

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF )  
PLANTATION HILLS SEWAGE ) CASE NO. 8468  
TREATMENT PLANT, INC. )

O R D E R

PROCEDURAL BACKGROUND

On February 26, 1982, the Plantation Hills Sewage Treatment Plant, Inc., ("Plantation Hills") filed an application with the Commission seeking approval of an increase in its sewer rate presently being charged its customers. The proposed rate would produce an increase in gross annual revenues of approximately \$7,813 or 59.14 percent above test period revenues. The Commission in this Order has allowed Plantation Hills a rate to produce an increase in revenues of \$4,952.

A public hearing was held in this matter on May 26, 1982, in the Commission's offices in Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's office was permitted to intervene. Further, the Commission allowed Mr. Truett Lee and Mr. Bill Gaar, Commissioners for the City of Plantation Hills, to make statements and file a petition on behalf of the customers of Plantation Hills in the record of evidence.

## ANALYSIS AND DETERMINATION

### Test Period

For the purpose of determining the reasonableness of the proposed rate, the 12-month period ending December 31, 1981, has been accepted as the test period.

### Valuation Method

The Commission has found that Plantation Hills' investment records are insufficient in detail to allow it to determine a proper investment rate base or capitalization for rate-making purposes. Furthermore, Plantation Hills has no long-term debt currently outstanding, thus eliminating the determination of rates by a debt service method. Moreover, Plantation Hills proposed no specific valuation method in its application. Therefore, the Commission is of the opinion that the "Operating Ratio Method" should be used in this case.

The formula used in computing operating ratio is as follows:

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

### Revenues and Expenses

Plantation Hills proposed several pro forma adjustments to actual operating revenues and expenses as reflected in its comparative income statement for the 12 months ended December 31, 1981.<sup>1/</sup> The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

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<sup>1/</sup> Exhibit No. 8, Comparative Income Statement.

### Management and Legal Fees

Plantation Hills' request for \$4,800 per year, as management and legal fees, has been reduced to \$2,400. The annual salary of each Mr. Robert Breland, Vice President and Attorney, and Mr. Paul B. Sharp, President and General Manager, is \$1,200 per year. Furthermore, the test period figure of \$4,800 represented compensation for each officer for 2 years of service. The Commission is of the opinion that \$1,200 per year to each officer provides adequate compensation for their services.

### Routine Maintenance Service Fee

Plantation Hills' response to the Commission's request for additional information indicated that the monthly maintenance service fee paid to Eubank, Hall and Associates was increased from \$175 to \$225 per month. The Commission computed the cost of this service to be \$2,700 per year, or a pro forma adjustment of \$350 instead of \$400 as proposed by Plantation Hills.

### Chemicals

The pro forma cost of chemicals of \$884 included \$200 for two drum deposits. These drum deposits are refundable and not an operating expense. Therefore, the Commission has denied Plantation Hills' pro forma adjustment to the test period expense for chemicals.

### Water Analysis - NPDES

In 1982, Plantation Hills will be required to perform a laboratory water analysis (NPDES) quarterly, at a cost of \$143 per quarter. Its pro forma operating expense of \$715 erroneously included payment for one quarter of 1981. Therefore, the Commission has reduced the adjustment by \$143.

### Repairs

An analysis of the individual invoices for test period repair cost of \$1,720 indicated that, in March 1981, Eubank, Hall and Associates installed a new compressor and sump pump and related capital plant at a cost of \$500. The Commission considers this purchase to be a capital item and has, therefore, deleted it from test period operating expenses.

### Jefferson County Franchise Tax

An analysis of the invoices of the Jefferson County franchise tax indicated that Plantation Hills had included in test period expenses assessment payments for both the years 1980 of \$75 and 1981 of \$64. The Commission has, therefore, deducted the 1980 payment of \$75 from test period expenses.

### Depreciation Expense

The Commission, in its disallowance of capital items of \$500 included in the cost of repairs, has allowed a pro forma depreciation adjustment of \$100 computed on the basis of a 5-year life of the property.

### Emergency-Guarantee Fund

Plantation Hills projected a pro forma adjustment of \$2,400 to test period expenses for the purpose of establishing a fund to replace capital items. It is the policy of the Commission to disallow any such fund. The Commission considers it the responsibility of Plantation Hills to make the investment in capital items and recover the cost thereof through annual depreciation charges to operating expenses over the useful lives of the assets. The Commission has, therefore, denied the establishment of the emergency fund of \$2,400.

### Agency Collection Fee

Plantation Hills projected expenses related to the collection of its bimonthly sewer bill by the Louisville Water Company of \$533. The Commission has made an adjustment of \$38<sup>2/</sup> to increase this expense to reflect the apportionment of the joint service cost of the collection agency for each bimonthly bill of the customer which includes the charge for both water and sewer service.

Therefore, Plantation Hills' adjusted operations at the end of the test period are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 13,211	\$ -0-	\$ 13,211
Operating Expenses	17,026	(1,631)	15,395
Net Operating Income	<u>\$ (3,815)</u>	<u>\$ 1,631</u>	<u>\$ (2,184)</u>

### Revenue Requirements

The Commission is of the opinion that Plantation Hills' adjusted operating loss of \$2,184 is unfair, unjust and unreasonable. The Commission is further of the opinion that Plantation Hills should be permitted to earn a fair, just and reasonable operating ratio of 88 percent. Therefore, the Commission finds that Plantation Hills is entitled to increase its rates to produce an increase in annual revenue of \$4,952.<sup>3/</sup>

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<sup>2/</sup>  $\$1.53 \times 85 \times 6 \times 73.17\% = \$571 - \$533 = \$38.$

<sup>3/</sup>  $\$15,395 \div 84.76\% = \$18,163 - \$13,211 = \$4,952.$

FINDINGS AND ORDER

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

1. The determination of the sewer service rate for Plantation Hills to charge should be based on the operating ratio method.

2. An operating ratio of 88 percent is the fair, just and reasonable operating ratio in that it will allow Plantation Hills to pay its operating expenses, meet its credit requirements and provide a reasonable surplus.

3. The rate in Appendix A should produce gross annual revenues of approximately \$18,163 from 85 customers and is the fair, just and reasonable rate for sewer service rendered by Plantation Hills to customers located in the Plantation Hills Subdivision, Jefferson County, Kentucky.

4. The rate proposed by Plantation Hills would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rate in Appendix A is hereby fixed as the fair, just and reasonable rate of the Plantation Hills Sewage Treatment Plant, Inc., to become effective for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Plantation Hills would produce revenues in excess of those found reasonable herein and is hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that, within 20 days of the date of this Order, Plantation Hills shall file with this Commission its tariff sheets setting forth the rate approved herein and a copy of its rules and regulations for providing sewer service.

Done at Frankfort, Kentucky, this 25th day of June, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Katherine Russell  
Vice Chairman

Don Langan  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8468 DATED JUNE 25, 1982

The following rates are prescribed for sewage disposal service to the customers of Plantation Hills Sewage, Inc., located in Plantation Hills Subdivision in Jefferson 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.

<u>Monthly Rate</u>	<u>Rate</u>
Applicable to all Residential Customers	
Single-Family Home	\$17.81