

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF DOVE CREEK)
SANITATION, INC., FOR AN)
ADJUSTMENT OF RATES PURSUANT) CASE NO. 8912
TO THE ALTERNATIVE PROCEDURE)
FOR SMALL UTILITIES)

O R D E R

On October 3, 1983, Dove Creek Sanitation, Inc., ("Dove Creek") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

There were no intervenors in this matter, and all information requested by the Commission has been submitted.

Dove Creek requested a rate which would produce an annual increase of \$10,729 from its 109 customers. In this Order, the Commission has allowed the requested rate producing an increase of \$10,729.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rate, the 12-month period ending December 31, 1982, has been accepted as the test period.

REVENUES AND EXPENSES

Dove Creek incurred a net loss for the test period of \$2,797. Dove Creek proposed several pro forma adjustments to its test period operating revenues and expenses to reflect current operating conditions more accurately. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Management Fee

Dove Creek proposed a pro forma adjustment to test year expenses of \$2,000 representing compensation for management services. All routine maintenance operations are performed by Eubank, Hall and Associates, Inc., and the billing and collection is performed by the Louisville Water Company. Thus, the functions performed by Dove Creek are limited to part-time duties. In this instance, the Commission has allowed a pro forma management fee of \$1,800 per year which it considers to be reasonable compensation for management duties for Dove Creek based on fees paid for this service by similarly-sized utilities operating under the jurisdiction of the Commission.

Purchased Water Expense

Based on the analysis of purchased water expense attached to the application of Dove Creek, the Commission has transferred

the customer printout cost of \$140 to rate case expenses for proper disposition.

Purchased Power Expense

Dove Creek projected a pro forma adjustment of \$346 to actual purchased power expense of \$6,654 for the test period. Moreover, the Commission also finds it appropriate to increase this adjustment by \$153, which, in total, represents the 7.5 percent increase granted the Louisville Gas and Electric Company in its last rate case before the Commission (Case No. 8616), granted subsequent to the test period in this case. Therefore, the Commission has included adjusted purchased power expense of \$7,153¹ in test year expenses.

Chemicals

Dove Creek projected chemical expense of \$1,500 for the test period. It is the Commission's policy to allow only known and measurable adjustments to operating expenses. Dove Creek supplied no documentation to substantiate the inflation adjustment of \$142. Moreover, \$330 of these chemicals were purchased during December 1981 and were erroneously included in test year chemical expense. Thus, the Commission has determined that adjusted chemical expense of \$1,028 is allowable for rate-making purposes.

Maintenance Expense

Dove Creek projected maintenance expense of \$5,100 for the test period, which is composed of the following items:

¹ $\$6,654 \times 7.5 \text{ percent} = \$499 + \$6,654 = \$7,153.$

Sludge Hauling	\$2,640
247 Snap Cap Diffusers + Installation Charge	\$1,846
Miscellaneous Repairs	\$ 614

The Commission transferred the allowable sludge hauling cost of \$2,640 to account number 701-C, Sludge Hauling. Moreover, the Commission has determined that the installation of the snap cap diffusers is not an annual occurrence, as evidenced by a letter of Eubank, Hall and Associates, Inc., dated January 24, 1984, in which it states the replacement of diffusers occurs approximately every 4 years. The Commission considers this to be a capital item and has excluded it from maintenance expense but will allow depreciation expense as mentioned in a later section of this Order.

Office Supplies and Other Expense

Dove Creek projected other expenses of \$200 for the test period, which included an inflation adjustment of \$34. There was no documentation submitted to substantiate the adjustment, and the Commission has, therefore, reduced other expenses by \$34.

Depreciation Expense

Dove Creek stated in its application that it made no request for depreciation expense since 100 percent of the sewer plant cost was recovered through contributions. Further, the Commission, in its disallowance of capital items of \$1,846 included in maintenance expense described above, has allowed a pro

forma adjustment of \$462 computed on the basis of an expected useful life of 4 years.²

Rate Case Expenses

Test year rate case expenses consisted of accounting fees of \$800 paid to Dahlgren and Associates, and the cost of the customer printout furnished by the Louisville Water Company of \$140. The Commission is of the opinion that these expenses should be amortized over a 3-year period. Therefore, \$313 has been included in test year operating expenses to reflect rate case expenses.

Therefore, Dove Creek's adjusted operations at the end of the test period are as follows:

	<u>Dove Creek Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 10,271	\$	\$ 10,271
Operating Expenses	<u>20,706</u>	<u>(2,031)</u>	<u>18,675</u>
Operating Income (Loss)	<u>\$ (10,435)</u>	<u>\$ 2,031</u>	<u>\$ (8,404)</u>

REVENUE REQUIREMENTS

The Commission is of the opinion that the operating loss is unfair, unjust and unreasonable. Further, the Commission is of the opinion that the proposed rate should be approved as the additional revenues of \$10,729 generated by the proposed rate will improve Dove Creek's financial position. Therefore, the Commission finds that Dove Creek should be permitted to increase

² \$1,846 ÷ 4 = \$462.

its rate to produce an increase in annual revenue of \$10,729,³ which includes federal, state and Jefferson County income taxes of \$450.

SUMMARY

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


1. The rate in Appendix A is the fair, just and reasonable rate to charge for sewer service rendered to the customers of Dove Creek and should produce annual revenues of approximately \$21,000.

IT IS THEREFORE ORDERED that the rate in Appendix A be and it hereby is approved as the fair, just and reasonable rate to be charged by Dove Creek for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Dove Creek 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 14th day of June, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

³ \$19,125 + .9107 = \$21,000 - \$10,271 = \$10,729.

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8912 DATED JUNE 14, 1984

The following rates are prescribed for customers of Dove Creek Sanitation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

CLASS OF CUSTOMER

RATE

Residential

\$16.05 per month