

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF PETITION)
OF COUNTY WIDE RENTALS, INC.) CASE NO. 7781
TO REVISE RATES)

O R D E R

Preface

On March 26, 1980, County Wide Rentals, Inc., hereinafter referred to as the "Utility," filed with this Commission a duly verified application seeking an adjustment of its sewer service rate wherein it proposes to increase its rate rendered on and after April 31, 1980.

The Commission, by its order dated April 1, 1980, suspended the Utility's proposed rates, charges and classifications for a period of five (5) months on and after April 31, 1980.

The case was set for its initial hearing at the Commission's offices in Frankfort, Kentucky on August 6, 1980 at 9:00 a.m., Eastern Daylight Time. A further hearing was held on August 13, 1980 at 9:00 a.m., Eastern Daylight Time to conclude the evidence in the case. All parties of interest were notified with the Consumer Intervention Division of the Attorney General's Office being permitted to intervene in the matter. At the hearing, certain requests for additional information were made by the Commission staff. This information has been filed, and the entire matter is now considered to be fully submitted for final determination by this Commission.

Test Period

The Utility has selected the twelve month period ending December 31, 1979, as the "Test-Year" and has submitted tabulations of its actual revenues and expenses for this period including its pro forma adjustments thereto for the Commission's consideration in the determination of rate adjustments. Said tabulations along with those found reasonable by this Commission are included in Appendix "B" of this Order.

Rate Determination

While the Commission has traditionally considered the original cost of utility plant, the net investment, the capital structure, the cost of reproduction and the going concern in the determination of fair, just and reasonable rates, its experience in the establishment or adjustment of rates for sewer utilities has indicated that these valuation methods are not always appropriate. Sewer utilities are unique to the extent that the cost of facilities has usually been included in the cost of the individual lot. The owner and/or operator of the utility is, in many instances, the developer of the real estate. There are numerous instances of title changing hands prior to the effective date of Commission jurisdiction (January 1, 1975). Further, the Commission has found that the books, records and accounts of many of these utilities are incomplete. In such instances, the fixing of rates on the above methods of valuation is impossible. The Commission is, therefore, of the opinion that the "Operating Ratio Method"^{1/} should be utilized in rate-making determinations for sewage utilities although it is recognized that there may be instances where another method could be more valid.

Findings in this Matter

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds:

1. That, in this instance, the determination of rates and revenue requirements should be based on the operating ratio method.
2. That the Commission finds it advisable to prescribe a single system-wide rate rather than an individual rate for each of the Utility's three subdivisions. The accounting records of the utility were established prior to Commission jurisdiction and have been kept on a collective basis.
3. That the Commission should consider 188 residential customers in its determination of pro forma adjustments to the utility's test-year revenues and expenses.

^{1/} Operating ratio is defined as the ratio of expenses, including depreciation and taxes to gross revenues.

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

4. That the rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof should produce gross annual revenues of approximately \$32,148 from 188 residential customers and are the fair, just and reasonable rates to be charged for sewer service rendered by the Utility to customers located in the Farmgate, Meadowbrook and Edgewood Estates Subdivisions, Franklin County, Kentucky.

5. That the rate proposed by the Utility is unfair, unjust and unreasonable in that it would produce revenues in excess of those found reasonable herein and should be denied.

6. That an "Operating Ratio" of 0.88 results from test-year operations as adjusted and provides a Return Margin⁽²⁾ in this instance.

7. That the Utility has filed with this Commission a valid Third-Party Beneficiary Agreement.

8. That the Commission after considering the tabulation of test-year and projected revenues and expenses submitted by the Utility, concludes that said revenues, expenses and pro forma adjustments can be summarized as shown in Appendix "B" attached hereto and made a part hereof. On the basis of the said Appendix "B" tabulation, the Commission further concludes that annual gross revenues in the amount of \$32,148 are necessary and will permit the Utility to meet its reasonable expenses for providing sewage collection and disposal service to 188 customers.

Orders in This Matter

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that the rate prescribed and set forth in Appendix "A", attached hereto and made a part hereof, is hereby fixed as the fair, just and reasonable rate of County Wide Rentals, Inc., for providing sewage disposal service to customers located in the Farmgate, Meadowbrook and Edgewood Estates Subdivisions of Franklin County, Kentucky to become effective for service rendered on and after the date of this Order.

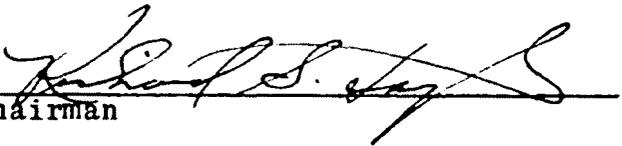
⁽²⁾ Return Margin is the amount remaining for the payment of a return on the investment of the security holders.

