COMMONWEALTH OF KENTUCKY

BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF CEDAR HILLS SANITATION DISPOSAL CORPORATION FOR AN ADJUSTMENT OF THE SANITARY SEWER RATES AND CHARGES	))))	CASE NO. 7950

O R D E R

On August 29, 1980, Cedar Hills Sanitation Disposal Corporation (Applicant) filed its application with this Commission requesting authority to increase its rates by $14,400 annually, an increase of 282% based on test year revenues. Applicant stated that the rate adjustment was necessary in order for the Company to adequately render service and maintain its financial integrity.

On September 9, 1980, the Division of Consumer Intervention in the Department of Law filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on November 26, 1980, and January 15, 1981. All parties were notified and the hearings were conducted as scheduled. Additional information which was requested prior to and at the hearings has been filed, and the entire matter is submitted for a final determination by this Commission.

Commentary

Cedar Hills Sanitation Disposal Corporation is a privately owned sewage treatment system serving 91 single-family residential customers in Daviess County, Kentucky within the Cedar Hills Subdivision.

Test Period

Applicant proposed and the Commission has accepted the twelve months ending May 31, 1980, as the test period for the purpose of determining the reasonableness of the proposed rates. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

Revenue and Expenses

Applicant proposed several pro forma adjustments to expenses in Exhibit III of its application. The Commission is of the opinion that the adjustments are generally proper and accepted for rate-making purposes with the following exceptions:

1. Applicant proposed a pro forma adjustment to chemicals, sludge hauling and maintenance expense based on five months experience during the test year and a percentage allowance for price increases. The Commission does not concur with the projected cost increases based on the annual percentage method. However, the Commission has taken into consideration the increased labor charges of Applicant's service company, which became effective December 1, 1979, and finds an adjustment of $230 to be acceptable. This results in an adjusted test year expense of $3,267.

2. The Commission has adjusted depreciation expense to reflect only the amount associated with non-contributed property totaling $3,796. Since $22,774 of total plant was added to the basis of the lots in the Subdivision, this amount should be accounted for as Contributions in Aid of Construction, Account 271.

3. The Commission has excluded the proposed adjustments of $200 for miscellaneous rate case expense resulting from these proceedings and $1,100 for extraordinary repairs and maintenance expense. The Commission is of the opinion that these adjustments are nonrecurring and should not be considered for rate-making purposes.

4. The actual water expense for the test period totaled $573, per Applicant's books. Applicant testified that $372 of this expense was extraordinary and would not normally be incurred. Therefore, the Commission has excluded $372 of this expense for rate-making purposes.

5. The Applicant proposed an adjustment of $2,400 for management fees. The Commission is of the opinion that a total of $1,200 is adequate to cover the actual services provided by the two managers for a company of this size.

6. Actual electric expense included in the test year amounted to $2,270. The pro forma adjustment of $742 was based on five months experience during the test year and a $288 allowance for price increases. The Commission has excluded the $288 allowance in that the annualized adjustment of $3,012 includes the increase from its supplier and is the amount allowed for rate-making purposes in this case.

7. The Applicant did not propose an adjustment for federal and state income taxes, so the Commission has allowed $176 to cover these income taxes for the adjusted test year.

The effect of these adjustments on Net Income is as follows:

	Test Year	Pro Forma Adjustments	Adjusted Test Year
Operating Revenues	$ 4,645	$ 455	$ 5,100
Operating Expenses	10,375	3,636	14,011
Operating Income	$(5,730)	$(3,181)	$(8,911)

The Commission is of the opinion that the operating ratio proposed by the Applicant of 95% will be adequate to allow the Applicant to pay its operating expenses found reasonable for rate-making purposes. Based on this operating ratio Applicant's operating revenues should be $14,739 which will require additional revenue of $9,639.

Other Case Matters

During the test year, the Applicant initiated a construction project for expansion of its existing system without approval from this Commission. According to KRS 278.020, no person, partnership, public or private corporation thereof shall begin the construction of any plant, equipment, property or facility for furnishing to the public any of the services enumerated in KRS 278.010 until such person has obtained from the appropriate Commission a certificate that public convenience and necessity require such construction. The Commission is of the opinion that the Applicant shall comply with the statutes in the future or shall be subject to the imposition of penalties.

Summary

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates set out in Appendix "A," attached hereto and made a part

hereof, will produce gross annual revenues of $14,760, based on 100 customers, and are the fair, just, and reasonable rates for the Applicant.

The Commission further finds that the rates proposed by the Applicant are unfair, unjust, and unreasonable in that they produce revenue in excess of that deemed reasonable herein.

IT IS THEREFORE ORDERED that the rates set out in Appendix "A" attached hereto and made a part hereof, are approved for service on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Cedar Hills Sanitation Disposal Corporation are unfair, unjust, and unreasonable in that they produce revenue in excess of that deemed reasonable herein and are hereby denied.

IT IS FURTHER ORDERED that Cedar Hills Sanitation Disposal Corporation shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein. Further, that copies of all the Applicant's rules and regulations for providing service to customers located in Daviess County, Kentucky shall be filed with the said tariff sheets.

Done at Frankfort, Kentucky, this 20th day of February, 1981.

UTILITY REGULATORY COMMISSION

Did Not Participate
Chairman

Vice Chairman

Mary Ray Oden
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION IN CASE NO. 7950 DATED February 20, 1981

The following rates are prescribed for all customers served by Cedar Hills Sanitation Disposal Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Customer Category	Monthly Rates
Single-Family Residential	$12.30 per Residence