secretary/treasurer  
Evergreen Sewage Disposal System  
650 Evergreen Road  
Frankfort, KY 40601