IT IS FURTHER ORDERED that the rate sought by the Utility be and the same is hereby denied.

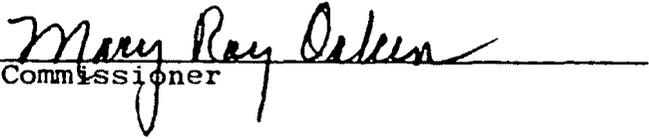
IT IS FURTHER ORDERED that the Utility shall file with this Commission, within thirty (30) days from the date of this Order, its tariff sheets setting forth the rate approved herein. Further, that a copy of the Utility's Rules and Regulations for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 26th day of September, 1980.

UTILITY REGULATORY COMMISSION


Chairman

Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7781 DATED SEPTEMBER 26, 1980.

The following rate is prescribed for sewage disposal services rendered to all residential customers served by County Wide Rentals, Inc. in the Farmgate, Meadowbrook and Edgewood Estates Subdivisions in Franklin County, Kentucky:

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Single-Family Residential	\$14.25 Per Residence

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7781 DATED SEPTEMBER 26, 1980.

In accordance with Finding No. 8, the following tabulation is the Commission's summary of "Test Year" and proforma annual revenues and expenses for the Utility's 95,000 GPD sewage collection and treatment system serving 188 customers in Franklin County, Kentucky.

	Actual ⁽¹⁾ Expenses <u>Test-Year</u>	(1) Pro forma <u>Requested</u>	Pro forma Found <u>Reasonable</u>
Revenues:			
Monthly Service Fees	\$ 20,880	\$ 33,276	\$ 32,148
Penalties	300	300	300
Total Revenues	\$ 21,180	\$ 33,576	\$ 32,448
Expenses:			
Routine O and M	\$ 3,550	\$ 3,900	\$ 3,900
Company Repair	-0-	500	500
Utilities:			
Water	\$ 1,595	\$ 1,595	\$ 1,595
Electric	3,992	4,100	4,100
Telephone	-0-	180	101 ⁽²⁾
Chemicals	463	500	500
Maint of Pumping Equipment	1,321	1,321	1,321
Maint of Treat. and Disposal Plant	1,280	427	427
Office Supplies	300	365	365
Supervision, Accounting, Billing and Collecting	\$ 9,100	\$ 9,100	\$ 6,384 ⁽³⁾
Uncollectible Accounts	553	553	553
Outside Services:			
Re-occurring - Accounting	\$ 1,907	\$ 1,907	\$ 1,907
Rate Case Expense	-0-	1,000	1,000
Insurance	156	156	156
Regulatory Commission Expense	79	79	79 ⁽⁴⁾
Transportation Expenses	509	509	373 ⁽⁵⁾
Office Rent	-0-	1,200	900
Depreciation Expense	1,600	1,600	1,600
Interest Expense	1,021	1,021	1,021
Taxes:			
Payroll	\$ 872	\$ 872	\$ 558 ⁽⁶⁾
Property	215	215	215
Corporation Fees	57	34	34 ⁽⁷⁾
Federal & State Income Taxes	-0-	598	947
Total Expenses	\$ 28,570	\$ 31,732	\$ 28,536
Net Income (Loss)	\$ (7,390)	\$ 1,844	\$ 3,912

(1) "Per books and "Pro forma Requested" income and expenses were obtained from the Utility's Comparative Income Statement.

(2) Telephone service is available to three separate functions - County Wide Rentals sewer operations; apartment complex; Roy Peach Lumber Company. The allowable expense in this instance is computed as follows: \$25.19 (one-pty. businessphone) x 12 ÷ 3 = \$100.76.

(3) The overall salary of Mrs. Elois Peach was reduced for \$9,100 per year to \$6,384 which was deemed reasonable in comparison with fees paid for these services by similar sized utilities operating under the jurisdiction of this Commission. The allowable amounts were determined as follows:

General Supervision	\$1,800 per yr.
Accounting	1,200 per yr.
Billing & Collecting - 188 cust. x \$1.50 x 12-	<u>3,384 per yr.</u>
Total	<u>\$6,384 per yr.</u>

(4) The Utility's request for \$509 with regard to Transportation Expense has been reduced to \$373. It was determined that the cost of tires for the pumper truck should be depreciated over a two year period.

(5) The Commission has determined that office space occupied by County Wide Rentals is being used for a dual purpose-utility and non-utility and is of the opinion that \$100 per month is excessive; the allowable amount being \$75 per month.

(6) The allowable annual salary of Mrs. Peach mentioned in item no. 3 was used as a basis for computing payroll taxes.

(7) The Federal and State Tax Liability has been computed on the taxable income as derived from the rates approved herein.