

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the Matter of:

APPLICATION FOR RATE ADJUSTMENT )  
OF YORKTOWN SEWAGE TREATMENT )  
FACILITIES, INC. PURSUANT TO THE ) CASE NO. 9366  
ALTERNATIVE RATE ADJUSTMENT )  
PROCEDURE FOR SMALL UTILITIES )

O R D E R

On June 14, 1985, Yorktown Sewage Treatment Facilities, Inc. ("Yorktown") filed its application with the Commission to increase its rates 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 ("ARF") 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 minimizes rate case expenses to the utility and, therefore results in lower rates to the ratepayers.

Yorktown requested rates which would produce an annual increase of \$17,820, which reflects approximately a 50 percent increase in rates. According to the application of Yorktown, the present revenues are insufficient to meet its operating expenses and make the necessary repairs and improvements to the sewer system. In this Order the Commission has denied the request of Yorktown for an increase in its rates.

### TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1984, has been accepted as the test period.

### REVENUES AND EXPENSES

Yorktown had actual test period net income of \$4,794 which it adjusted to reflect a net operating loss of \$8,790. The Commission has made the following adjustments to Yorktown's pro forma operations:

#### Operations and Maintenance Expenses

Yorktown proposed to increase its test period operations and maintenance expense of \$24,526 by \$3,500 for the repair or replacement of a comminutor, \$510 for replacing a bar screen, \$600 in additional routine maintenance fees and \$4,510 for electrical repairs required by the Jefferson County Board of Health.

In a letter dated October 7, 1985, the Department of Public Health granted Yorktown a variance on the comminutor for the waste water treatment plant. This action eliminated the need for replacing the comminutor in the near future, therefore the \$3,500 adjustment proposed for this replacement is denied.

The actual cost of the new bar screen was \$160.<sup>1</sup> Since the bar screen will be of benefit to future periods, this cost has been capitalized and will be discussed in more detail later in this Order. Therefore, Yorktown's pro forma operation and maintenance expense has been reduced by an additional \$510.

---

<sup>1</sup> Response to Information Request dated September 5, 1985.

The electrical work required by the Jefferson County Board of Health consists of permits and inspections, demolition work and installing new or reworking existing switches and J-boxes.<sup>2</sup> Since these repairs are non-recurring and in the instance of the demolition work, of a permanent nature, the cost associated with this work will be amortized over a 5 year period which reduces this proposed expense by \$3,608.<sup>3</sup>

Yorktown proposed a Routine Maintenance Fee of \$6,598. This service was provided by Jack Wolford Enterprises, Inc. during the test period at a cost of \$5,998. It was determined from evidence presented that the actual test period fee was set at \$4,800.<sup>4</sup> With the implementation of the increase effective September 1, 1985, of \$600 annually, consisting of \$300 due to rising costs and \$300 due to maintenance of the bar screen, the Commission accepts for rate-making purposes a total allowable Routine Maintenance Fee of \$5,400, a reduction of \$1,198 from the proposed level.

These adjustments result in a decrease of \$8,816 to the proposed adjusted operating and maintenance expense.

#### Depreciation Expense

Yorktown reported a test period depreciation expense of \$2,529. This level was based on the original cost of plant in service less contributed property for plant placed in service

---

<sup>2</sup> Letter Dated October 29, 1985, from Richard W. Hill.

<sup>3</sup>  $\$4,510 + 5 \times 4 = \$3,608.$

<sup>4</sup> Letter dated September 4, 1985, from Richard W. Hill.

before 1982 and on the Accelerated Cost Recovery System for plant placed in service after 1982. The Commission has an established practice of allowing utilities to only utilize straight line depreciation for rate-making purposes. Yorktown has determined its straight line depreciation expense for the test period to be \$2,495.<sup>5</sup> The Commission has increased this expense by \$11 to reflect applicable depreciation of the capitalized bar screen as proposed by Yorktown.<sup>6</sup> These adjustments result in a \$23 reduction to depreciation expense.

In addition to the above adjustments the depreciation expense reported in the Annual Reports of Yorktown should reflect the inclusion of contributed property. This inclusion is for reporting purposes only.

#### Taxes Other Than Income Taxes

Yorktown reported \$1,831 for Taxes Other Than Income Taxes. It proposed an increase of \$4,450 consisting of \$3,750 for delinquent Water Treatment Plant Fees and the current \$700 fee for 1985. Upon reviewing the reported taxes, it was determined that the annual fee of \$700 was included in actual expenses for the test period. Furthermore, the inclusion of the \$3,750 for delinquent fees and the 1985 fee constitutes expenditures outside the test period. The Commission can only allow expenditures normally occurring on an annual basis and has therefore, denied the request for the inclusion of the out of period taxes.

---

<sup>5</sup> Response to Information Request dated July 17, 1985.

<sup>6</sup>  $\$160 \div 15 \text{ years} = \$11 \text{ annually.}$

### Income Taxes

The Commission based on adjusted operations has determined Yorktown's adjusted income tax, which includes Jefferson County income taxes to be \$1,027, an increase of \$919 over test period level and has increased Yorktown's operating expense by this amount.

The adjusted operations for Yorktown at the end of the test period are as follows:

	<u>Per Books</u>	<u>Company Adjusted</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$35,638	\$35,638	0	\$35,638
Operating Expenses	28,994	42,564	\$12,370	30,194
Net Operating Income	6,644	<\$6,926>	12,370	5,444
Interest Expense	1,850	1,850	0	1,850
Net Income	<u>\$ 4,794</u>	<u>&lt;\$8,790&gt;</u>	<u>\$12,370</u>	<u>\$ 3,580</u>

### REVENUE REQUIREMENTS

Yorktown's adjusted operations result in an operating ratio of 89 percent. The Commission is of the opinion that this operating ratio is fair, just and reasonable in that it would allow Yorktown to meet its operating expenses, service its debt, and provide a reasonable operating reserve. Therefore, the increase in revenues request by Yorktown is hereby denied.

### SUMMARY

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

1. The rates proposed by Yorktown would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

2. Yorktown's present rates are fair, just and reasonable and they should remain in effect for service rendered.


IT IS THEREFORE ORDERED THAT:


1. The rates proposed by Yorktown be and they hereby are denied.

2. Yorktown's present rates shall remain in effect.

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

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice-Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary