

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| APPLICATION OF OLDHAM WOODS |) | |
| SANITATION, INC. FOR RATE ADJUSTMENT |) | CASE NO. |
| FOR SMALL UTILITIES PURSUANT TO 807 |) | 2016-00131 |
| KAR 5:076 |) | |

ORDER

On March 28, 2016, Oldham Woods Sanitation, Inc. ("Oldham Woods") tendered an application to the Commission for an adjustment of its sewer rate pursuant to 807 KAR 5:076. After Oldham Woods corrected filing deficiencies, its application was accepted for filing on April 11, 2016. On April 16, 2016, the Commission issued an Order establishing a procedural schedule to ensure the orderly review of Oldham Woods' application. By this Order, the Commission approves a sewer rate that will generate \$16,931 in additional annual revenues, a 31 percent increase to pro forma present rate revenues of \$54,538.

Oldham Woods originally requested a revenue increase of \$12,211, or 22.39 percent, increasing its flat monthly sewer rate from \$36.07 to \$44.15, an increase of \$8.08, or 22.4 percent. Commission Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of Oldham Woods' pro forma financial statements, revenue requirement calculation, and requested sewer rate. On July 7, 2016, Commission Staff issued a report finding that Oldham Woods' adjusted test-year operations would support a revenue requirement of \$61,407, which

would require a revenue increase of \$6,869.¹ Commission Staff determined that for Oldham Woods to achieve this level of revenue it would require a monthly flat sewer rate of \$40.61,² an increase of \$4.54, or 12.59 percent, to its current rate of \$36.07.

On July 26, 2016, Oldham Woods filed its response to Commission Staff's report requesting reconsideration of several of the report findings and inclusion of the cost of operational changes occurring subsequent to the issuance of the Staff Report. An informal conference was scheduled and held on August 17, 2016, at the Commission's offices in Frankfort, Kentucky, to discuss Oldham Woods' responses. At the conference, Oldham Woods agreed to file supplemental information, which it filed on August 25, 2016. On September 30, 2016, Commission Staff issued an Amended Staff Report ("Amended Report") finding that Oldham Woods' revised pro forma operations would support a revenue requirement of \$71,469 and require a revenue increase of \$16,931.³ To achieve the revised revenue requirement, Oldham Woods would require a monthly flat sewer rate of \$47.27,⁴ an increase of \$11.20, or 31 percent, to its current rate of \$36.07.

On October 7, 2016, Oldham Woods filed its response to Commission Staff's Amended Report and accepted Commission Staff's findings that Oldham Woods could justify a \$19,931 increase in its revenue requirement for an overall revenue of \$71,469. Oldham Woods therein requested to amend its application to request a \$47.27 monthly

¹ Staff Report at 10.

² \$61,407 (Commission Staff Revenue Requirement) ÷ 12 (Months) ÷ 126 (No. of Customers) = \$40.61.

³ Amended Report at 2.

⁴ \$71,469 (Revised Revenue Requirement) ÷ 12 (Months) ÷ 126 (Customers) = \$47.27.

rate that will produce the revised revenue requirement of \$71,469. Oldham Woods further requested that a hearing not be held in this matter.

Oldham Woods was ordered to mail notice of its amended rate request pursuant to the requirements of 807 KAR 5:011, Section 8, of its amended rates and to submit proof of publication of the notice with the Commission. Attached to its response to Commission Staff's Amended Report, Oldham Woods provided a copy of the notice that was mailed to its customers on October 5, 2016.

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

1. Oldham Woods provides wastewater service to approximately 126 customers residing in the Oldham Woods/Turtle Creek Subdivisions in Oldham County, Kentucky.⁵

2. The calendar year ending December 31, 2016, should be used as the test period to determine the reasonableness of Oldham Woods' existing and proposed wastewater rates.⁶

3. Based upon revised pro forma test-year operations, after adjusting for known and measurable changes, Oldham Woods' total pro forma revenues and total operating expenses are \$54,038 and \$62,893, respectively.⁷

⁵ *Annual Report of Oldham Woods Sanitation, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2016* at 9 and 25.

⁶ 807 KAR 5:076, Section 9.

⁷ Amended Report at 3.

4. The Commission has historically used the operating ratio method to calculate the revenue requirement for small privately owned sewer utilities.⁸

5. Using the Operating Ratio Method, Commission Staff determined that Oldham Woods' revised pro forma operations support an overall revenue requirement of \$71,469 and an increase to sewer service revenue of \$16,931, or 31.04 percent.⁹

6. The rate set forth in the Appendix to this Order will produce the required revenue requirement of \$71,469, is fair, just, and reasonable, and should be approved for service rendered on and after the date of this Order.

7. The sewer rate requested by Oldham Woods in its original application does not produce the revenue requirement determined fair, just, and reasonable herein and should be denied.

IT IS THEREFORE ORDERED that:

1. The sewer rate requested by Oldham Woods in its original application is denied.

⁸ An operating ratio measures the difference between operating revenues and operating expenses. It is defined by the following equation.

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

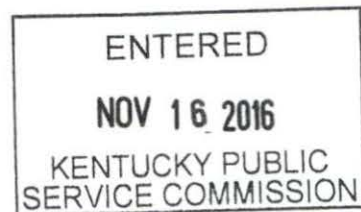
The Commission has found that the operating ratio is a reasonable and necessary alternative to the rate-of-return method for calculating the allowable NOI for small sewer investor-owned utilities. Specifically, it has found that the rate-of-return method cannot be used because there is "no basis" upon which to determine a rate of return for these utilities, Administrative Case No. 95-236, *Application of Thelma Waste Control, Inc. for a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC. Apr. 15, 1996) at 6. Further, it has found that the operating-ratio method is appropriate when plant investment is low and operating expenses are high, Case No. 7982, *Notice of Application of Fern Lake Company* (Ky. PSC. Aug. 27, 1981) at 3.

⁹ Amended Report at 8.

2. The rate as set forth In the Appendix to this Order is approved for sewer service rendered by Oldham Woods on and after the date of this Order.

3. Within 20 days of the date of this Order, Oldham Woods shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the rates approved herein.

By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00131 DATED **NOV 16 2016**

The following rates and charges are prescribed for the customers in the area served by Oldham Woods Sanitation, Inc. for sewer service rendered on and after the date of this Order. 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 Rate

\$47.27 per residential equivalent

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Anchorage, KY 40223

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