

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

THE APPLICATION OF SANITATION DISTRICT)
NO. 1 OF MONTGOMERY COUNTY, KENTUCKY) CASE NO. 8492
FOR ADJUSTMENT OF RATES AND CHARGES)

O R D E R

On March 31, 1982, Sanitation District No. 1 of Montgomery County ("Montgomery County") filed an application with this Commission seeking authority to increase its rates for services provided. The proposed rates would produce additional revenue of approximately \$8,353 annually, an increase of 40 percent. Montgomery County also filed a motion pursuant to KRS 278.190(2) for an interim increase of the same amount.

On June 8, 1982, the Commission granted interim rate relief of \$4,007. The additional revenue was collected subject to refund, pending the final determination in this matter. Based on the determination herein the revenue of Montgomery County will increase by \$6,673 annually, an increase of 32 percent.

A hearing was held in the Commission's offices in Frankfort, Kentucky, on July 29, 1982, to consider permanent rate relief.

COMMENTARY

Montgomery County is a sanitation district organized and existing under KRS Chapter 220, serving approximately 225 customers

in Montgomery County, Kentucky. Montgomery County contracts with the city of Mt. Sterling Water and Sewer System ("Mt. Sterling") for treatment of sewage, based on the cubic feet of water consumed.

TEST PERIOD

Montgomery County proposed and the Commission has adopted the 12-month period ending December 31, 1981, as the test period for determining the reasonableness of the rates approved herein. Pro forma adjustments found reasonable and proper for rate-making purposes have been included herein.

REVENUES AND EXPENSES

Montgomery County proposed several adjustments to revenues and expenses as reflected on page 5 of Exhibit C of the application. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Repairs Expense

Montgomery County incurred repairs expense of \$113 during the test year. Mr. John Crouch, Secretary-Treasurer of Montgomery County, testified that the test year expense was unusually low and that an adjustment of \$387 was necessary because the pumps must be repaired every 2 or 3 years, causing a higher level of expense in that year.⁽¹⁾ The Commission agrees that the level of repairs

(1) Transcript of Evidence, July 29, 1982, page 23.

expense in the test year was unusually low. However, the proposal to increase this expense to \$500 is not justified. Montgomery County presented no evidence to support its proposed level of expense. Therefore, the Commission has determined that the allowed level of expense should be based on the most recent 3-year average which includes the cost of repairing a pump in 1979. This analysis results in a projected repairs expense of \$389.

Depreciation Expense

Montgomery County's income statement reflects depreciation expense of \$8,306 for the test year. This amount of depreciation was based on total plant using a composite rate of approximately 2 percent. The Commission is of the opinion that depreciation on contributed property should not be allowed for rate-making purposes because it provides for the recovery of costs not actually incurred. The financial statements submitted in the original application reflect that the level of contributions in aid of construction at the end of the test period was \$379,219 which is approximately 91 percent of the total cost of utility plant in service. In determining the pro forma depreciation expense the Commission has utilized Montgomery County's depreciation rates and excluded depreciation associated with contributed property which results in adjusted depreciation expense for rate-making purposes of \$721.

Rate Case Expense

In response to a request by the Commission, Montgomery County filed information which reflected that it has incurred

total rate case expense of \$1,746. In accordance with past policy, the Commission has amortized this expense over a 3-year period, which results in an annual expense for rate-making purposes of \$582.

Other Expenses

Montgomery County proposed adjustments totaling \$109 for increases of 10 percent in advertising expense, bond expense, audit expense, legal expense and other expense. The Commission is of the opinion that estimated adjustments of this nature do not reasonably project the level of expense that Montgomery County may incur in the future. Therefore, the Commission has not allowed these adjustments for rate-making purposes herein.

Alarm Expense

Montgomery County will in the future incur an additional expense of \$100 per month for an alarm system to be installed at Montgomery County's two lift stations. This amount will cover the charges from South Central Bell Telephone Company for the use of the alarm system.⁽²⁾ On August 9, 1982, a letter from Mt. Sterling was filed as verification that this amount would be charged beginning September 1, 1982. Therefore, the Commission has included this additional cost, which will increase the annual operating expenses by \$1,200.

(2) Transcript of Evidence, July 29, 1982, page 16.

The effect of the allowed adjustments on the operations of Montgomery County is as follows:

	<u>Actual Test Period</u>	<u>Pro forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenue	\$ 20,743	\$ -0-	\$ 20,743
Operating Expenses	22,399	(865)	21,534
Operating Income	<u>\$ (1,656)</u>	<u>\$ 865</u>	<u>\$ (791)</u>
Interest on Long-term Debt	1,885	(195)	1,690
Interest Income	144	0	144
Net Income	<u>\$ (3,397)</u>	<u>\$ 1,060</u>	<u>\$ (2,337)</u>

REVENUE REQUIREMENTS

Montgomery County's debt service based on the average principal and interest payments due within the next 5 years is \$5,022. The adjusted test period operating statement reflects a net loss which provides no coverage on Montgomery County's debt service. The Commission is of the opinion that the adjusted operating income is clearly inadequate and will adversely affect the financial condition of Montgomery County. To improve Montgomery County's debt service coverage to a reasonable level of 1.2, additional revenues of \$6,673 are required, \$4,007 of which was granted as an interim rate increase on June 8, 1982. Based on test period results, total operating revenues of \$27,416 will be sufficient to allow Montgomery County to pay its operating expenses, meet its debt service requirements and maintain an adequate surplus.

SUMMARY

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

(1) The rates in Appendix A are fair, just and reasonable rates for Montgomery County in that they will produce annual revenue from customers of approximately \$27,416 and should be approved. This revenue along with interest income of \$144 will be sufficient to meet Montgomery County's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

(2) The rates proposed by Montgomery County would produce revenue in excess of that found reasonable herein and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by Montgomery County on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Montgomery County be and they hereby are denied.

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

Done at Frankfort, Kentucky, this 17th day of September 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vrb
Chairman

Katherine Randall
Vice Chairman

Don Campy
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 8492 DATED SEPTEMBER 17, 1982.

The following rates and charges are prescribed for the customers in the area served by Sanitation District No. 1 of Montgomery 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.

Sewer User Rate Schedule

Monthly Rate

First	100 cu. ft.	\$3.89	Minimum Bill
Next	600 cu. ft.	1.41	per 100 cu. ft.
Next	1,300 cu. ft.	1.26	per 100 cu. ft.
Next	1,300 cu. ft.	1.14	per 100 cu. ft.
Next	3,400 cu. ft.	1.00	per 100 cu. ft.
Next	6,600 cu. ft.	.81	per 100 cu. ft.
Next	13,300 cu. ft.	.61	per 100 cu. ft.
Next	26,700 cu. ft.	.54	per 100 cu. ft.
All			
Over	53,300 cu. ft.	.47	per 100 cu. ft.

Tap on Fee Charges

Residential units (not including mobile homes or trailers within trailer parks) \$875.00 (\$375.00 to Mt. Sterling Water & Sewer System and \$500.00 to Montgomery County)

Commercial establishments - \$1,250.00

(\$750.00 to Mt. Sterling Water & Sewer System and \$500.00 to Montgomery County)

Trailers or mobile homes within a trailer park - \$875.00 for first unit (\$375.00 to Mt. Sterling Water & Sewer and \$500.00 to Montgomery County) and \$625.00 for each additional unit within the park (\$375.00 to Mt. Sterling Water & Sewer System and \$250.00 to Montgomery County)

Industries - Actual cost of installation.