

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF D. H.)
CAMPBELL AND JOAN CAMPBELL,)
PARTNERSHIP, FOR AN ORDER)
ESTABLISHING INITIAL RATES FOR)
A WASTE WATER COLLECTION AND) CASE NO. 8888
TREATMENT SYSTEM TO SERVE THE)
RESIDENTS OF EAST PINE KNOT)
ESTATES SUBDIVISION IN MCCREARY)
COUNTY, KENTUCKY)

O R D E R

On August 18, 1983, D. H. Campbell and Joan Campbell, Partnership, ("Campbell") filed an application with the Commission seeking approval of initial rates for a waste water collection and treatment system in McCreary County, Kentucky. The Commission in Case No. 8477, The Application of D. H. Campbell and Joan Campbell for a Certificate of Public Convenience and Necessity and Approval of the Related Financing, approved the construction and financing of the sewer system; therefore, this Order will address only the request for establishment of initial rates.

The rates proposed would produce annual revenue of \$14,254 based upon 117 customers. Based on the determination herein, the Commission has granted Campbell rates that will produce annual revenues of \$12,517.

A hearing was not requested in this matter and no hearing was conducted. Therefore, the decision of the Commission is based

on information contained in the application, written submissions, and other documents on file in the Commission's offices which are matters of public record.

COMMENTARY

Campbell is a privately-owned sewage treatment system organized and existing under the laws of the Commonwealth of Kentucky, and expected to serve approximately 117 customers in McCreary County upon completion of construction of homes in the East Pine Knot Estates subdivision.

TEST PERIOD

Campbell is a utility that has not yet begun operations and, therefore, has no historical financial data for use as a test period. Estimated pro forma expenses were, therefore, utilized for the determination of revenue requirements and the rates that should produce this required revenue.

REVENUES AND EXPENSES

Campbell provided the Commission with an income statement including all of its projected revenues and expenses. The Commission is of the opinion that the projected data is generally proper and acceptable with certain modifications as set forth below:

Electric Expense

Campbell projected electric power expense of \$2,400. The Commission has reviewed the calculations provided by Campbell in support of this projection and does not concur with the calculations in several respects. In determining its annual kilowatt-hour ("KWH") usage, Campbell reduced the nominal horsepower rating

of each electric motor by an 80 percent efficiency factor which has the effect of increasing the annual KWH usage. The calculated KWH usage was then increased by a 15 percent contingency factor. Therefore, in effect, Campbell has increased its estimated electric expense by two separate contingency factors.

The Commission considers the use of two contingency factors to be excessive in this instance. In determining a pro forma expense based entirely upon estimates it is recognized that the projected expense may prove to be either higher or lower than the actual expense incurred. The power consumption of electrical equipment during actual operation is generally less than the nominal horsepower rating of the equipment. Calculating power usage from the horsepower rating of the equipment itself provides a contingency in estimating the KWH usage. Therefore, the Commission finds that the actual horsepower rating of the equipment should be used in calculating the KWH usage to arrive at electric expense. The resulting expense for rate-making purposes is \$1,782.

Chemical Expense

Campbell projected chemicals expense of \$1,000 annually. Campbell provided the calculations used to determine this figure which indicated an annual expense of \$895 which was rounded up to \$1,000, an increase of over 10 percent. The Commission can find no compelling reason to round this expense when the original estimate of \$895 is based on sound assumptions. The Commission has, therefore, allowed the \$895 expense as originally calculated for rate-making purposes.

Lab Services Expense

Campbell projected lab testing expense of \$1,200. The Commission in its information request of November 11, 1983, required Campbell to provide the quoted price per lab test performed and the number of lab tests to be conducted per year. The information filed by Campbell indicates a price per lab test of \$47, with testing done on a quarterly basis for a total annual expense of \$188. Therefore, the Commission has reduced Campbell's projected expense by \$1,012 and has allowed a lab services expense of \$188 for rate-making purposes herein.

In its application, Campbell projected total expenses of \$12,705. After consideration of the effects of the adjustments made by the Commission herein, the total pro forma expenses found reasonable are \$11,015.

REVENUE REQUIREMENTS

The Commission is of the opinion that the operating ratio¹ is a fair, just and reasonable method for determining revenue requirements in this case. The Commission finds that an operating ratio of 88 percent will allow Campbell to pay its operating expenses and provide a reasonable return to its owners. Therefore, the Commission finds that Campbell is entitled to establish rates to produce total annual revenue of \$12,517.

SUMMARY

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

¹ Operating Ratio = $\frac{\text{Operating Expenses}}{\text{Gross Revenue}}$

1. The rates in Appendix A will produce gross annual operating revenue of \$12,517 and are the fair, just and reasonable rates to be charged in that they will allow Campbell to pay its operating expenses and provide a reasonable surplus for equity growth.

2. The rates proposed by Campbell should be denied.

IT IS THEREFORE ORDERED that the rates proposed by Campbell be and they hereby are denied.

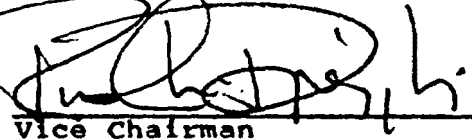
IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by Campbell on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Campbell shall file the revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 13th day of January, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8888 DATED
JANUARY 13, 1984

The following rates are prescribed for the customers in the area served by East Pine Knot Estates Subdivision Wastewater Treatment Plant located in McCreary County, Kentucky.

<u>Customer Category</u>	<u>Monthly Rate</u>
Single Family Residential	\$9.94
Multi Family (per dwelling unit)	7.45