

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF ENVIRO)
UTILITIES, INC., FOR AN) CASE NO. 8688
ADJUSTMENT OF RATES)

O R D E R

On October 29, 1983, Enviro Utilities, Inc., ("Enviro") filed an application with the Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). On July 8, 1983, the Commission issued its Order in this matter allowing Enviro rates that would increase its revenue by \$5,559 annually. Enviro filed a request for reconsideration and/or rehearing of the Commission's decision on August 1, 1983, citing as a basis for its request the Commission's rate-making treatment of routine maintenance fees, interest expense on current payables, interest expense on long-term debt and allowed maintenance expense. The Commission granted reconsideration on August 19, 1983, and additional information in support of its position has been supplied by Enviro.

Routine Maintenance Fee

The Commission's adjustment to disallow the increase in routine maintenance fee to \$775 per month, based on a 1982 contract for routine maintenance, is consistent with Commission

policy for the reasons stated in the original Order. No additional evidence has been presented upon reconsideration to persuade the Commission to include the annual cost of routine maintenance based on the 1982 contract. However, in calculating the pro forma expense, the Commission used the monthly routine maintenance fee included in the 1981 Annual Report to reflect the annual cost prior to April 1, 1982. Enviro now states that the routine maintenance fee included in the 1981 Annual Report of \$590 per month was incorrect. On September 2, 1983, Enviro filed a copy of the contract for routine maintenance that covered the time period from April 1, 1981, to March 31, 1982, which reflected a charge of \$650 per month. The Commission has, therefore, adjusted the test-year expense by \$720 to reflect the actual contract cost in effect during the test year.

Interest on Current Payables

Enviro requested a review of the Commission's decision to disallow interest on notes payable to associated companies and on current period losses. The Commission finds no evidence to alter its previous decision on this issue and maintains its position that these items should not be allowed for rate-making purposes for the reasons stated in the original Order.

Maintenance Expense

Enviro requested that the Commission review its decision concerning the level of maintenance expense granted in the original Order. Enviro requested that the average maintenance expense for the years 1980 and 1981 be granted in this case. The Commission, following established rate-making policy, granted the

test year actual level of expense reduced by capitalized expenditures and amortized extraordinary expenses. The adjustments made by the Commission to Enviro's test year maintenance expense were consistent with sound rate-making practices and past policy of the Commission; therefore, the Commission finds no reason to alter its previous decision and will make no further adjustment herein.

Interest on Long-Term Debt

Enviro requested a review of the Commission's decision to disallow interest on long-term debt. In its application Enviro requested interest expense on what it referred to as the treatment plant acquisition. The Commission disallowed the proposed adjustment due in part to the fact that Enviro had not requested Commission approval for the financing of the purchase, and the actual terms of the purchase, outside the terms of the lease agreement between Enviro and its predecessor, were unknown.

In its request for reconsideration Enviro stated that it has not in fact purchased the utility but is continuing to lease the system pursuant to the original lease agreement entered into with Ft. Candle Corporation in 1976. Enviro filed a copy of the lease agreement and an explanation of the transaction, which has provided the Commission a more complete understanding of the transaction and the proposed adjustment.

Enviro has entered into a lease agreement whereby it is required to make monthly lease payments of \$1,000 for a period of 13 years. Enviro has accounted for the lease obligation as a long-term liability in the principal amount of \$100,000 at an interest rate of 7.4 percent for 13 years and has requested that

interest expense on this liability be allowed for rate-making purposes. This method, Enviro states, results in a lower level of expense than including the annual lease payments of \$12,000 for rate-making purposes. Enviro cites a case where Cogan Company, Inc., d/b/a Maple Grove Sewage Plant, entered into a similar lease agreement and was granted interest expense on the future obligation for rate-making purposes.

The Commission, after reviewing the additional information supplied by Enviro and upon an examination of the Maple Grove case, concurs with Enviro's request that an allowance for interest expense for rate-making purposes should be granted in this case. By allowing interest versus the full lease payments a portion of the monthly payment is in effect considered principal payments, which would be the case had Enviro purchased the system outright.

Enviro has requested interest expense of \$7,851. However, the Commission finds that the most equitable interest allowance is \$4,315, which is the average interest expense over the life of the obligation. This method was used by the Commission in Case No. 6503, Adjustment of Rates of Cogan Company, Inc., d/b/a Maple Grove Sewage Plant, and the Commission finds it suitable for use in this case. The Commission has, therefore, adjusted the test-year expense by \$4,315 to include the average interest expense over the life of the obligation.

Collection Expense

The collection expense is directly related to the amount of

revenue that Enviro collects via the formula used by the Louisville Water Company ("LWC") to calculate the collection charge.¹ Therefore, the Commission has modified this calculation to include the increased rate allowed herein. The Commission is also using the most recent collection fee charged by LWC effective May 1, 1983, which results in an annual collection expense of \$2,136, or \$81 more than originally allowed.

OTHER ISSUES

Enviro has entered into a capital lease with Ft. Candle Corporation. In accounting for a capital lease, the lessee records the leased property as an asset on its books together with a corresponding liability. Under generally accepted accounting principles the initial recording value of the lease is the lesser of the fair value of the leased property or the present value of the minimum lease payments. However, for reporting as well as rate-making purposes the Commission requires the original cost of the utility plant in service to remain on the utility's books with any difference between net book value reduced by contributions in aid of construction and the purchase price of the utility reported as a Utility Plant Acquisition Adjustment in Account 108.

In accounting for the lease purchase transaction Enviro has removed the original cost of the utility plant in service, the accumulated depreciation and the accumulated total of contributions in aid of construction from its books. This transaction is not in accordance with the requirements of the Uniform System of

¹ $1.72 + \frac{\text{Sewer Charge}}{\text{Water Charge} + \text{Sewer Charge}} \times \text{Number of Customers.}$

Accounts for Sewer Utilities. Therefore, the Commission has determined that Enviro must amend its annual report for 1982, and all future reports presented to the Commission should reflect these accounting changes.

SUMMARY

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

1. Enviro has failed to present sufficient evidence to support its argument that interest on current payables and losses should be allowed and that the maintenance expense should be increased.

2. The Commission's Order of July 8, 1983, should be modified to authorize Enviro's additional expenses of \$4,315 for interest on long-term debt, \$720 to reflect the actual routine maintenance contract in effect on April 1, 1981, and \$81 for collection expenses.

3. The rates in the Commission's Order entered July 8, 1983, should be modified by the rates in Appendix A in that they will produce additional revenues of \$5,225 based on the adjustments in Finding No. 2 and making proper adjustments for the operating ratio of 88 percent.

IT IS THEREFORE ORDERED that the Commission's Order entered July 8, 1983, be and it hereby is modified in accordance with Findings Nos. 2 and 3 and affirmed in all other respects.


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

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


IT IS FURTHER ORDERED that within 30 days of the date of this Order Enviro shall file with the Commission its amended annual reports for the year 1982 and all future reports presented to the Commission.

Done at Frankfort, Kentucky, this 3rd day of January, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN CASE NO. 8688 DATED
JANUARY 3, 1984.

The following rates are prescribed for all customers served by Enviro Utilities, Inc. 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>CLASSIFICATION</u>	<u>MONTHLY RATE</u>
Residential	\$10.00
Educational	10.00*
Commercial	10.00*
Apartments	8.45

*Per Residential Equivalent