

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO.
PAR-TEE LLC DBA PERRY PARK RESORT SEWER) 2013-00314
UTILITY)

ORDER

On August 19, 2013, Par Tee LLC dba Perry Park Resort ("Par-Tee") filed an application with the Commission pursuant to 807 KAR 5:076 requesting to increase its current monthly sewer service rate from \$18.23 to \$27.50, an increase of \$9.27, or 50.85 percent. The requested rates would increase normalized test-year revenues of \$48,784 by \$24,807. Upon request, Mark Cleveland and Perry Park Resort Owners' Association ("PPROA") were granted intervention by Order dated November 8, 2013.

By this Order, the Commission approves rates that will produce annual wastewater sales revenues of \$72,213, an increase of \$22,773, or 46.06 percent, over pro forma present rate revenues from wastewater sales of \$49,440. A flat-rate residential bill per month will increase from \$18.23 to \$26.63, an increase of \$8.40.

By Order dated October 8, 2013, the Commission established a procedural schedule through which Par-Tee's application would be reviewed. The schedule required Commission Staff ("Staff") to file a report on or before, December 6, 2013, summarizing its findings and recommendations regarding the rates requested by Par-Tee. The schedule required that all comments to the report be filed within 14 days of the date of the report. Unless all parties agreed that the case would stand submitted to

the Commission for a decision based upon the record after commenting on the report, an informal conference would be held on January 8, 2013.

On December 6, 2013, Staff submitted a report summarizing its findings regarding Par-Tee's application. On December 12, 2013, after reviewing the report, Par-Tee requested to adopt the rates calculated by Staff using the operating ratio method, as shown in Attachment B of the report, and that the case stand submitted for a Commission decision without a hearing. Neither intervening party submitted comment to Staff's report. 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. Except where they conflict with the findings contained in this Order, the findings contained in the Staff Report are supported by the evidence of record, are reasonable, and should be adopted.
2. Par-Tee, a Kentucky corporation, owns and operates sewage treatment and collection facilities that serve approximately 210 residential customers and 1 commercial customer in Owen County, Kentucky.¹
3. The calendar year ending December 31, 2012, should be used as the test year to determine the reasonableness of Par-Tee's existing and proposed rates.

¹ Staff Report at 3 and 4.

4. Based upon pro forma test-year operations, Par-Tee's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable charges, are \$49,440 and \$63,547, respectively.²

5. Given that no basis exists to determine an appropriate rate of return for Par-Tee, the use of an operating ratio³ to determine its total revenue requirement is appropriate.⁴

6. Par-Tee's pro forma operations, as calculated by Staff using the operating ratio method, support a total revenue requirement of \$72,213 and an increase to wastewater sales revenue of \$22,773, or 46.06 percent.⁵

7. Par Tee's proposed rates will produce annual revenues in excess of \$72,213 and should be denied.

² *Id.* at 3.

³ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

Operating Ratio =	$\frac{\text{Operation \& Maintenance Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$
Operating Expenses	\$ 63,547
Divide by: Operating Ratio	<u>88%</u>
Operating Revenues	72,213
Less: Operating Expenses	<u>(63,547)</u>
Allowable NOI	<u>\$ 8,666</u>

⁴ See, e.g., Case No 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

⁵ Staff Report at 15.

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

9. Par-Tee presently uses service lives for two classes of assets that are at variance⁶ with those found in a survey issued by the Commission on Rural Water.⁷

10. The Commission has previously used the same survey to establish the service lives of wastewater assets.⁸

11. The record contains no evidence that the service lives that Par-Tee uses are based upon a depreciation study or its own historic plant records.

12. Par-Tee's assignment of service lives for these two classes of assets is not reasonable and should be revised for ratemaking and accounting purposes in all future reporting periods.⁹

13. Appendix B to this Order sets forth the classes of assets whose service lives should be adjusted, the previously assigned service life of each class, the service life range that the Rural Water survey suggests for each class, and the assigned service life that should be used for ratemaking and accounting purposes for all future reporting periods.

⁶ *Id.* at Attachment B.

⁷ Commission on Rural Water, *Guide for the Support of Rural Water-Wastewater Systems* (Chicago, Ill. 1974) at 246-247.

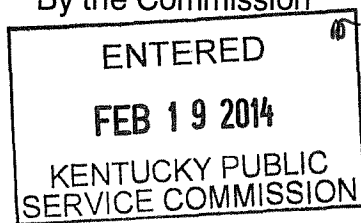
⁸ See, e.g., Case No. 2004-00336, *Joint Application of B & H, Inc. and Richmond Utilities, LLC for Approval of the Transfer of Wastewater Treatment Plant to Richmond Utilities, LLC* (Ky. PSC Dec 22, 2004).

⁹ These reassignments require a reduction of \$1,996 in Par-Tee's test-year depreciation expense. Staff Report at 13.

IT IS THEREFORE ORDERED that:

1. Except where they contradict or conflict with the findings contained in this Order, the findings contained in the Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The rates proposed in Par-Tee's Application are denied.
3. The rates shown in Appendix A are approved for sewer service rendered on and after the date of this Order.
4. Within 20 days of the date of this Order, Par-Tee shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in the Appendix A to this Order.
5. Par-Tee shall, for accounting and ratemaking purposes, use the "PSC Approved Service Life" set forth in Appendix B to this Order for the listed classes of assets when calculating and reporting depreciation for all report periods after the date of this Order. No retroactive adjustment to accumulated depreciation or retained earnings to account for this change in accounting estimate shall be made.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2013-00314 DATED FEB 19 2014

The following rates and charges are prescribed for the customers in the area served by Par-Tee dba Perry Park Resort. 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 Sewer Rates

\$26.63 per residential equivalent

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00314 DATED FEB 19 2014

Proposed Modifications to the Service Lives of
Certain Assets of Par-Tee dba Perry Park Resort

Asset Classification	Previous Life	O&M Guide Range	PSC Approved Service Life
Asset 19, Various Sewer line costs "Section 12 Development"	25	30-75	52.5
Asset 56, Sewer line costs along Holiday Court	25	30-75	52.5
Automatic sampling machine	3	3-10	6.5

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