

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF OLDHAM) CASE NO. 2010-00432
WOODS SANITATION, INC.)

ORDER

Pursuant to 807 KAR 5:076, Oldham Woods Sanitation, Inc. ("Oldham Woods"), has applied for an adjustment of rates for sewer service. By this Order, the Commission establishes rates that will produce additional annual revenues of \$20,689, an increase of 80.3 percent.

Oldham Woods, a Kentucky corporation, owns and operates sewage treatment facilities that serve approximately 107 customers in the Oldham Woods and Turtle Creek Subdivisions of Oldham County, Kentucky. It has not previously applied for a rate adjustment. The rate that it assessed at the time of the filing of its application was established in 1988.¹

On November 5, 2010, Oldham Woods filed with the Commission its application for an adjustment of its monthly rate from \$20 to \$35, an increase of 75 percent.² On May 10, 2011, while its application was still undergoing review, Oldham Woods advised the Commission of its intent to place the proposed rates into effect subject to refund. On May 16, 2011, the Commission directed Oldham Woods to maintain its records in

¹ Case No. 9982, *A Request To the Public Service Commission For A Certificate of Convenience and Necessity and the Establishment of Sewer Rate For Oldham Woods Sanitation, Inc.* (Ky. PSC Sep. 2, 1988).

² The Attorney General is the only person who sought leave to intervene in this matter. The Commission granted his motion for intervention on December 1, 2010.

such a manner as to determine any amounts to be refunded in the event we ordered a refund.

On July 7, 2011, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and Oldham Woods' operations during the test period. It found that, based upon Oldham Woods' test-period operations, Oldham Woods required total revenues of \$46,309 to meet its reasonable operating expenses and earn a reasonable rate of return. It further found that, to reach this level of revenue, Oldham Woods required a rate adjustment to generate additional annual revenue of \$20,689, or 80.3 percent, over normalized revenue from rates of \$25,680. While noting that Oldham Woods' test-period operations supported a monthly rate of \$36.07, Commission Staff found that Oldham Woods' proposed monthly rate of \$35.00 would produce a positive cash flow and recommended its approval.

On July 7, 2011, the Commission directed all parties to respond to the findings and recommendation contained in Commission Staff's report within 14 days. We advised each party that its failure to object to a finding or recommendation contained in Commission Staff's report would be deemed as agreement with that finding or recommendation and a waiver of any right to subsequently object to that finding or recommendation. We further directed Oldham Woods to respond to Commission Staff's findings regarding the appropriateness of a monthly rate of \$36.07 and to state its intentions regarding that higher rate. Finally, we directed Oldham Woods, if it requested the monthly rate of \$36.07, to publish notice of such request and we specified the form of that notice.

On July 21, 2011, Oldham Woods requested a monthly rate of \$36.07 and advised the Commission of its mailing of notice of its request to its customers. No other

party to the proceeding has submitted comments on Commission Staff's report or offered any objections to Oldham Woods' request for the higher rate. The Commission has received a petition from 51 customers in which they voice their objections to the proposed rate adjustment.

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

1. The findings and recommendations contained in the Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2009 should be used as the test period to determine the reasonableness of Oldham Woods' existing and proposed rates.

3. Based upon pro forma test-period operations, Oldham Woods' pro forma annual revenues are \$25,680.

4. Based upon pro forma test-period operations, Oldham Woods' pro forma total operating expenses, after adjusting for known and measurable changes, is \$39,558.

5. Given that no basis exists to determine an appropriate rate of return for Oldham Woods, the use of an operating ratio³ to determine its total revenue requirement is appropriate.⁴

³ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

⁴ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hills Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

6. An operating ratio of 0.88 will permit Oldham Woods to meet its reasonable operating expenses and provide a fair and reasonable return for equity growth and should be used to determine Oldham Woods' total revenue requirements.

7. Applying an operating ratio of 0.88 to Oldham Woods' pro forma total operating expenses of \$39,558 produces a total revenue requirement of \$46,309, or \$20,689 more than the rates in effect as of November 5, 2010 produce.

8. Given Oldham Woods' end-of-test-period customer level of 107 customers and considering the effects of rounding, a monthly rate of \$36.07 will produce the required total revenue requirement.

9. Oldham Woods' proposed rate, as amended on July 21, 2011, will produce the required total revenue requirement and should be approved.


IT IS THEREFORE ORDERED that:

1. The findings and recommendations contained in the Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

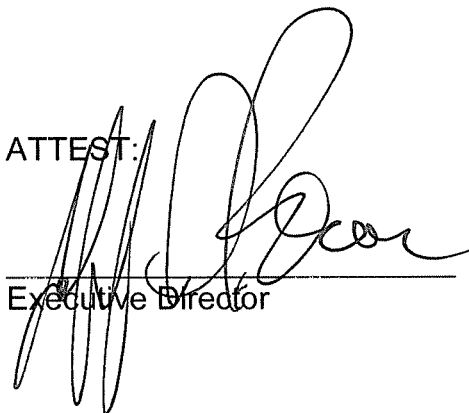
2. Oldham Woods is authorized to assess a monthly fee of \$36.07 for service rendered on and after the date of this Order.

3. Within 20 days of the date of this Order, Oldham Woods shall file a revised tariff sheet with the Commission setting forth the rates approved in this Order.

By the Commission

ENTERED 
SEP 01 2011
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2010-00432

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