

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF STONE BLUFF)
SANITATION COMPANY, INC., FOR A)
RATE ADJUSTMENT PURSUANT TO THE) CASE NO. 9285
ALTERNATIVE RATE ADJUSTMENT)
FILING PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

On February 22, 1985, Stone Bluff Sanitation Company, Inc., ("Stone Bluff") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). This regulation permits utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method 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 is intended to minimize rate case expenses to the utility and, therefore, result in lower rates to the ratepayers.

Stone Bluff's proposed rates are estimated to produce additional revenue of approximately \$8,928 annually, 55.9 percent over reported test-period revenues. Based on the determination herein, it is estimated that the revenues of Stone Bluff will increase by \$3,168 annually, approximately 15.6 percent over test-period normalized revenues.

Stone Bluff and Quail Run Homeowners Associations were granted leave to intervene in this case and, therefore, had an opportunity to request a hearing. However, no such request was filed and no hearing was conducted. The decision of the Commission is based on the record made by the application, written submissions, annual reports, and other documents on file in the Commission offices.

COMMENTARY

Stone Bluff is a privately-owned sewage treatment plant and serves approximately 106 residential customers in Jefferson County, Kentucky.

TEST PERIOD

The Commission has adopted the 12-month period ended December 31, 1984, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

For the test period, Stone Bluff had a net operating loss from sewage operations of \$2,161. Stone Bluff proposed several adjustments to revenues and expenses to reflect more current and anticipated operating conditions. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Revenue Normalization

Stone Bluff proposed an adjustment of \$1,879 to actual test-period revenues to reflect its estimate that, although it had 106 hook-ups to the sewer plant at the time its application was filed, an average of only 93 sewer payments per month will be received during 1985. Stone Bluff stated in its application that it averaged receipt of 83 sewer payments per month during the test year.

In order to normalize annual operating revenues, the Commission has adjusted reported test-year operating revenues by \$4,375 to \$20,352,¹ based on the number of customers and the monthly rates at the end of the test year. Both Stone Bluff's annual report for 1984 and its application reflect 106 residential customers. Furthermore, in response to the Commission's information request of March 26, 1985, Stone Bluff submitted a printout giving the number of customers the utility serves. That printout listed 106 customers.

Water Expense

Stone Bluff proposed to increase test-year water expense of \$1,369 by \$140 to reflect an increase in rates by Louisville Water Company. The basis of Stone Bluff's adjustment is its contention that Louisville Water Company's 1985 rates represent an increase of 10.21 percent over the 1984 rates. The Commission is of the opinion that the best method to compute the adjustment to water

¹ 106 customers X \$16 X 12 months = \$20,352.

expense is to apply the new rates to the test-year consumption. This method yields an adjustment of \$97, and that amount has been allowed for rate-making purposes. This adjustment results in adjusted water expense of \$1,466.

Electric Expense

Stone Bluff proposed an adjustment of \$4,461 to test-year electric expense. A defective electric meter was replaced by Louisville Gas and Electric Company ("LG&E") in August 1984. The defective meter had been registering only part of the actual electric usage, and LG&E sent Stone Bluff a makeup bill for \$3,696 in November 1984. Stone Bluff's electric expense for calendar year 1983 had been only \$3,053, while total test-year electric expense amounted to \$7,020.

The basis for Stone Bluff's adjustment of \$4,461 is the sum of the actual expense for January and February of 1985 multiplied by six to yield an annualized expense of \$11,481.

Stone Bluff has filed copies of electric bills for the first 6 months of 1985. Also, the December 1984 electric bill, a copy of which was filed with Stone Bluff's application, reflects usage as registered by the new meter. Thus, the record in this case contains 7 months of current, actual electric usage as registered by the new meter. The Commission is of the opinion that this 7-month period presents a better representation of Stone Bluff's projected annual electric expense than the 2 months on which Stone Bluff based its adjustment. The average expense for the aforementioned 7-month period amounts to \$838.35, which yields

an annualized electric expense of \$10,060, and this amount of electric expense has been allowed for rate-making purposes herein.

Other Interest Expense

Stone Bluff reported test-year charges of \$386 to Account No. 431--Other Interest Expense and proposed an adjustment to increase this expense by \$174. In its application, Stone Bluff stated that it presently has notes payable of \$6,000, and that it estimates, because of negative cash flow, it will have an average of \$8,000 notes payable in 1985. Stone Bluff based its adjustment on notes payable of \$8,000 at an interest rate of 7 percent annually.

The Commission does not allow adjustments based on estimates, but rather only allows adjustments that are known and measurable. Therefore, the Commission has allowed the test-year actual other interest expense of \$386 for rate-making purposes herein.

After consideration of the aforementioned adjustments, the Commission finds Stone Bluff's test-year operations to be as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$15,977	\$ 4,375	\$20,352
Operating Expenses	<u>17,820</u>	<u>2,551</u>	<u>20,371</u>
Net Operating Income	\$ <1,843>	\$ 1,824	\$ < 19 >
Other Income	68	-0-	68
Other Deductions	386	-0-	386
Net Income (Loss)	<u>\$ <2,161 ></u>	<u>\$ 1,824</u>	<u>\$ <337 ></u>

REVENUE REQUIREMENTS

The Commission is of the opinion that the adjusted test-period operating loss is clearly unjust and unreasonable. The Commission is of the opinion that the operating ratio² is a fair, just and reasonable method for determining revenue requirements in this case and finds that an operating ratio of 88 percent will allow Stone Bluff to pay its operating expenses and provide a reasonable return to its owners. Therefore, the Commission finds that Stone Bluff is entitled to an increase in annual operating revenues of \$3,168.

FINDINGS AND ORDERS

1. The rates in Appendix A are the fair, just and reasonable rates for Stone Bluff and will produce gross annual revenue of approximately \$23,520.

2. The rates proposed by Stone Bluff would produce revenue in excess of that found reasonable herein and should be denied upon application of KRS 278.030.

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

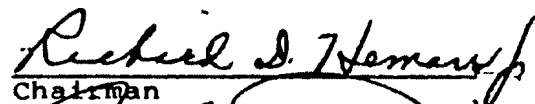
IT IS FURTHER ORDERED that the rates proposed by Stone Bluff be and they hereby are denied.

² Operating Ratio = $\frac{\text{Operating Expenses}}{\text{Gross Revenue}}$

IT IS FURTHER ORDERED that within 30 days from the date of this Order Stone Bluff shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 5th day of August, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

did not participate
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9285 DATED AUGUST 5, 1985

The following rates and charges are prescribed for customers receiving sewer service from Stone Bluff Sanitation Company, Inc. 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>Customer Class</u>	<u>Rate</u>
Single Family Residential	\$18.50
Multi-Family Residential	13.88
* All Other	28.90

* A residential equivalent is defined as a sewer loading of 400 gallons per day as indicated by average daily water usage.