

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION FOR APPROVAL TO)	
ACQUIRE OWNERSHIP OF THE SEWAGE)	
TREATMENT FACILITIES LOCATED IN THE)	
BIG VALLEY MOBILE HOME PARK, FOR A)	CASE NO. 99-319
CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY TO MAKE PLANT IMPROVEMENTS,)	
AND FOR APPROVAL OF RATES OF RATES)	

ORDER

On July 28, 1999, Big Valley Sanitation, Inc. ("Big Valley") submitted an application requesting that the Commission (1) approve the proposed transfer of ownership and control of Big Valley Mobile Home Subdivision Sewage Treatment Plant ("Treatment Plant") located in Shepherdsville, Bullitt County, Kentucky; (2) grant a Certificate of Public Convenience and Necessity for its proposed improvements at the Treatment Plant; and (3) approve its proposed rates. On August 27, 1999, the Commission deemed the application deficient and rejected it. An informal conference was held on September 8, 1999 to provide Commission Staff and Big Valley the opportunity to meet and discuss the deficiencies noted in the application. Representatives from the Natural Resources and Environmental Protection Cabinet ("NREPC") were present at the informal conference and expressed their desire that Big Valley's application be granted by this Commission. Big Valley's filing of December 14,

1999 cured the deficiencies so that the application met the minimum filing requirements pursuant to the Commission's regulations.

The history of the Treatment Plant prior to this case has been an unsettled one. In December 1994, the Commission instituted an action to determine the condition and jurisdictional status of the Treatment Plant.¹ The Commission determined therein that Eugene McGruder was the owner of the Treatment Plant and that the Treatment Plant was a facility used in connection with the treatment of sewage for the public for compensation and, as such, was a utility subject to Commission regulation. It further determined that the utility had been abandoned.

An action to enforce KRS Chapter 224 and the regulations promulgated thereunder had been brought by NREPC against Mr. McGruder in the Franklin Circuit Court in 1987. An Agreed Judgment setting forth the terms and conditions under which the NREPC, Eugene McGruder, Marilyn McGruder and John Ford, sole director of Big Valley, agree to transfer the utility has been prepared in that case and attached to Big Valley's application to this Commission. The Agreed Judgment has neither been executed by the parties nor entered by the Court.

Big Valley, the applicant herein, is a corporation organized and existing under the laws of the Commonwealth of Kentucky. Big Valley states that John Ford, its sole director, will maintain and operate the Treatment Plant. It further states that Mr. Ford has 30 years' experience in managing sewer operations and has been certified by the

¹ Case No. 94-451, In the Matter of: Eugene McGruder d/b/a Big Valley Mobile Home Subdivision Sewage Treatment Plant, Investigation into the Condition and Jurisdictional Status of Sewage Utility Facilities.

Kentucky Board of Certification of Wastewater System Operators under License No. 06607.

Big Valley states that there is currently no equipment operating at the Treatment Plant and proposes certain improvements and repairs. The proposed improvements and repairs consist of replacing the aerators, pumps, chlorination unit, baffle and related appurtenances. The estimated cost for the proposed improvements and repairs is approximately \$31,910. Peoples Bank of Bullitt County, First Federal Savings Bank and Bullitt County Board of Health have agreed to contribute \$26,000 to assist in the repairs and renovation at the Treatment Plant. An equity line of credit in the amount of \$10,000 has been secured at the Bullitt County Bank to fund the balance of the proposed improvements and to serve as evidence of financial integrity as required by 807 KAR 5:071, Section 3(1)(a).

On December 3, 1999, Big Valley filed with the Commission a copy of the notice of proposed rates it caused to be mailed to the customers to be served by Big Valley. In addition to advising the customers of the rates proposed, it also advised them of their right to intervene. No intervention requests have been received to date.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Big Valley has the financial, technical, and managerial ability to provide reasonable utility service and that the proposed transfer is to be made in accordance with law, is for a proper purpose and is consistent with public interest. See KRS 278.020(4) and (5). Therefore, the Commission finds that the transfer should be approved as outlined in the proposed Agreed Judgment with one modification. Big

Valley is the entity requesting Commission approval to acquire the Treatment Plant. Therefore, the Commission finds that Big Valley should be substituted for John Ford as a party to the Agreed Judgment or any other agreement entered into by the parties for the transfer of this utility. Any modification or alteration of the terms set forth in the Agreed Judgment other than that expressly stated by the Commission herein should be undertaken only with prior approval of the Commission.

2. Big Valley should be granted a Certificate of Public Convenience and Necessity for the proposed improvements of record in this case. Any deviation or addition from the improvements and repairs expressly authorized by this Commission should likewise only be undertaken with the prior approval of the Commission.

3. Big Valley should furnish documentation of the total costs of this project including the cost of improvements and repairs and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date the improvements and repairs are substantially completed. Improvement and repair costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by the Commission.

4. Big Valley should require the improvements and repairs to be inspected under the general supervision of a professional engineer licensed to practice engineering in Kentucky with competency in civil or mechanical engineering. This is to ensure that the improvement and repair work is done in accordance with the contract drawing and specifications originally prepared for this wastewater treatment plant and in conformance with the best practices of the construction trades involved in the project.

