

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AMENDED APPLICATION OF CHARLESWOOD)	
UTILITIES, INC. FOR AUTHORITY TO)	
ACQUIRE AND OPERATE THE SEWAGE)	
TREATMENT PLANT OWNED BY COOPER)	
CHAPEL SANITARY FACILITIES, INC. AND)	CASE NO. 8457
AUTHORITY TO ACQUIRE AND INCUR THE)	
NECESSARY DEBT FINANCING TO PURCHASE)	
THE STOCK OF COOPER CHAPEL SANITARY)	
FACILITIES, INC.)	

O R D E R

On February 17, 1982, Charleswood Utilities, Inc., ("Charleswood") filed an application with the Commission seeking approval of the transfer of all the outstanding stock of Cooper Chapel Sanitary Facilities, Inc., ("Cooper Chapel") from Ed Butler ("Butler") to Charleswood pursuant to a stock purchase agreement entered into by Charleswood and Butler dated February 1, 1982. This agreement was filed with the application as Exhibit 2.

A public hearing was held on May 19, 1982, at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance.

On June 11, 1982, Charleswood filed an amended application with the Commission asking to include the approval of financing in the application. Charleswood requested authorization to borrow \$320,000 to acquire the outstanding stock of Cooper Chapel

at which time Cooper Chapel will be liquidated and assumed by Charleswood.

COMMENTARY

Cooper Chapel is located in Jefferson County, Kentucky, and consists of Charleswood Treatment Plant and Springlake Treatment Plant and their adjacent collection systems. The Charleswood plant serves 411 customers and has a treatment capacity of 160,000 gallons per day while the Springlake plant serves 257 customers and has a treatment capacity of 140,000 gallons per day.

Charleswood received its Articles of Incorporation on January 27, 1982, with Carroll F. Cogan being sole stockholder and president.

FINDINGS IN THIS MATTER

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

1. Charleswood is ready, willing and able to purchase, operate and provide adequate and reliable service to the customers presently served by Cooper Chapel. Furthermore, Butler is ready and willing and he desires to sell, inasmuch as he wishes to divest himself of the ownership and operation of these sewage treatment systems.

2. The quality of service to the present customers of Cooper Chapel will not suffer in that Andriot-Davidson Service Company, Inc., which has knowledge and experience in the operation and maintenance of sewage treatment facilities, will be

employed to operate the system. Furthermore, Andriot-Davidson Service Company, Inc., is familiar with the construction and operation of these treatment plants.

3. The agreed-upon purchase price is \$320,000 which was determined through negotiations between Charleswood and Butler.

4. Charleswood has adopted the tariffs, rates, rules and regulations filed with the Commission by Cooper Chapel for furnishing sanitary sewer service to its customers.

5. The third party trust agreement for these sewage treatment plants was filed with the Commission in Case Nos. 7137, 7931 and 8053 and this agreement is transferable to and adopted by Charleswood.

6. Charleswood has filed with the Commission its Articles of Incorporation and Certificate of Incorporation as well as the bylaws adopted by its board of directors.

7. Charleswood should maintain its books of account in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by this Commission. Accounting for an acquisition includes:

- A. Recording the utility plant acquired at its original cost to the person first devoting it to public service, estimated if not known, in the appropriate utility plant in service accounts;
- B. Crediting the requirements for accumulated provision for depreciation and amortization applicable to the original cost of the properties acquired to the appropriate account for accumulated provision for depreciation and amortization;

- C. Transferring the cost of any nonutility property to Account 121, Nonutility Property;
- D. Crediting contributions in aid of construction to Account 271, Contributions In Aid of Construction; and
- E. Including in Account 108, Utility Plant Acquisition Adjustment, any difference between the purchase price and the original cost of the utility plant and nonutility property less the amounts credited to accumulated depreciation and amortization reserves and contributions in aid of construction.

8. The acquisition adjustment as described in finding number 7 should be determined independently for each treatment plant based on a purchase price of \$180,000 for Charleswood Treatment Plant and \$140,000 for Springlake Treatment Plant and books and records should be maintained independently by each treatment plant. In addition, common stock of Charleswood should be prorated between the two plants on the basis of net book value at the time of acquisition.

9. While legal and proper for general accounting purposes, these acquisition transactions, if not at "book value," can either increase or decrease the debt and/or equity on the utility's books. Therefore, Charleswood and its stockholders are hereby apprised that the Commission will not allow, for rate-making purposes, interest charges on debt that exceed those charges which would have been incurred to finance the original cost of plant in service excluding any acquisition adjustment less accumulated depreciation and contributions in aid of construction. Allowable interest charges should be computed using the weighted

average cost of debt. The Commission also will not allow a return on equity or amortization of an acquisition adjustment that resulted from this transaction for rate-making purposes.

10. Charleswood requested authorization to borrow \$260,000 from Future Federal Savings and Loan Association ("Future Federal") and \$60,000 from Butler. The financing is in the form of separate first and second mortgages on each treatment plant. Future Federal has tentively approved first mortgages of \$150,000 and \$110,000, respectively, to the Charleswood and Springlake Treatment Plants for a term of 24 years. The interest rate of 13 percent will be applicable for the first 3 years of the loan and may vary with banking conditions at the end of each third year of the term. Butler will finance \$60,000 (\$30,000 for each treatment plant) of the purchase price for a 20-year term at 10 percent with the option of calling the loan at the end of 10 years. The primary purpose of the balloon payment is to require renegotiation of the interest rate.

11. Carroll F. Cogan, president of Charleswood, testified that following consummation of the proposed acquisition, the operating costs of Charleswood will be reduced because of economies of scale inherent in operation and ownership of a number of sewer utilities under this Commission's jurisdiction. (1)

(1) Transcript of Evidence, May 19, 1982, page 18.

12. The Commission will review Charleswood's financial statements to be filed as a part of its Annual Report for 1982 to determine the appropriateness of existing customer rates at that time.

13. Should operating expenses not be reduced as noted in finding number 11, the Commission will upon its own motion institute a formal investigation of Charleswood's rates and operations.

14. The transfer of the stock of Cooper Chapel to Charleswood should be approved.

ORDERS IN THIS MATTER

The Commission, on the basis of the evidence of record and the findings herein set forth:

HEREBY ORDERS that the transfer of Cooper Chapel from its stockholder, Ed Butler, to Charleswood be and it hereby is approved.

IT IS FURTHER ORDERED that the financing of funds of \$320,000 as described in finding number 10 be and it hereby is approved.

IT IS FURTHER ORDERED that in future rate cases before the Commission allowable interest charges shall be determined as set out in finding number 9.

IT IS FURTHER ORDERED that Charleswood shall adopt the existing rates, rules and regulations filed with and approved by the Commission for Cooper Chapel.

IT IS FURTHER ORDERED that Charleswood shall file with this Commission within 30 days from the date of this Order its

original tariff sheets setting forth rates, rules and regulations as required by KRS 278.160.

IT IS FURTHER ORDERED that Charleswood shall file with this Commission within 30 days from the date of this Order the balance sheets of Cooper Chapel and Charleswood at the date of the transfer, the final journal entries required to consummate the transfer and the resulting balance sheet subsequent to the assumption of Cooper Chapel by Charleswood for each treatment plant.

Nothing herein contained shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 5th day of August, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary