

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR RATE ADJUSTMENT)
BEFORE THE PUBLIC SERVICE)
COMMISSION OF KENTUCKY FOR SMALL) CASE NO. 9465
UTILITIES PURSUANT TO 807 KAR)
5:076 OF BULLITT UTILITIES D/B/A)
HUNTERS HOLLOW SEWER SYSTEM)

O R D E R

On November 19, 1985, Bullitt Utilities, Inc., d/b/a Hunters Hollow Sewer System ("Hunters Hollow") filed its application seeking to increase its rates for sewer service pursuant to 807 KAR 5:067, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates would generate additional revenues of \$26,966 on an annual basis, an average increase of 178 percent in the residential rates currently being charged.

A hearing was not requested in this matter and in accordance with the provisions of the ARF no hearing was conducted. The decision of the Commission is based on information contained in the application, written submissions, annual reports, the staff audit report and other documents on file in the Commission's offices. Based on the findings herein the Commission has allowed an increase in revenues of \$18,212 annually.

This filing was made on the basis of the combined Hunters Hollow and Bluelick Sewer Corporation ("Blue Lick") systems in Case No. 9367.¹

STAFF AUDIT REPORT

On January 23, 1986, members of the Commission staff conducted a limited financial audit of Hunters Hollow's operations for the test year, calendar year 1984. This audit was conducted as part of the Commission's effort to simplify the regulatory process for small utilities.

On February 24, 1986, the Commission issued a report on the staff audit and on March 18, 1986, the Commission received written comments in which Hunters Hollow took exceptions to certain conclusions by the staff. During the audit, the staff did a cursory review of the 1985 records and alluded to 1985 data in the audit report. Hunters Hollow acquired Blue Lick in November, 1984, and, therefore, 1985 was the first year of operations for the combined systems. The test year data in this filing did not include operations of the Blue Lick system.

Hunters Hollow objected to what it alleged were conclusions by the staff that were based on 1985 financial data instead of information that pertained to the test year. Although the records for 1985 would serve to reinforce most conclusions drawn by the staff no specific conclusions were based on this information.

¹ Joint Application of Bluelick Sewer Corp. for Authority to Transfer the Assets of Bluelick Sewer System and Bullitt Utilities, Inc. for Authority to Acquire and Operate These Assets in Bullitt County, Kentucky.

Hunters Hollow's other main objection to the staff audit report was the conclusion drawn by the staff that service charges by Andriot-Davidson's Service Company ("Andriot-Davidson") were inappropriate. This issue will be addressed in a later section of this Order.

REVENUES AND EXPENSES

Hunters Hollow reported a net operating loss of \$13,119 for the test period. In order to reflect current operating conditions Hunters Hollow proposed several adjustments to test period operations. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following exceptions:

Fuel and Power Expense

Hunters Hollow reported \$10,723 for test period fuel and power expense. Upon examination of Hunters Hollow's test-year expenditures it was revealed that the electric expense for pumping was overstated by \$1,494 due to a balance from the December, 1983, bill being carried forward onto the January, 1984, bill. This amount is not a proper test-year expenditure and, therefore, Hunters Hollow's fuel and power expense has been reduced by \$1,494.

In its filing Hunters Hollow proposed adjustments totaling \$3,542 to electric power expense based on an estimated 15 percent increase in power required to run the blowers and pumps at the treatment plant due to the increased load from Blue Lick customers and the addition of the Blue Lick lift station. The Commission

has determined that these adjustments are proper for rate-making purposes.

Maintenance of Treatment and Disposal Plant

Hunters Hollow reported \$3,889 for maintenance of its treatment plant during the test year and in its filing proposed a \$1,200 increase. For the 1982 and 1983 calendar years Hunters Hollow reported \$1,715 and \$1,873, respectively, for plant maintenance and, therefore, the Commission concludes that maintenance expense for 1984 is not representative of normal operations for the Hunters Hollow plant alone. However, the Commission is aware that due to the addition of the Blue Lick customers and the Blue Lick lift station additional maintenance will be required and, accordingly, accepts Hunters Hollow's test period level of plant maintenance expense as reasonable for the combined system but disallows the proposed \$1,200 increase.

