

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN APPLICATION OF LAKE OF THE)
WOODS SANITATION, INC.,)
ADJUSTMENT FOR SMALL UTILITIES) CASE NO. 9226
PURSUANT TO 807 KAR 5:076)

O R D E R

On November 26, 1984, Lake of the Woods Sanitation, Inc., ("Lake of the Woods") filed its application requesting an increase in rates pursuant to 807 KAR 5:076 of \$14,787 over actual test period revenues. This regulation allows utilities with fewer than 400 customers or less than \$200,000 in gross annual revenues to apply for expedited rate relief. On January 23, 1985, Ms. Deanna Haerberlin, on behalf of residents of Lake of the Woods Subdivision, filed for full intervention in this matter. This motion for intervention was granted by Order dated January 28, 1985. The Attorney General's Office was granted intervention in this proceeding as stipulated in 807 KAR 5:076, Section 5.

Due to the number of protests entered in this matter by the residents of Lake of the Woods Subdivision, the Commission on its own motion, scheduled a public hearing for April 10, 1985, at the Commission's offices in Frankfort, Kentucky. The purpose of this hearing was to consider the reasonableness of the proposed rates.

The hearing was held as scheduled and all information requested during the hearing has been filed.

TEST PERIOD

Lake of the Woods proposed to use the 12 months ending December 31, 1983, as the test period in this proceeding, which the Commission has accepted in accordance with 807 KAR 5:076.

REVENUES AND EXPENSES

Lake of the Woods proposed to use its Annual Report for the 12 months ending December 31, 1983, as the basis for the financial data to be used in determining the reasonableness of its request in this proceeding. The Commission has accepted this financial data with certain adjustments as follows:

Balance Sheet

In Case No. 6811,¹ Lake of the Woods stated that costs of constructing the sanitary sewers would be recovered through the sale of lots and the costs of constructing the treatment facilities would be recovered from the operating revenues of the utility.² In completing its annual report, Lake of the Woods included only the cost of the non-contributed plant in its amount for total utility plant, Accounts 101 to 109. This amount should also include the total original construction cost of the property recovered through the sale of lots. The offsetting entry for this

¹ The Application of Lake of the Woods Sanitation, Inc., of Jefferson County, Kentucky for a Certificate of Convenience and Necessity, Authorizing Said Private Corporation to Construct a Sewage Disposal and Treatment Plant Pursuant to KRS Chapter 278, and Seeking Approval of the Plans and Specifications of Said Plant in Construction thereof and Further Seeking the Approval of the Schedule of Rates and Charges for the Services to be Rendered by the Treatment Plant dated November 23, 1977.

² Ibid., page 3.

adjustment should be made to Account 271, Contributions in Aid of Construction.

Operating Revenues

During the hearing, Lake of the Wood's Secretary/Treasurer, Ms. Linda Brent, stated that the utility was currently serving 83 customers.³ The test period revenues of \$9,513 were based on serving 50 customers.⁴ In order to recognize the current level of customers, the Commission has increased this amount by \$6,025 to \$15,538.⁵

Agency Collection Fee

Lake of the Woods had a test period collection fee charged by the Louisville Water Company of \$337.⁶ The fee is charged by the Louisville Water Company for acting as the billing and collection agent for Lake of the Woods. The Commission has increased this expense by \$559 to \$896 to reflect the current rate being charged of \$1.80 per bill and the current number of customers being billed.⁷

³ Transcript of Evidence ("T.E."), April 9, 1985, pages 12 and 14.

⁴ 1983 Annual Report, page 8.

⁵ 83 customers X \$15.60/month X 12 months = \$15,538.

⁶ 1983 Annual Report, page 9, line 34.

⁷ 83 customers X \$1.80 per bill X 6 months (billed bi-monthly) = \$896.

Depreciation Expense

During 1984 Lake of the Woods incurred \$3,646 of expense related to its lift station.⁸ The Commission is of the opinion that this expenditure fulfills the requirement of being known and measurable for inclusion for rate-making purposes. The Commission is further of the opinion that this expenditure should be capitalized and amortized over the remaining life of the lift station of 6 years.⁹

Currently Lake of the Woods is operating at only 75 percent of its intended capacity.¹⁰ The customers of the system should not be required to pay for plant in excess of that required to provide safe and efficient sewage service, nor should the current customers be required to pay for idle plant capacity due to lower than anticipated housing and lot sales by the developer. Therefore, the Commission has reduced Lake of the Woods' test period depreciation expense from \$3,635 to \$3,182.¹¹

Interest Expense

During the test period Lake of the Woods reported interest expense of \$22,575 payable to the LHF Service Corporation. Lake

⁸ Response to hearing request filed April 15, 1985, page 2.
 $\$725 + \$696 + \$2,225 = \$3,646.$

⁹ Depreciation Schedule filed January 14, 1985. Purchase date December 31, 1979, life expectancy of 10 years.

