

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION AND PETITION OF THE)	
FARMDALE DEVELOPMENT CORPORATION, INC.)	
FOR AN ORDER AUTHORIZING SAID CORPORA-)	CASE NO.
TION TO REVISE RATES, ISSUE NOTES,)	7539
CONSTRUCT AND PERFORM ACCOUNTING)	
PROCEDURES)	

ORDER ON REHEARING

On March 19, 1980 the Commission issued its Order in Case No. 7539 fixing the rates for Farmdale Development Corporation (hereinafter referred to as the Company). On April 2, 1980 the Company timely filed its "Petition for Rehearing, Reconsideration and Correction of Errors" (referred to hereinafter as Petition). By Order dated April 22, 1980, the Commission set the Petition for Hearing on May 8, 1980 at its offices in Frankfort, Kentucky. Commissioner Oaken presided at the hearing. The Attorney General, intervening on behalf of the using and consuming public, filed a "Memorandum In Response To Petition for Rehearing, Reconsideration and Correction of Errors" (hereinafter referred to as Response).

In its Petition the Company alleges that the Commission ignored certain evidence, incorrectly considered matters never introduced as evidence in the case and made certain errors in its determinations of "Proforma Expenses Found Reasonable" in its Order dated March 19, 1980. The Petition then cites specific sections of the Order where these errors are alleged to have occurred. The Attorney General, in the Response, addresses four of the alleged errors. The allegations of the Company, the related position of the Attorney General and the Commission's findings with respect to each issue are summarized below:

1. Petition alleges that the Commission's Order ignored testimony of the Company's owner and its Certified Public Accountant that the Company's utility property was not contributed property.

Response points out that the Commission's finding concerning contributed property is corroborated by the testimony of the Company's Consulting Engineer at page 32 of the transcript, the Company's Exhibit 3A, and the testimony of Mr. Saufley in Case No. 6634.⁽¹⁾

The Commission has carefully reviewed the above allegations together with the testimony presented at the rehearing on May 8, 1980. The Commission finds that the evidence in the record clearly supports the Commission's finding on contributed property and that the error alleged by the Petition is unfounded and without merit. Therefore, the finding on contributed property as set forth in the March 19, 1980 Order is hereby reaffirmed.

2. The Petition alleges error with respect to the amount allowed as a management fee. Specifically, the Company alleges the Commission relied on other cases and that the record contained no proof to substantiate the Commission's finding in this case.

The Response points out that the Company's accountant testified the actual fee for the test year was \$3,600; the consultant estimates 50 to 75 hours is devoted to the operations by the owner and at page 7 of the transcript of the October 15 hearing, the owner indicates little or no knowledge of the fee.

The Commission's review of the evidence indicates that the Company's contention that no proof exists to support the finding as to a reasonable management fee is without merit. The record shows that the Company's accountant testified to an actual fee of \$300 per month but gave no basis as to how the figure was arrived at. The Consulting Engineer offered estimates as to the amount of time devoted ranging from 50 to 75 hours per month but said estimate was not based on documented time records. The owner

(1) Case Number 6634 was incorporated by reference in Case Number 7359.

appeared to have no knowledge of the fee or its basis. In view of the quality of the evidence during the original hearing, the Commission applied its informed judgment and based on the quality of the evidence received on rehearing, reaffirms its finding that a reasonable management fee is \$2,400 per year.

3. Petition alleges pump repair expenses should not have been capitalized since the record shows that frequent repairs have been required. Response points out that at page 41 of the October 15 transcript the Company's Consulting Engineer's hopes are the pumps will last longer than six months.

The Commission has reviewed the entire record relating to the problem experienced with these pumps. The record is full of claims by the Company that its pumps are subject to vandalism and sabotage. The identity of the vandals or saboteurs, if any, is not revealed by the record. However, it is clear from the record that the Company is experiencing a high level of repairs on its pumps. The Commission's March 19, 1980 Order denied in total the Company's request to expense these costs as reasonable annual expenses. However, on rehearing the Commission is persuaded that some allowance should be made for recovery of this cost. Therefore, the Commission finds that its Order of March 19, 1980 should be modified to include, in the Proforma Expenses Found Reasonable, one-fifth of the \$1,718 in extraordinary repairs incurred during the test year. In making this allowance the Commission is placing the Company on notice that it expects an early resolution to this maintenance problem and that the Company should file with the Commission a report on the plan it has implemented to protect its plant from alleged vandals and saboteurs. The Commission finds that the March 19 Order should be modified to reflect this change in Proforma Expenses Found Reasonable.

4. Petition alleges depreciation rate of 5% is totally inadequate.

Response points out that the Company introduced no evidence to support its claim of a 10-year life.

