

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF GREEN SPRING)
UTILITIES, INC., FOR AUTHORITY TO)
ACQUIRE THE STOCK AND OPERATE THE)
SEWER TREATMENT SYSTEM OWNED BY)
GREEN SPRING SANITATION COMPANY,) CASE NO. 9234
INC., IN JEFFERSON COUNTY, KENTUCKY:)
TO BORROW THE NECESSARY FUNDS TO)
FINANCE PURCHASE OF THE SYSTEM)

O R D E R

On December 3, 1984, Green Spring Utilities, Inc., ("GSU") filed an application requesting authority to acquire the stock and operate the sewage treatment system presently owned by Green Spring Sanitation Co., Inc., ("GSS") pursuant to a stock purchase agreement entered into by GSU and GSS on July 1, 1984. GSS also requested approval of its proposed plan of financing the stock purchase.

COMMENTARY

The sewage treatment plant owned by GSS is located in Jefferson County, Kentucky, and serves 200 residential customers. The plant has been owned and operated by GSS since 1968. GSU is a corporation formed and existing for the purposes of acquiring the stock of GSS and owning and operating the GSS sewage treatment plant. GSU is an affiliated company to Andriot-Davidson Service Company, Inc., ("Andriot-Davidson"), which will provide services

for physical operation of the treatment plant, repairs and maintenance, and bookkeeping services.

FINDINGS

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

1. GSU is ready, willing and able to purchase the stock of GSS and to own and operate the GSS sewage treatment system. Furthermore, GSS is ready, willing and able to sell, as it wishes to divest itself of the ownership and operation of the sewage treatment system.

2. The agreed-upon purchase price is \$84,000 which was determined through negotiations between the stockholders of GSS and the stockholders of GSU.

3. GSU has filed with the Commission its Articles of Incorporation.

4. GSU will finance the stock purchase through two promissory notes held by the stockholders of GSS. One note, in the amount of \$40,000, will bear an interest rate of 15 percent per annum for a period of 15 years. The second note, in the amount of \$44,000, will bear an interest rate of 7.5 percent for a period of 8.5 years. The financing to GSU should be approved; however, since the owners of GSU and not the ratepayers are the beneficiaries of the purchase, and, since the net book value of the plant prior to the transfer is zero, the owners should be responsible for the retirement of the debt incurred to finance said purchase.

5. The quality of service to the present customers of GSS will not suffer in that Andriot-Davidson, which had been employed by GSS to operate the system, will be employed by GSU to perform the same services.

6. The cost of the services provided by Andriot-Davidson will not change in conjunction with the transfer of ownership of the sewage treatment system. Furthermore, the costs and charges enumerated by GSU in this record are the maximum amounts that will be allowed for rate-making purposes by this Commission until such time as GSU presents persuasive evidence that such charges should be changed.

7. GSU should adopt the existing rates, rules and regulations filed with and approved by the Commission for GSS.

8. GSU should maintain its books of account in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by this Commission. Accounting for an acquisition includes:

a. Recording the utility plant acquired at its original cost to the person first devoting it to public service, estimated if not known, in the appropriate utility plant in service accounts;

b. Crediting the requirements for accumulated provision for depreciation and amortization applicable to the original cost of the properties acquired to the appropriate account for accumulated provision for depreciation and amortization;

c. Transferring the cost of any non-utility property to Account No. 121--Non-Utility Property;

d. Crediting contributions in aid of construction, estimated if not known, to Account No. 271--Contributions in Aid of Construction; and

e. Including in Account No. 108--Utility Plant Acquisition Adjustment, any difference between the purchase price and the original cost of the utility plant and non-utility property less the amounts credited to accumulated depreciation and amortization reserves and contributions in aid of construction.

9. While legal and proper for general accounting purposes, this acquisition transaction, if not at "book value," can either increase or decrease the debt and/or equity on the utility's books. In this instance, the net book value is zero. Therefore, GSU and its stockholders are hereby apprised that the Commission will not allow, for rate-making purposes, interest charges on debt that exceed those charges which would have been incurred to finance the original cost of plant in service excluding any acquisition adjustment less accumulated depreciation and contributions in aid of construction. Furthermore, since the owners of GSU and not the ratepayers are the beneficiaries of this acquisition, the Commission will not allow a return on equity or amortization of an acquisition adjustment that resulted from this transaction for rate-making purposes.

10. GSS should file a final annual report reflecting the results of its operations for the period from January 1, 1985, through the date of this Order and its financial position at the date of the stock transfer approved herein.

ORDERS

The Commission, on the basis of the evidence of record and the findings herein, HEREBY ORDERS that the transfer of the stock of GSS to GSU be and it hereby is approved subject to the conditions set out in Finding Nos. 7 and 8.

IT IS FURTHER ORDERED that the financing of \$84,000 as described in Finding No. 4 be and it hereby is approved.

IT IS FURTHER ORDERED that in future rate cases the allowable costs associated with this transfer will be determined in accordance with Finding Nos. 4 and 9.

IT IS FURTHER ORDERED that in future rate cases the allowable costs for services provided by affiliated companies will be determined in accordance with Finding No. 6.

IT IS FURTHER ORDERED that GSU shall account for this transfer in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by this Commission as described in Finding No. 8.

IT IS FURTHER ORDERED that GSU shall adopt the existing rates, rules and regulations filed with and approved by the Commission for GSS.

IT IS FURTHER ORDERED that GSS shall file an annual report for the partial year 1985 in accordance with Finding No. 10.

IT IS FURTHER ORDERED that GSU shall file with this Commission within 30 days of the date of this Order its original tariff sheets setting forth its rates, rules and regulations as required by KRS 278.160.

Done at Frankfort, Kentucky, this 18th day of April, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Demery
Chairman

Richard L. ...
Vice Chairman

Jan ...
Commissioner

ATTEST:

Secretary