

COMMONWEALTH OF KENTUCKY

BEFORE THE UTILITY REGULATORY COMMISSION

In the Matter of

AN ADJUSTMENT OF RATES)
OF KENTUCKY HILLS COM-) CASE NO. 7640
PANY SEWER SYSTEM)

O R D E R

SEWAGE SERVICE RATES

Preface

On October 26, 1979 the Kentucky Hills Company (Southwire Company d/b/a Kentucky Hills Company), hereinafter referred to as the Utility, filed with the Commission an application for approval of an adjustment of its sewage service rates and for approval of proposed revisions to certain parts of its rules and regulations. The rate adjustment sought by the Utility could increase annual revenues by approximately \$3,678 over test year revenues.

On November 20, 1980, the Utility filed a notification of its intent to begin charging its proposed rates on January 1, 1980. The Commission, in order to consider the reasonableness of the proposed rates, ordered their suspension for a five (5) month period beginning January 1, 1980 and ending May 31, 1980. Under authority of KRS 278.190, the Utility began charging the proposed rates on all billings for services rendered after June 1, 1980.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky February 21, 1980. All parties of interest were notified with the Consumer Intervention Division of the Attorney General's Office permitted to intervene in the matter. At the hearing, certain requests for additional information were made by the Commission staff. This information has been filed, and the entire matter is now considered to be fully submitted for a final determination by this Commission.

This Order addresses the matter of an adjustment of sewage service rates. A separate Order entered August 26, 1980 addressed the matter of an adjustment of water service rates.

Test Period

The Utility has selected the twelve (12) month period ending July 31, 1979, as the "Test-Year" and has submitted tabulations of its revenues and expenses for this period including its proforma adjustments thereto for the Commission's consideration in the determinations of rate adjustments. Said tabulations along with those found reasonable by this Commission are included in Appendix "B" of this Order.

Rate Determination - General Discussion

The Commission has traditionally considered the original cost of utility plant, the net investment, the capital structure, and the going concern in the determination of fair, just and reasonable utility rates. The Commission's experiences in the establishment or adjustment of rates for sewage utilities, however, has indicated that these valuation methods are not always appropriate. This has resulted in establishment of the "Operating Ratio Method"⁽¹⁾ by this Commission for the determination of rates for sewage utilities. It is recognized, however, that there are instances where arguments can be made for the utilization of methods other than the Operating Ratio Method.

Findings In This Matter

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds:

1. That in this instance, the determination of rates and revenue requirements should be based on the operating ratio method.
2. That the Utility pursuant to KRS 278.190 notified the Commission of its intent to begin charging its proposed rates

⁽¹⁾ Operating ratio is defined as the ratio of expenses, including depreciation and taxes to gross revenues.

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

for services rendered on and after January 1, 1980. Further, that the Commission, by its Order to suspend the proposed rates for a five-month period beginning January 1, 1980, established June 1, 1980, as the date that the Utility could begin charging its proposed rates. Further, that on or after June 1, 1980, the Utility did begin charging its proposed rates.

3. That June 1, 1980, is the date on which the rates fixed by this Order should become effective.

4. That according to the record in this matter, the Utility's existing rates produced gross revenues of \$11,697 from an average of 88 customers receiving sewage service during the twelve month test period ending July 31, 1979. Further that \$10,635 expenses for this period resulted in a net income before payment of income taxes of \$1,062 for the period.

5. That the rates set forth in Appendix "A", attached hereto and made a part hereof, should produce annual revenues of approximately \$14,206 from 88 customers and are the fair, just, and reasonable rates to be charged by the Utility for sewage disposal services.

6. That the revenues produced by the rates approved herein would result in an operating ratio of .87 and should provide a reasonable return margin⁽²⁾ in this instance.

7. That the rates proposed by the Utility are unfair, unjust, and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

8. That the Commission, after consideration of the tabulation of test-year and proforma revenues and expenses submitted by the Utility, concludes that these revenues, expenses and adjustments thereto can be summarized as shown in Appendix "B", attached hereto and made a part hereof. On the basis of the said

(2) Return margin is the amount remaining for the payment of a return on the investment of the security holders.