¹⁰ 83 customers ÷ 111 customers when fully utilized = 75%.

¹¹ $\$3,635 + (\$3,646 \div 6 \text{ yrs.}) \times 75\% = \$3,182.$

of the Woods is a wholly-owned subsidiary of LHF Service Corporation which is a wholly-owned subsidiary of Louisville Home Federal Association.¹²

In Case No. 6811, Lake of the Woods did not seek approval of any financing associated with the construction of the sewage system nor did it seek to include interest expense on any such financing. In that proceeding Lake of the Woods was aware that Commission approval of financing that is to be the obligation of the utility must be approved by the Commission. Lake of the Woods stated that approval would be sought at a later proceeding.¹³ The Commission never gave its approval for Lake of the Woods to incur long term financing. Had approval of this financing been sought in a timely manner it would have resulted in substantially higher rates than those established in Case No. 6811.

The original intent of the loan was to construct the sewage plant facility and purchase equipment. The loan has since been increasing in amount with the proceeds being used to operate the utility.¹⁴

Despite prior knowledge by the developers that long term financing must receive prior approval of this Commission, Lake of the Woods incurred long term debt in direct violation of KRS 278.300. Should the Commission now allow the original financing

¹² T.E., August 24, 1977, page 29.

¹³ T.E., August 24, 1977, pages 55 and 57.

¹⁴ Response to Commission Information Request issued January 15, 1985.

it would amount to defacto approval of Lake of the Woods' violation of KRS 278.300 and shift the burden of that violation from the developers to the residents being served by Lake of the Woods. Further to allow interest on money borrowed to operate Lake of the Woods in prior years or to cover past operating losses incurred would constitute retroactive rate-making. The Commission can establish rates only on a going-forward basis.

Therefore the revised operations of Lake of the Woods can be stated as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 9,513	\$ 6,025	\$15,538
Operating Expenses	15,900	106	16,006
Operating Income	<\$ 6,387>	\$ 5,919	<\$ 468>
Interest Expense	22,575	<\$ 22,575>	-0-
Net Income	<\$28,962>	\$ 28,494	<\$ 468>

REVENUE REQUIREMENTS

Lake of the Woods' adjusted net operating loss is clearly unfair, unjust and unreasonable in that it does not allow Lake of the Woods to pay for normal operating expenses. The Commission is of the opinion that an operating ratio of .88X would result in fair, just and reasonable operations in that it would allow Lake of the Woods to pay its normal operating expenses and provide for a reasonable return on investment. Therefore, Lake of the Woods will be allowed to increase its charges by \$2,651 on an annual basis.

FINDINGS AND ORDERS

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

1. The rate proposed by Lake of the Woods should be denied upon application of KRS 278.030.

2. The rate in Appendix A is the fair, just and reasonable rate to be charged for sewage service rendered on and after the date of this Order.

3. The amount of contributed property recovered through the sale of lots should be included in the total original cost of the plant in service with an offsetting adjustment made to contributions in aid of construction.

4. Lake of the Woods should file its revised tariff sheet setting out the rate approved herein within 30 days of the date of this Order.


IT IS THEREFORE ORDERED that the rate proposed by Lake of the Woods is hereby denied upon application of KRS 278.030.

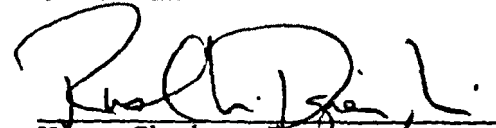
IT IS FURTHER ORDERED that the rate in Appendix A is the fair, just and reasonable rate to be charged by Lake of the Woods for sewage service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Lake of the Woods shall file a copy of its revised tariff sheet setting out the rate approved herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 30th day of May, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9226 DATED MAY 30, 1985.

The following rates and charges are prescribed for the sewer services rendered to all customers of Lake of the Woods Sanitation Inc., that are located in the Lake of the Woods Subdivision of eastern Jefferson County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

<u>Type of Service</u>	<u>Monthly Rate</u>
<u>Residential</u>	
Single - Family Residence	\$ 18.30 Each Residence
<u>Commercial or High Volume Usage</u>	
Each Customer	29.30 Per Residential Equivalent ¹

¹ Each 400 gallons per day sewer loading, as indicated by metered water usage, is one residential equivalent.