

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE ADJUSTMENT OF RATES OF)
LAKEWOOD VALLEY DEVELOPMENT) CASE NO. 8293
COMPANY SEWER SYSTEM)

O R D E R

On July 28, 1981, Lakewood Valley Development Company Sewer System ("Lakewood Valley") filed an application with this Commission requesting authority to increase its rates by approximately \$10,116 annually, a 46.7 percent increase. However, at the hearing in this matter Lakewood Valley amended its application to reduce the request to a \$6,266 increase or 29.8 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

Lakewood Valley is a privately-owned sewage treatment system serving approximately 196 customers in Crestwood, Kentucky.

TEST PERIOD

The 12-month period ending April 30, 1981, has been used as the test period for the purpose of determining the reasonableness of the rates and charges approved herein. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

REVENUES AND EXPENSES

Lakewood Valley 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) In determining its normalized revenue, Lakewood Valley used estimated cash receipts based on actual collections during the test year. The Commission has increased Lakewood Valley's operating revenue by \$593 to reflect normalized revenue based on the number of customers at the end of the test year.

(2) Lakewood Valley proposed to decrease depreciation expense by \$1,233. The proposed adjustment was based on additional depreciation on a new pump and depreciation expense adjusted for rate-making purposes to reflect straight line depreciation. Lakewood Valley utilizes accelerated depreciation for accounting purposes. In converting the accelerated depreciation to straight line Lakewood Valley applied the estimated useful lives to the original cost of the assets. This calculation does not take into consideration the depreciation which has been

recorded in prior years and included in the depreciation reserve. To approve the depreciation adjustment proposed by Lakewood Valley 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. 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.

The results of the aforesaid adjustments will reduce the proposed depreciation expense by \$683.

(3) Lakewood Valley proposed a \$129 decrease in billing and collection fees. The proposed adjustment was based on estimated cash receipts. Therefore, the Commission has increased this adjustment by \$65 based on the adjustment to revenue in item (1).

(4) Lakewood Valley proposed an adjustment of \$1,250 for rate case expenses. The adjustment was based on the amortization of a \$2,500 fee over a 2-year period. In support of this amortization period Lakewood Valley stated that it would be approximately 2 years before it would need to request another rate change. The Commission finds no compelling reason to depart from its past policy and has amortized the rate case expense of \$2,500 over 3 years which results in a \$417 reduction in Lakewood Valley's proposed adjustment.

Based on the allowed pro forma adjustments, Lakewood Valley's test period operations are as follows:

	<u>Actual 4-31-81</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$21,045	\$593	\$21,638
Operating Expenses	<u>22,981</u>	<u>11</u>	<u>22,992</u>
Net Income	<u>\$(1,936)</u>	<u>\$582</u>	<u>\$(1,354)</u>

The Commission is of the opinion that the operating ratio⁽¹⁾ of 88 percent proposed by Lakewood Valley is fair, just and reasonable and should be used in this case. It will permit Lakewood Valley to pay its operating expenses and provide a reasonable return to its owners. Therefore, the Commission finds that Lakewood Valley is entitled to increase its rates to produce total revenues of \$26,937 which will require an increase in revenues of \$5,299 annually.

SUMMARY

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

(1) The rate proposed by Lakewood Valley would produce revenue in excess of that found reasonable herein and should be denied upon application of KRS 278.030.

(2) The rate in Appendix A is the fair, just and reasonable rate to charge for sewage service rendered by Lakewood Valley and will permit it to meet reasonable operating expenses and accumulate a reasonable surplus for equity growth.

(1) Operating Ratio = $\frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenue}}$

IT IS THEREFORE ORDERED that 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 Lakewood Valley on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Lakewood Valley is hereby denied.

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

Done at Frankfort, Kentucky, this 8th day of February, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohz
Chairman

Katharine Bendall
Vice Chairman

Ann Carver
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8293 DATED FEBRUARY 8,
1982

The following rate is prescribed for all customers served by the Lakewood Valley Development Company Sewer System. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Customer Category

Monthly Rate

Single Family Residential

\$11.49