Appendix "B" tabulation, the Commission further concludes that annual revenues in the amount of \$14,206 are necessary and will permit the Utility to meet its reasonable expenses for providing sewage collection and disposal services to 88 customers which includes Hancock County Schools.

9. That the Utility should refund all sewage service revenues collected subsequent to June 1, 1980 that are in excess of those which would have been collected from the rates fixed by this Order. Further, that the Utility shall file with this Commission, within thirty (30) days of the date of this Order, a report of refund amounts due its customers and shall complete said refunds within ninety (90) days of the date of this Order.

Orders in This Matter

The Commission on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that the rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof be and they are hereby fixed as the fair, just and reasonable rates of the Utility for providing sewage disposal services to its customers located in Hancock County, Kentucky, to become effective for the Utility's billing for services on or after June 1, 1980.

IT IS FURTHER ORDERED that the rates sought by the Utility be and the same are hereby denied.

IT IS FURTHER ORDERED that the Utility file with this Commission within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Utility's Rules and Regulations for providing services to its customers shall be filed with said tariff sheets.

IT IS FURTHER ORDERED that the Utility shall file with this Commission, within thirty (30) days of the date of this Order, a report of refund amounts due its customers and shall complete said refunds within ninety (90) days of the date of this Order.

Done at Frankfort, Kentucky, this 26th day of August, 1980.

UTILITY REGULATORY COMMISSION

CHAIRMAN

VICE-CHAIRMAN

COMMISSIONER

ATTEST:

SECRETARY

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7640 DATED AUGUST 26, 1980

The following sewage service rates and charges are hereby prescribed for all the customers served by the Kentucky Hills Company. All other rates and charges not mentioned specifically herein shall remain the same as those in effect prior to the date of this Order.

Type of Service Rendered

Single Family Residences	\$10.75 per Residence
Apartment Dwelling Units	\$ 8.00 per Apartment
Hancock County Schools	\$ 1.50 per 1,000 gallons of metered water usage
All other	\$10.75 Minimum bill or 1.50 per 1,000 gallons of metered water usage

- a. That all bills are due and payable not later than fifteen (15) days after the date of billing.
- b. That a penalty of 10% will be added to all bills not paid within fifteen (15) days after the billing date. Said penalty will be compounded monthly thereafter until paid.

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7640 DATED AUGUST 26, 1980.

In accordance with finding number 8, the following is the Commission's summary of "Test-Year" and projected annual revenues and expenses for providing service to 88 customers.

	Test Year ⁽¹⁾ 8-1-78 <u>7-31-79</u>	Pro Forma ⁽¹⁾ Requested <u> </u>	Pro Forma found <u>Reasonable</u>
Revenues:	\$11,697	\$15,375	\$14,206
Expenses:			
General	2,596	2,855	2,855
Labor	1,642	1,773	1,773
Utilities - Electric	2,302	2,486	2,486
Insurance	280	294	294
Taxes, Property	167	347	347
Depreciation	2,198	2,198	2,198
Miscellaneous	90	90	90
Management Services	1,264	1,353	1,353
Legal and Professional	96	96	96
Purchase New Commutator	-0-	400	240 ⁽²⁾
Regulatory Commission Fee	<u>-0-</u>	<u>126</u>	<u>126</u>
Total Expenses	\$10,635	\$12,018	\$11,858
Net Income Before Taxes	1,062	3,357	2,348
Federal & State Income Taxes			<u>458⁽³⁾</u>
Net Income After Taxes			\$ 1,890

(1) Test-year and proforma requested Revenues and Expenses were taken from the exhibits of Record in this matter.

(2) Costs for the Commutator should be capitalized and depreciated over 5-years instead of three years.

(3) \$458 is the computed income tax liability for the revenues found reasonable herein.