TEST PERIOD

The previous owner of the Treatment Plant abandoned it. Moreover, it was not known to be a jurisdictional utility until May 9, 1995. Accordingly, actual financial information regarding operation of the Treatment Plant does not exist. Estimated pro forma expenses have been utilized for the determination of Big Valley's revenue requirement.

PROJECTED REVENUES AND EXPENSES

Big Valley projected operating expenses on the basis of providing sewer service to 108 customers. The Commission is of the opinion that the projected operating expenses are generally proper, and they therefore have been accepted with the following exceptions:

Owner/Manager Fee

Big Valley proposed a pro forma owner/manager fee expense of \$7,800. The primary purpose of the management fee is to compensate management for duties performed for the utility. Given Big Valley's relatively small size, minimal attention should be required. Therefore, the Commission finds that an owner/manager fee of \$3,600 is reasonable and has reduced Big Valley's proposed owner/manager fee by \$4,200.

Plant Renovation

As previously stated herein, Big Valley has proposed improvements and repairs in the amount of approximately \$31,910, of which \$5,910 was included in operating expenses. The system improvements are capital expenditures that will benefit more than one period and, therefore, should be depreciated rather than expensed. Upon

review of the proposed improvements, the Commission determined that an appropriate depreciation period is 10 years, which results in a depreciation expense of \$591. Therefore, the Commission has reduced Big Valley's operating expenses by \$5,910 to remove the capital expenditures and has included depreciation expense of \$591.

Legal Fees

Big Valley has projected legal fees in the amount of \$1,200. Big Valley provided no supporting evidence for this expense. Therefore, the amount proposed for legal fees should be disallowed.

Interest Expense

As stated, Big Valley has secured an equity line of credit at the Bullitt County Bank in Shepherdsville, Kentucky to supplement the funding of the improvements and repairs. The interest rate is variable, always at prime rate, which at the time of calculation of rates was 8.5 percent per annum. Since this debt has been used to finance capital construction, the Commission finds that Big Valley should be allowed to recover through rates the interest related to the debt. The system improvements of \$5,910, when combined with the current interest rate of 8.5 percent per annum, result in an annual interest expense of \$502.

REVENUE REQUIREMENT

The Commission is of the opinion that the operating ratio method is a fair, just and reasonable method for determining revenue requirements in this case. Based upon application of an 88 percent operating ratio and a dollar-for-dollar recovery of interest expense, the Commission has determined that an annual revenue requirement of \$55,380 will allow Big Valley sufficient revenues to cover its operating expenses and

provide a reasonable return to its owners. Therefore, Big Valley should be granted rates sufficient to provide operating revenues of \$55,380. The Commission finds therefore that the rates proposed by Big Valley should be denied and the rates in Appendix A approved.

Since it is difficult to estimate or project operating revenues and expenses until a system can demonstrate actual operating results, Big Valley should review its financial position after one year of operating its system. If, after review, Big Valley deems it necessary to adjust its rates, it should apply to the Commission. The Commission will monitor Big Valley's annual reports for the purpose of determining what, if any, future rate adjustments might be necessary.

IT IS THEREFORE ORDERED that:

1. The proposed transfer of the Treatment Plant to Big Valley is approved as outlined in the proposed Agreed Judgment attached to the application with one modification. Big Valley is the entity requesting Commission approval to acquire the Treatment Plant. Therefore, Big Valley shall be substituted for John Ford as a party to the Agreed Judgment or any agreement entered by the parties for the transfer of this utility. Any modification or alteration of the terms set forth in the Agreed Judgment other than that expressly stated by the Commission herein shall be undertaken only with prior approval of the Commission.

2. Big Valley shall notify the Commission within 20 days of the date of completion of the transfer or, in the alternative, Big Valley shall notify the Commission if the transfer does not occur.

3. Big Valley shall maintain its books of account in accordance with the Uniform System of Accounts for Sewer Utilities as prescribed by the Commission.

4. Within 60 days of the date the transfer is completed, Big Valley shall file with the Commission the journal entries reflecting the asset transfer.

5. Big Valley is granted a Certificate of Public Convenience and Necessity for the proposed maintenance upgrade.

6. The proposed improvements and repairs consist of replacing the aerators, pumps, chlorination unit, baffle, and related appurtenances. The total cost for improvements and repairs is approximately \$31,910.

7. Big Valley shall obtain approval from the Commission prior to performing any additional improvements and repairs not expressly authorized by this Order.

8. Any deviation from the improvements and repairs approved shall be undertaken only with the prior approval of the Commission.

9. Big Valley shall furnish documentation of the total costs of this project including the cost of improvements and repairs and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date the improvements and repairs are substantially completed. Improvement and repair costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by the Commission.

10. Big Valley shall require these improvements and repairs to be inspected under the general supervision of a professional engineer licensed to practice engineering in Kentucky with competency in civil or mechanical engineering.

11. The rates proposed by Big Valley are denied.

12. The rates in Appendix A to this Order are the fair, just and reasonable rates to be charged by Big Valley for service rendered.

13. Within 20 days from the date of the transfer, Big Valley shall file with the Commission a tariff setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 11th day of February, 2000.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NO. 99-319 DATED FEBRUARY 11, 2000

The following rates are prescribed for the customers in the area served by Big Valley on and after the date of this Order.

Monthly Residential Rate	\$39.22
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