

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN APPLICATION OF WOODLAND-PRESTON)
ENTERPRISES, INC., FOR AN ADJUSTMENT) CASE NO. 8963
OF RATES)

O R D E R

On January 11, 1984, Woodland-Preston Enterprises, Inc., ("Woodland") filed its application with the Commission requesting to increase its rates for sewage treatment services pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities. The proposed rates would produce additional revenue of \$1,023, an increase of 52.4 percent. Based on the determination herein, Woodland has been granted an increase in revenue of \$1,023 annually, the full amount of the requested increase.

No hearing was held in this matter and no written data requests were issued. The Commission's decision in this matter is based on information contained in Woodland's application and annual reports along with the staff audit report of Woodland's financial operations for the calendar years 1982 and 1983 which was filed in this case as an appendix to the Commission's Order dated March 30, 1984.

COMMENTARY

Woodland is a privately-owned utility providing sewage treatment service to 31 residential customers in Johnson County, Kentucky. Woodland has maximum treatment capacity of 13,000 gallons per day and has been in operation since 1973.

TEST PERIOD

The Commission has adopted the 12-month period ending December 31, 1983, as the test period for determining the reasonableness of the proposed rate increase. In utilizing the historical test period, the Commission has given full consideration to appropriate known and measurable changes.

REVENUES AND EXPENSES

Woodland did not propose any adjustments to its test period revenues and expenses; however, the Commission has made several typical rate-making adjustments to Woodland's test-period operating statement to reflect actual and anticipated operating conditions.

Operating Revenues

Woodland's 1983 operating statement reflected operating revenue of \$2,164. The audit report shows this to be an overstatement which improperly includes funds transferred from Woodland's savings account to checking account as revenue. The audit report also shows this amount to improperly reflect a \$500 loan to Woodland from its President, Mr. E. Jay Preston, as operating revenue.

Additional correspondence will be necessary to reconcile and correct the amounts reported in the annual report; however, the Commission has determined from the audit report that Woodland's actual test-year sewage service revenues were \$1,588. This amount has been increased by \$365 to \$1,953 in order to normalize test period revenue to reflect the rate increase Woodland was granted in April 1983. The adjustment reflects the current rate of \$5.25 per month for 31 customers which is the number of customers connected to Woodland's sewage treatment system at the end of the test year.

Maintenance Expense

During the test year Woodland incurred \$640 in expense for the cost of rebuilding a pump motor. The Commission is of the opinion that this is an unusual, extraordinary expense which cannot be reasonably expected to recur on an annual basis and, therefore, should be amortized for rate-making purposes. Based on the expectation that the work performed should extend the life of the motor, the Commission is of the opinion that a 5-year amortization period is reasonable and proper for rate-making purposes. Therefore, an adjustment has been made to eliminate the test year expense of \$640 for rate-making purposes and add back one-fifth of that amount, or \$128, which results in a net decrease in Woodland's test-period maintenance expense of \$512.

Depreciation Expense

During the test year Woodland reported annual depreciation expense of \$618. In Woodland's previous rate case, Case No. 8651, the Commission found that the total cost of Woodland's original

utility plant had been recovered through the sale of subdivision lots in its service area. Therefore, the full amount of Woodland's annual depreciation expense has been disallowed for rate-making purposes.

The staff audit report shows that Woodland purchased a new pump motor in March 1982 at a cost of \$872 and recorded the expenditure as an operating expense. In accordance with the findings of that report the Commission will require that Woodland capitalize the cost of the motor as an addition to plant in service and depreciate the asset over its estimated useful life which the Commission finds to be 5 years. Therefore, an adjustment has been made to increase Woodland's depreciation expense by \$174 to reflect the annual depreciation on the new pump motor.

Extraordinary Maintenance Expense

In Case No. 8651 the Commission found that Woodland incurred \$608 in extraordinary maintenance expense for which an adjustment was made to amortize and recover this amount over 2 years for rate-making purposes. Inasmuch as only 1 year of the 2-year amortization period has passed, it is proper to continue to reflect the annual amortization expense of \$304 as an operating expense for rate-making purposes. Therefore, the Commission has made an adjustment to increase Woodland's operating expenses by that amount.

Interest Expense

As indicated in a previous section of this Order, Woodland's President, Mr. E. Jay Preston, made a loan of \$500 to the utility during the test year. The loan was required due to the

extraordinary maintenance expense incurred for rebuilding the pump motor and to allow Woodland to continue to operate and meet its day-to-day financial obligations. In view of the nature of the loan and being cognizant of the fact that Woodland had recently made an attempt to improve its financial condition through a request for a rate increase, the Commission is of the opinion that the interest cost associated with the loan is a proper expense for rate-making purposes. Taking notice of the interest costs used under similar arrangements by other utilities, the Commission finds 10 percent to be a reasonable rate of interest to be used in calculating interest expense for rate-making purposes. Therefore, an adjustment has been made to increase Woodland's interest expense by \$50.

The Commission finds that Woodland's adjusted test period operations are as follows:

	<u>Actual Test Period</u>	<u>Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 1,588	\$ 365	\$1,953
Operating Expenses	<u>3,032</u>	<u><652></u>	<u>2,380</u>
Operating Income	\$<1,444>	\$1,017	\$ <427>
Other Income and (Deductions) - Net	<u>6</u>	<u><50></u>	<u><44></u>
Net Income	<u>\$<1,438></u>	<u>\$ 967</u>	<u>\$ <471></u>

REVENUE REQUIREMENTS

The Commission is of the opinion that the operating ratio 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 Woodland to pay its operating expense, service its debt and provide a reasonable return to its

owners. The use of this ratio results in Woodland requiring additional revenue of \$1,023 which includes a provision for income taxes. The Commission, therefore, finds Woodland's requested increase to be reasonable and has granted the entire amount requested.

SUMMARY

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

1. The rate proposed by Woodland and contained in Appendix A is the fair, just and reasonable rate to be charged by Woodland and will produce annual operating revenue of \$2,976.

IT IS THEREFORE ORDERED that the rate proposed by Woodland and contained in Appendix A be and it hereby is approved for sewage treatment service rendered by Woodland on and after the date of this Order.


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

Done at Frankfort, Kentucky, this 27th day of April, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Acting Secretary _____

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8963 DATED 4/27/84

The following rate is prescribed for customers in the area served by Woodland Preston Enterprises, Inc., located in Johnson County, Kentucky:

RATE: Monthly

Residential

\$8.00