

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION FOR RATE ADJUSTMENT)
FOR SMALL UTILITIES PURSUANT TO) CASE NO. 9457
807 KAR 5:076 OF EAST JEFFERSON)
WASTE WATER, INC.)

O R D E R

On November 8, 1985, East Jefferson Waste Water, Inc., ("East Jefferson") filed its application in accordance with 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities, which allows utilities with fewer than 400 customers or \$200,000 or less of gross annual revenues to submit an abbreviated rate filing in an effort to minimize the time and cost involved in the rate proceeding. The rates requested by East Jefferson would produce approximately \$60,808 in additional annual revenues and increase the current residential rate by 103 percent. In the proceeding the Commission has allowed East Jefferson to increase its rates and charges to produce additional annual revenues of \$26,971.

In order to expedite this proceeding the Commission staff conducted a limited audit of East Jefferson's test period operation. The staff report on this audit was issued January 31, 1986, and made part of the record in this proceeding. East Jefferson was given until February 10, 1986, to respond to the audit report. East Jefferson had no comments.

TEST PERIOD

East Jefferson proposed and the Commission has accepted the 12-month period ending December 31, 1984, as the test period in this proceeding.

REVENUES AND EXPENSES

East Jefferson had actual test period operating losses of \$22,014 which it proposed to increase to an operating loss of \$46,123. The Commission has accepted East Jefferson's proposed adjustments with the following exceptions:

Operating Revenues

East Jefferson had actual test period operating revenues of \$42,051. The Commission has increased these revenues by \$8,449 to reflect the level of customers currently being served by East Jefferson.

Anticipated Plant Expansion

East Jefferson proposed to increase its fuel and purchased power expense by \$10,800 and its chemical expense by \$2,054 to reflect an anticipated 100,000 gpd expansion of its system. This anticipated expansion has not been requested in this proceeding or approved by the Commission. Therefore, any projected expenses associated with this expansion will not be allowed herein for rate-making purposes. The Commission has therefore reduced East Jefferson's pro forma operating expenses by \$12,854.

Systematic Replacement of Sewer Lines

East Jefferson proposed to increase its test period operating expenses by \$6,000 for the systematic replacement of its sewer lines which are over 20 years old and in various stages of

deterioration. Expenditures of this nature affect more than one accounting period and should be capitalized and depreciated over an applicable period of time. Therefore, the Commission has reduced East Jefferson's pro forma operating expenses by \$6,000.

General Maintenance Expense

East Jefferson has a general maintenance contract which requires the vendor to provide certain general services related to the appearance of its facility. These services result in an annual expense of \$1,400. In addition to this expense East Jefferson has included an estimated 89 hours at \$18 per hour for other work as directed. This additional allowance fails to meet the Commission's requirement of being known and measurable and will therefore be disallowed for rate-making purposes in this proceeding. This reduces East Jefferson's operating expense by \$1,600.

Internal Supervision and Engineering

East Jefferson included an allowance of \$3,600 for internal supervision as a management fee payable to the system's president Mr. Gordon Moert. In this proceeding the Commission has allowed \$8,400 for the operation of the treatment plant and \$1,400 for general maintenance. Furthermore, billing and collection is furnished by the Louisville Water Company. The fee payable to Mr. Moert is for general supervision of the plant operations and requires only a minimal amount of time. In several recent proceedings the Commission has limited this fee to \$1,800 for rate-making purposes. Therefore, the Commission will reduce East

Jefferson's pro forma expense for internal supervision to this level.

Depreciation Expense

During the test period East Jefferson expensed \$7,597 for the installation of a pumping station. The Commission is of the opinion that this expenditure should have been capitalized and depreciated over a 10-year period. Therefore, the Commission has increased East Jefferson's pro forma depreciation expense by \$760. East Jefferson has already removed this expenditure from its pro forma operating expenses.

The Commission has also increased East Jefferson's pro forma depreciation expense by \$120 to reflect depreciation over a 50-year period on the sewer lines proposed to be replaced by East Jefferson and discussed in an earlier section of this Order. This results in a total increase to East Jefferson's pro forma depreciation expense of \$880.

East Jefferson's adjusted operations are stated as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$42,051	\$8,449	\$50,500
Operating Expenses	62,401	<1,367>	61,034
Net Operating Income	<\$20,350>	\$9,816	<\$10,534>
Interest Expense	1,664	4,102	5,766
Net Income (Loss)	<\$22,014>	\$5,714	<\$16,300>

REVENUE REQUIREMENTS

East Jefferson's adjusted operations result in a negative operating ratio. This does not allow East Jefferson to meet its operating expenses or service its debt. The Commission is of the opinion that an operating ratio of .88 will allow East Jefferson to provide for the above requirements and allow a reasonable level

of financial growth. Therefore, the Commission will allow East Jefferson to increase its rates for sewage service rendered to its customers by \$26,971, which includes an allowance of \$2,348 for income tax. The increase was calculated as follows:

Operating Expenses	\$61,034
.88 Operating Ratio	69,357
Interest Expense	5,766
Subtotal	<u>\$75,123</u>
Required NOI	8,323
Adjusted for Tax liability (.77995)	\$10,671
Required Gross Revenues	77,471
Adjusted Gross Revenues	50,500
Increase In Gross Revenues Required	<u>\$26,971</u>

FINDINGS AND ORDERS

The Commission, after being advised and examining the evidence of record, hereby finds that:

1. The rates proposed by East Jefferson would produce revenues greater than those allowed herein and should be denied upon application of KRS 278.030.

2. The rates in Appendix A are the fair, just and reasonable rates to be charged by East Jefferson for sewage service rendered to its customers on and after the date of this Order.

3. East Jefferson should file its revised tariff sheets with this Commission within 30 days of the date of this Order.

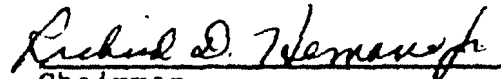
IT IS THEREFORE ORDERED that:

1. The rates proposed by East Jefferson are hereby denied.
2. The rates in Appendix A are the rates to be charged by East Jefferson for sewage service rendered on and after the date of this Order.

3. East Jefferson shall file its revised tariff sheets within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 26th day of February, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9457 DATED 2/26/86

The following rates and charges are prescribed for the customers in the area served by East Jefferson Waste Water, 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.

Residential Users	(Flat fee)	\$13.00/month
Apartment Users	75% of single family users	
Churches		\$11.00/month
Schools		\$1.32/1000 gal
Retail Stores	(per toilet and wash basin)	\$13.00/month
Office Buildings	For every three (3) plumbing fixtures - one and one-half (1 1/2) times the single family rate.	