Sludge Hauling Expense

Hunters Hollow incurred sludge hauling expense of \$2,390 for the test period and proposed to increase this amount by \$478. Hunters Hollow reported no sludge hauling expense for 1981, 1982 and 1983. The Commission, therefore, concludes that test period sludge hauling expense is not representative of normal operations. It is the Commission's judgment that a portion of the test period expense is attributable to prior periods. Hunters Hollow obviously lets the sludge accumulate over a period of several years before removal. While this procedure may be acceptable from an industry standpoint, expensing the total amount during the test period is not acceptable for rate-making purposes.

It is the Commission's opinion that the expenses should be allocated over a 3-year period and that Hunters Hollow's proper test year sludge hauling expenses should be \$797.²

The Commission is of the opinion that Hunters Hollow's proposal to increase sludge hauling expense by \$478 is proper due to the increased cost per load and the addition of the Blue Lick customers.

Depreciation Expense

Hunters Hollow reported \$1,439 for depreciation expense for the test year. During the course of the staff audit it was determined that the Hunters Hollow plant has the capacity to treat flow from 600 units. At present the plant has 183 connections, thus operating at 30.5 percent of capacity. Carroll Cogan, owner of Hunters Hollow, advised the staff that anticipated growth in the Hunters Hollow service area had not materialized, consequently leading to the excess treatment capacity.

It is the Commission's judgment that ratepayers should not pay for excess plant and, accordingly, the Commission has reduced Hunters Hollow's depreciation expense by \$1,000 to \$439.

Routine Maintenance Fee

Hunters Hollow proposed to increase its routine maintenance fee from \$200 to \$350 per month due to an additional lift station and a substantial increase in customers. The Commission will allow this level of expense in this instance, but advises that any future increases in this fee will be very closely scrutinized.

² \$2,390 ÷ 3 = \$797

Service Company Charges

Hunters Hollow reported Miscellaneous General Expenses of \$2,025 for the test-year. Included in this amount are service charges to Andriot-Davidson in the amount of \$1,904. These charges are assessed monthly at 18 percent per annum on unpaid balances for services performed by Andriot-Davidson. In past cases the Commission found these types of charges to be unacceptable because to allow them would constitute retroactive rate-making. Hunters Hollow has presented no convincing evidence that the Commission should change its practice and, therefore, the Commission maintains the same position in this case and has disallowed the service charges for rate-making purposes, thus reducing Hunters Hollow's operating expenses by \$1,904.

Adjustments to Hunters Hollow's test period operations produced the following results:

	<u>Actual Test Period</u>	<u>Company Adjustments</u>	<u>Commission Adjustments</u>	<u>Adjusted Balance</u>
Operating Revenues	\$ 15,146	-	-	\$ 15,146
Operating Expenses	28,265	7,320	(7,191)	28,394
Net Operating Income	<u>\$(13,119)</u>	<u>\$(7,320)</u>	<u>\$7,191</u>	<u>\$(13,248)</u>

REVENUE REQUIREMENTS

The Commission is of the opinion that the operating ratio is a fair, just and reasonable method for determining the revenue requirements in this case and finds that an operating ratio of 88 percent, adjusted for taxes, will allow Hunters Hollow to pay its operating expenses and provide a reasonable return to its owners. Therefore, the Commission finds that Hunters Hollow is entitled to

an increase in revenues of \$18,212 annually to produce gross revenues of \$33,358.

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 Hunters Hollow produce annual revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

2. The rates in Appendix A are the fair, just and reasonable rates for Hunters Hollow to charge for sewer service.

IT IS THEREFORE ORDERED that:

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

2. The rates in Appendix A be and they hereby are approved as the fair, just and reasonable rates for sewer service rendered by Hunters Hollow on and after the date of this Order.

3. Within 30 days from the date of this Order, Hunters Hollow shall file with this Commission its revised tariff sheets setting out the rates for sewer service approved herein.

Done at Frankfort, Kentucky, this 28th day of May, 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. 9465 DATED 5/28/86

The following rates and charges are prescribed for the customers in the area served by Bullitt Utilities d/b/a Hunter's Hollow Sewer System. 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.

Monthly Rate

<u>Customer Class</u>	<u>Rate</u>
Single Family Residential	\$15.25 *
Apartment	11.50 **
All Other	15.25 ***

- * Per Residence
- ** Per Apartment Unit
- *** Per Residential Equivalent

Residential Equivalent is defined as a usage of water of 6,500 gal/mo.