The Commission's review of the record discloses the Company's allegation is unfounded. It is clear that what the Company attempted to do was adopt, for rate making purposes, the depreciation guidelines permitted by Internal Revenue Service for tax purposes. The Consulting Engineer said he made a review and in his opinion the Company's depreciation rates were reasonable. The studies, if any, made by the Engineer were not made a part of the record in this matter. The Commission finds no error on its part in using its own expert knowledge of depreciation rates charged by other utilities to conclude the depreciation rates proposed by the Company are unreasonable. The Commission concludes that the Company did not provide a proper documented depreciation study which considered the mortality of the plant and, therefore, did not establish a basis for its alleged error.

5. Petition states that an annual accounting expense of \$1,200 and the amortization of \$1,500 (at \$300 per year) expenses incurred in seeking a Certificate of Public Convenience and Necessity in Case No. 7427 should not have been excluded from the Proforma Expenses Found Reasonable in the Commission's Order of March 19, 1980.
6. Petition states that the March 19 Order cites incorrect listing of the Company's plant capacity.
7. Petition states that the rates set by the Order of March 19 will not produce the revenues found reasonable by said Order.

Response does not address the above points.

The Commission has reviewed the record and determined that with respect to Point 5 above the data supplied in response to the request for information made at the October 15 hearing supports the Company's claim and, therefore, its Order entered March 19, 1980 should be modified to allow a Proforma Expense of \$1,500 (\$1,200 for accounting fees and \$300 for amortization of expenses incurred in Case No. 7427).

The sixth point raised by the Petition is not significant and had no material bearing on the Commission's decision. The Commission points out that while the Company in its Petition chastises the Commission for delays in entering its Order, it then resorts to the practice of raising points that obviously have no significant material impact in this matter. Such an approach seems to run contrary to the efficient processing of a rate case. However, the Commission does by this Order amend its Order of March 19, 1980 to 75,000 GPD vs. 68,000 GPD as listed in Appendix "A" of that Order.

The seventh point raised by the Company is a valid point. In past cases the Commission has fixed different rates based on single-family and multi-family residences. In this case no evidence was presented as to the mix of customers served by the Company. The \$7.60 rate included in Appendix "C" of the March 19 Order for multi-family residences was designed to provide the Company with a rate for multi-family residences on a prospective basis. The Commission's review of the Company's "Annual Report" shows no breakdown of customers on this basis even though such a breakdown of customers is required at page 12 of that report. Prospectively, the Commission believes this kind of problem can be avoided by the Company simply complying with the Commission's reporting requirements. The Commission assumes that a part of the fee paid by the Company to its accountant is for that purpose. Based on the foregoing discussion the Commission finds that the multi-family residential rate should be eliminated from Appendix "A" of the Order.

The following schedule sets forth the cost of service the Commission finds fair, just, and reasonable on rehearing:

Revenues Found Reasonable by Order Dated March 19, 1980		\$26,333
Add: Amortization of Extraordinary Maintenance	\$ 344	
Restore Accounting Fee and Amortize Cost of Case 7427	1,500	
Additional Billing Fee (\$344 + \$1,500) x 15%	277	
Income Taxes	74	
Margin (12% of Expense & Income Taxes)	<u>308</u>	
Total Additional Revenue Requirements		<u>2,560</u>
Proforma Revenues Found Reasonable on Reconsideration		<u>\$28,893</u>

The Commission finds, based on the foregoing discussion and the above tabulation, that the Company should be allowed to increase its monthly rates in order to produce \$2,560 in additional revenue over and above the amount granted by the Commission's Order of March 19, 1980.

IT IS THEREFORE ORDERED that Appendix "A" attached to the March 19, 1980 Order is hereby rescinded.

IT IS FURTHER ORDERED that the rate set forth in Appendix "A" attached hereto be and is hereby fixed as the fair, just, and reasonable rate for the Company and is effective for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that all other findings of the Commission in its March 18, 1980 Order be and are hereby reaffirmed.

IT IS FURTHER ORDERED that the Company shall within thirty (30) days of the date of this Order, file a report on its plans for protecting its treatment plant from the alleged vandals and saboteurs.

IT IS FURTHER ORDERED that the Company shall file with the Commission, within thirty (30) days from the date of this Order, its revised tariff sheets setting forth the rate approved herein.

Done at Frankfort, Kentucky, this the 1st day of August, 1980.

UTILITY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7539 DATED AUGUST 1, 1980

The following rate is prescribed for sewage disposal services rendered by the Farmdale Development Corporation for customers located within its service area.

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Single-Family Residential	\$11.41 Per Residence