

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF AIRVIEW UTILITIES, LLC)	CASE NO.
FOR RATE ADJUSTMENT FOR SMALL)	2014-00215
UTILITIES PURSUANT TO 807 KAR 5:076)	

ORDER

On August 28, 2014, Airview Utilities, LLC ("Airview") filed an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for sewer service.¹ Airview requested rates that would increase annual wastewater service revenues by \$32,357, or 47.63 percent. By this Order, the Commission approves rates that will produce annual wastewater service revenues of \$96,291, an increase of \$30,059, or 45.38 percent, over pro forma present rate revenues from wastewater service of \$66,232.² A flat-rate residential bill will increase from \$28.45 to \$41.36 per month, an increase of \$12.91, or 45.38 percent.³

By Order issued September 11, 2014, the Commission established a procedural schedule for review of Airview's application. The procedural schedule required Commission Staff ("Staff") to file a report ("Staff Report") no later than November 20, 2014, summarizing its findings regarding the rates requested by Airview. The

¹ Airview tendered its application on June 30, 2014. After Airview corrected filing deficiencies, the Commission accepted the application for filing on August 28, 2014.

² Refer to the calculations of the overall revenue requirement and required revenue increase using Operating Ratio Method in the Staff Report at 14.

³ Staff Report at 2.

procedural schedule also required that Airview file its comments or objections to the Staff Report within 19 days of the date of the Staff Report. Unless all parties agreed that the case would stand submitted to the Commission for a decision based upon the record, an informal conference would be held on December 18, 2014.

On November 20, 2014, Staff submitted its Staff Report finding that Airview's overall revenue requirement is \$96,291 when the Operating Ratio Method is applied, and that a monthly flat rate of \$41.36 will generate the overall revenue requirement.⁴ On November 25, 2014, after reviewing the Staff Report, Airview requested approval of the rate calculated by Staff, and requested that the case stand submitted for a Commission decision without a hearing. Airview further agreed to a 7-year asset life for the effluent pump and a 7.5-year asset life for the cost to rebuild the clarifier rake system gear. Pursuant to the terms of the procedural schedule, the informal conference was canceled and the case stood submitted for decision based upon the existing record without a hearing.

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

1. Airview, a Kentucky corporation, owns and operates sewage treatment and collection facilities that serve approximately 194 customers in Hardin County, Kentucky.⁵
2. The calendar year ended December 31, 2013, should be used as the test year to determine the reasonableness of Airview's existing and proposed rates.

⁴ *Id* at 14.

⁵ *Id* at 3-4.

3. Based upon pro forma test-year operations, Airview's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable changes, are \$66,232 and \$84,736, respectively.⁶

4. Given that no basis exists to determine an appropriate rate of return for Airview, the use of an operating ratio⁷ to determine its total revenue requirement is appropriate.⁸

5. Airview's pro forma operations, as calculated by Staff using the Operating Ratio Method, support a total revenue requirement of \$96,291, and an increase to wastewater service revenue of \$30,059, or 45.38 percent.⁹

6. Airview's proposed rates will produce annual revenues in excess of \$96,291 and should be denied.

⁶ *Id.* at 3.

⁷ Operating ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operation \& Maintenance Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

Operating Expenses	\$ 84,736
Divide by: Operating Ratio	<u>88%</u>
Operating Revenues	96,291
Less: Operating Expenses	<u>(84,736)</u>
Allowable NOI	<u>\$ 11,555</u>

⁸ See, e.g., Case No. 8468, *An Adjustment of the rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC June 25, 1982); 1 A.J G Priest, *Principles of Public Utility Regulation* (Michie 1969), 220-224.

⁹ Staff Report at 14.

7. The rates set forth in Appendix A to this Order will produce the overall revenue requirement, are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

8. The Commission received service complaints contained in public comments to Airview's request for an adjustment in rates. The Commission takes service complaints seriously but recognizes that the adjustment of rates and service complaints are separate issues.¹⁰ Airview is to correct any deficiencies noted during plant inspections or be subject to further proceedings.

IT IS THEREFORE ORDERED that:

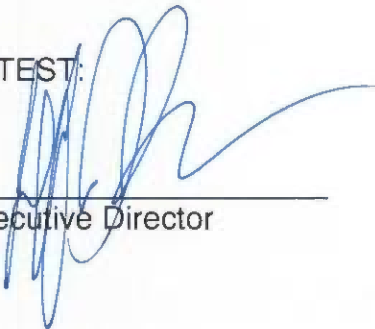
1. The rates proposed in Airview's application are denied.
2. The rates shown in Appendix A to this Order are approved for sewer service rendered on and after the date of this Order.
3. Within 20 days of the date of this Order, Airview shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.
4. Airview shall, for accounting and ratemaking purposes, use the "PSC Approved Service Lives" set forth in Appendix B to this Order for the listed classes of assets when calculating and reporting depreciation for all reporting periods after the date of this Order. No retroactive adjustment to accumulated depreciation, or retained earnings to account for this change in the accounting estimate, shall be made.

¹⁰ See *South Central Bell Telephone Co. v. Util. Reg. Comm'n*, 637 S.W.2d 649 (Ky. 1982). (Because the ratemaking process addresses only financial matters and separate procedures specifically provide for investigation of service-oriented problems, the question of rates should be kept separate from the question of quality of service.)

By the Commission

ENTERED
DEC 22 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00215 DATED **DEC 22 2014**

The following rates and charges are prescribed for the customers in the area served by Airview Utilities, LLC. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Rates

Single Family Residential – Residential Flat Rate	\$41.36
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00215 DATED **DEC 22 2014**

<u>Asset Classification</u>	<u>PSC Approved Service Lives</u>
Effluent pump	7
Clarifier rake system gear rebuilding	7.5

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