

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF SEWER RATES)
OF COUNTRY VILLAGE SEWER) CASE NO. 8292
SYSTEM OF CRESTWOOD, KENTUCKY)

O R D E R

On July 28, 1981, Country Village Sewer System ("Country Village") filed an application with this Commission requesting authority to increase its rate by approximately \$10,457 annually. However, considering the number of customers and the current rate at the end of the test period, the increase in revenue would be \$9,251 annually or 72 percent.

On August 3, 1981, the Consumer Protection Division of the Attorney General's Office filed a motion to intervene in this proceeding, which was sustained.

A hearing was held at the Commission's offices in Frankfort, Kentucky, on October 29, 1981. At the conclusion of the hearing and following responses to all requests for additional information, the matter was submitted for final determination.

Commentary

Country Village is a privately-owned sewage treatment system serving approximately 126 customers in Oldham County, Kentucky.

Test Period

Country Village proposed and the Commission has adopted the 12-month period ending April 30, 1981, as the test period for determining the reasonableness of the rate approved herein. Pro forma adjustments have been included when found reasonable and proper for rate-making purposes.

Revenues and Expenses

Country Village proposed several adjustments to revenues and expenses as reflected on its Comparative Income Statement, Exhibit X. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

(1) The Commission has increased test year revenue by \$1,206 to reflect the amount of revenue produced by the current rate based on the number of consumers at the end of the test period. The adjustment proposed by Country Village was based on estimated cash receipts rather than projected revenue.

(2) Country Village proposed to decrease its purchased water cost by \$418. During the month of March there was excessive line leakage which significantly increased this expense. After determining the average monthly water costs based on normal purchases for 11 months of the test period, excluding March, and applying this monthly average to a full year, the Commission has found an adjustment of \$287 to be fair and reasonable.

(3) Country Village proposed a \$236 increase in power cost over the actual test year expense. The Commission has decreased

this adjustment by \$206 to reflect the amount billed during the test period based on the actual monthly bills.

(4) The Commission has increased Country Village's sludge hauling expense by \$1,745 to provide an adjusted test year expense of \$3,048. This adjustment reflects estimated cost based on two loads of sludge per month at \$127 per load as proposed in Exhibit XVIII.

(5) Country Village proposed a \$900 increase in repairs expense. The adjustment was based on a 3-year amortization of \$2,700 for repairs of various equipment. Country Village stated that these repairs would add 3 years to the lives of its equipment. However, based on cases involving similar repairs, the Commission is of the opinion that these repairs should reoccur every 4 years. Therefore, the Commission has reduced the proposed adjustment by \$225 based on a 4-year amortization.

(6) Country Village proposed to increase depreciation expense by \$1,107. The proposed adjustment included additional depreciation on a new pump, amortization of lagoon cleaning, and depreciation expense adjusted for rate-making purposes to reflect straight-line depreciation. Country Village utilizes accelerated depreciation for accounting purposes. In converting the accelerated depreciation to straight line, Country Village applied the estimated useful lives to the original cost of the assets. This calculation does not take into consideration the depreciation which has been recovered in prior years and included in the

depreciation reserve. To approve the depreciation adjustment proposed by Country Village would in effect allow it to recover a portion of its investment twice. Therefore, we have determined the annual depreciation expense based on the net book value and the remaining useful lives of the assets.

The Commission has excluded, for rate-making purposes, the additional depreciation for the new pump. Mr. Frank Wethington testified that the pump had not been purchased at the time of the hearing and was uncertain as to when the purchase would be made.

Country Village proposed to include additional expense for the amortization of lagoon cleaning costs of \$2,406 over a 4-year period. The Commission is of the opinion that the allowance herein of increased sludge hauling expense will have the effect of reducing the frequency of this major expense. Therefore, we have used an 8-year period to determine the annual amortization of this expense.

The net effect of the aforesaid adjustment will reduce the actual test year depreciation expense by \$217.

(7) Country Village proposed a \$59 increase in billing and collection fees. The proposed adjustment was based on estimated cash receipts. The Commission has increased this adjustment to \$115 based on the adjustment to revenue in item (1).

(8) Country Village proposed an adjustment of \$1,250 for rate case expenses. The adjustment was based on the amortization of \$2,500 estimated expenses over a 2-year period. The actual

rate case expenses were \$2,661. In accordance with past policy, the Commission has reduced the expense to an adjusted amount of \$887 based on a 3-year amortization.

(9) Country Village made no provision for income tax expense. The Commission calculated the estimated state and federal income taxes based on the increase allowed herein to be \$564.

Based on the allowed pro forma adjustments Country Village's test period operations are as follows:

	<u>Actual 4/30/81</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenue	\$ 11,646	\$ 1,206	\$ 12,852
Operating Expenses	<u>19,234</u>	<u>(1,032)</u>	<u>18,202</u>
Net Income	<u>\$ (7,588)</u>	<u>\$ 2,238</u>	<u>\$ (5,350)</u>

The Commission is of the opinion that the operating ratio of 88 percent proposed by Country Village is fair, just and reasonable and should be used in this case. It will permit Country Village to pay its operating expenses and provide a reasonable return to its owner. Therefore, the Commission finds that Country Village is entitled to increase its rate to produce total revenues of \$20,684 which will require an increase in revenues of \$7,832 annually.

Summary

The Commission after consideration of the evidence of record finds that:

(1) The rate proposed by Country Village would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

(2) The rate in Appendix A, attached hereto and made a part hereof, is the fair, just and reasonable rate to charge for sewage service rendered by Country Village and will permit it to meet its reasonable operating expenses and accumulate a reasonable surplus for equity growth.

IT IS THEREFORE ORDERED that the rate in Appendix A, attached hereto, is the fair, just and reasonable rate to charge for sewage service rendered by Country Village on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Country Village is hereby denied.

IT IS FURTHER ORDERED that within 30 days from the date of this Order Country Village shall file with this Commission its revised tariff sheets setting out the rate approved herein.

Done at Frankfort, Kentucky, this 4th day of February, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katherine Baulall
Vice Chairman

Don Carver
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8292 DATED
FEBRUARY 4, 1982

The following rate is prescribed for sewage disposal service to the customers of Country Village Sewer System, located in Country Village Subdivision in Oldham County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Monthly Rate

Applicable to all Residential Customers

	<u>Rate</u>
Single-Family Home	\$13.68