COMMONWEALTH OF KENTUCKY

BEFORE THE UTILITY REGULATORY COMMISSION

* * * *

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF SCC DEVELOPMENT COMPANY d/b/a FALLS TREATMENT COMPANY TO BECOME EFFECTIVE DATE OF ORDER	)	CASE NO. 7789

O R D E R

On March 27, 1980, SCC Development Company, d/b/a Falls Treatment Company, the Applicant, filed with this Commission its petition seeking authority to adjust its rates for providing sewage services to the Falls Subdivision area and adjacent properties off Brownsboro Road in Eastern Jefferson County and for said rates to become effective on the date of this Order. The revenues that could be produced by the proposed rates exceeded test year revenues by approximately $31,831.

The Commission in order to establish the reasonableness of the proposed rates set a public hearing for this matter on July 10, 1980, at 9:00 a.m. All parties of interest were notified of the July 10, 1980, hearing with the Consumer Intervention Division of the Attorney General's Office and the Residents of the City of Winding Falls, by counsel intervening in this matter. At the hearing certain requests for additional information were made by the intervenors. This information has been filed, and the entire matter is now considered as fully submitted for final determination by this Commission.

Test Period

For the purpose of determining the reasonableness of the proposed rates, the twelve month period ending December 31, 1979, has been utilized. Adjustments, which were found to be significant and reasonable, have been included to more accurately reflect current operating conditions.

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 the SCC Development Company, d/b/a Falls Treatment Company has a valid third party beneficiary agreement.

(2) That the existing rates charged by the SCC Development Company, d/b/a Falls Treatment Company provided annual revenues of approximately $26,213 from an average of 212 residential customers and one school receiving sewer service during the test year ending December 31, 1979. Further that these rates resulted in a net operating deficit of $24,823 and a total net deficit of $69,553 for the period.

(3) That the adjusted operating expenses for the test year, including depreciation, for the SCC Development Company, d/b/a Falls Treatment Company are estimated to be $50,957.

(4) That the rates set forth in Appendix "A" attached hereto, are the fair, just and reasonable rates to be charged for sewer services rendered by the SCC Development Company, d/b/a Falls Treatment Company. Further, that these rates should produce gross annual revenues of $57,906 from the Applicant's 213 customers of record which will provide for operating expenses, including depreciation, and provide a reasonable surplus.

---

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

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

(5) That the rates proposed by SCC Development Company, d/b/a Falls Treatment Company and set out in the Application should be denied in that they produce annual revenues in excess of that found reasonable.

(6) That the Commission, after considering the actual operating results and proposed adjustments submitted by the Applicant concludes that actual test year operations and pro forma adjustments can be summarized as shown in Appendix "B" attached hereto and made a part hereof.

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 set forth in Appendix "A" attached hereto and made a part of are fixed as the fair, just and reasonable rates of the SCC Development Company, d/b/a Falls Treatment Company to charge for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the Applicant file with this Commission, within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates approved herein, and all rules and regulations of the utility.

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

UTILITY REGULATORY COMMISSION

Chairman

Vice Chairman

Mary Ray Oakes
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION IN CASE NO. 7789 DATED SEPTEMBER 26, 1980

The following rates are hereby prescribed for all the customers served by the SCC Development Company d/b/a Falls Treatment Company, in Jefferson County, Kentucky.

Customer Category	Monthly Rate
Single-Family Residential	$20.80 Per Residence
Non-Residential	20.80 Per Residential Equivalent(1)

(1) The number of residential equivalents and/or fractional parts thereof shall be determined by dividing the customers average monthly water consumption in gallons by 12,000 gallons. The minimum bill for this type service shall be $RR.RR.

Note: $RR.RR is the same rate as prescribed for a single-family residence.

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION IN CASE NO. 7789 DATED SEPTEMBER 26, 1980

In accordance with the finding number 6. the following tabulation is the Commission's summary of actual test period operations and adjustments for the Applicant's Sewage Treatment facilities with a capacity of 131,000 gpd serving 213 customers.

	Actual[1] Expenses (Test-Year)	Pro forma[2] Requested	Pro forma Found Reasonable
Revenues	$ 26,215	$58,046	$ 57,906
Expenses			
Utilities			
Water	$ 2,589	$ 2,848	$ 2,848
Electricity	8,665	9,531	9,531
Operation and Maintenance			
Operating Expense	5,400	6,000	6,000
Sludge Hauling	-0-	600	600
Chemicals and Supplies	2,113	2,324	2,324
Repairs and Maintenance	3,576	8,072	4,874[4]
Insurance	376	376	376
Accounting Fee	250	250	250
Rate Case Expense	-0-	1,000[3]	1,000
Health Dept. Expense	700	700	700
Management Fee	2,400	2,400	2,400
Collection Fee	774	958	958
Property Tax and Licenses Fee	1,908	1,208	1,208
Depreciation	21,713	21,713	17,370[5]
Amortization Expense	-0-	-0-	518[6]
Interest Expense	44,730	-0-	-0-
Sales Tax	574	-0-	-0-
Total Expenses	$ 95,768	$57,980	$ 50,957
Net Income (loss)	$(69,553)	$ 66	$ 6,949

(1) Test year revenues and expenses were taken from utilities Exhibit No. 14, "Comparative Income Statement" for the twelve month period ending December 31, 1979.

(2) Pro forma requested revenues and expenses were taken from the Applicant's Exhibit No. 14, "Comparative Income Statement".

(3) Rate case expense of $3,000 was amortized over a three year period.

(4) Applicant has incurred repairs and maintenance expenses of $10,479 since the close of the test year. It is the Commission's opinion that $5,180 of this expense has lasting benefit to the Company and should be amortized over a ten year period and that $425 of these expenses should be covered by an existing maintenance contract and should be disallowed. (10,479 - 5,180 - 425 = 4874)

(5) Depreciation expense was adjusted downward to allow for the 20% of utility plant that Applicant testified will be recovered through the sale of lots. Depreciation was calculated at 3.88%.

(6) Amortization of $5,180 of repairs (see footnote 4) over a ten year period.