COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF NOTTINGHAM SANITATION, INC., FOR AN ADJUSTMENT OF RATES PURSUANT TO THE ALTERNATIVE RATE PROCEDURE FOR SMALL UTILITIES	)	CASE NO. 9503

O R D E R

On January 29, 1986, Nottingham Sanitation, Inc., ("Nottingham") 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"), requesting additional operating revenues of approximately $50,567 annually, an increase of 71.8 percent over reported test-period operating revenues. Nottingham is a privately-owned sewer treatment plant providing service to approximately 420 residential customers in Jefferson County, Kentucky. A hearing was not requested in this matter and in accordance with the provisions of the ARF, no hearing was conducted.

ADJUSTMENTS TO EXPENSES FOR RATE-MAKING PURPOSES

The Commission has accepted the 12-month period ending December 31, 1985, as an appropriate test period for determining the reasonableness of the proposed rates.

The Commission has made, for rate-making purposes, the following modifications to Nottingham's test period expenses to reflect more normal and current operating conditions:

Routine Maintenance Fee

Nottingham proposed an adjustment of $720 to reflect an increase of $60 per month in its routine maintenance fee. However, a letter filed March 24, 1986, with the Commission indicated that the increase amounts to $55 per month. Therefore, the Commission has made an adjustment to reflect an increase of $660 annually in Nottingham's routine maintenance fee.

Administrative and General Salaries

Nottingham proposed an adjustment of $500 to increase the owner's management fee to $3,000 annually. Nottingham provided no evidence that the manager's duties and responsibilities have increased. In Nottingham's last rate case, the Commission allowed a management fee of $2,400 and finds no reason to allow a higher amount in this case. Therefore, an adjustment has been made to reduce the test year expense by $100.

Interest on Long-Term Debt

Nottingham reported no interest expense on long-term debt for the test year, but proposed an adjustment to include interest expense of $55,026 on the outstanding balance of a note payable to Future Federal Savings and Loan Association ("Future Federal") of Louisville, Kentucky. The note was executed on August 30, 1974, with both Nottingham and Nottingham Hills, Inc., ("Nottingham Hills") a development company, as parties to the note. Mr. Harold

Haering not only signed the note as President of Nottingham Hills, but personally guaranteed payment of the note.

The debt was never recorded on the books of Nottingham, but rather on the books of the development company. The Commission is of the opinion that the development company was at risk and fully intended to recover its investment through the sale of lots. In Case No. 6838, The Proposed Rate Increase for Nottingham Sanitation, Inc., the Commission disallowed interest expense on the financing of unrecouped development costs. In Finding No. 8 of its Order entered April 19, 1978, in Case No. 6838, the Commission found that Nottingham intended to recoup its investment costs progressively as lots were sold and that when all lots had been sold, a profit should have been realized. The Commission stated further that the financing of unrecouped costs should not be passed on to lot holders from which lot development costs have been recouped. The Commission has taken this position in numerous cases, including Case No. 8193, The Amended Application of Orchard Grass Sanitation, Inc., for an Order Pursuant to Chapter 278 of the Kentucky Revised Statutes Authorizing an Adjustment in Rates for the Existing Sewage Treatment Plant Serving Orchard Grass Hills Subdivision, Oldham County, Kentucky.

In its most recent rate case, Case No. 8430, The Notice of Adjustment of Rates of Nottingham Sanitation, Inc., to Become Effective on January 21, 1982, Nottingham reported no interest expense on long-term debt for the test year, and it proposed no adjustment to have such interest expense included for rate-making purposes.

The Commission reiterates that the costs for certain improvements to undeveloped land, including sewage facilities, represent an investment made for the purpose of selling developed land and that the risks of such investments are assumed by the developer as a part of a business venture from which he plans to realize a profit. Therefore, interest expense on the note payable to Future Federal should not be borne by the customers of Nottingham and has not been included for rate-making purposes.

After consideration of the aforementioned adjustments, the Commission finds Nottingham's test period operations to be as follows:

	Actual Test Period	Commission Adjustments	Adjusted Test Period
Operating Revenues	$70,443	$ -0-	$70,443
Operating Expense	49,968	<1,045>	48,923
Net Operating Income	$20,475	$ 1,045	$21,520
Other Income	168	-0-	168
Other Deductions	162	-0-	162
Net Income	$20,481	$ 1,045	$21,526

REVENUE REQUIREMENTS

Nottingham based its requested increase in revenue on an operating ratio methodology and requested revenue sufficient to produce a ratio of .88. In this case the Commission finds that an operating ratio of 88 percent is fair, just and reasonable and will allow Nottingham to pay its operating expense, service its debt, and provide a reasonable return to its owners.

In this instance the use of an 88 percent after-tax operating ratio applied to the adjusted test-year operating expenses results in a revenue requirement of $55,594 which is less

than the actual test period revenues. Therefore, the Commission finds no that no deficiency exists in the revenues of Nottingham and has, therefore, allowed no increase in revenues.

SUMMARY

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

1. The rate proposed by Nottingham should be denied.

IT IS THEREFORE ORDERED that:

1. The rate proposed by Nottingham is denied.

2. The rate currently charged by Nottingham shall remain in effect.

Done at Frankfort, Kentucky, this 2nd day of May, 1986.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary