

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF THE )  
HIGHVIEW SEWER DISTRICT, INC. )

CASE NO. 7792

O R D E R

Preface

On March 28, 1980, Highview Sewer District, Inc., hereinafter referred to as the "Utility," filed with this Commission a duly verified application seeking an adjustment in its sewer service rates wherein it proposes to increase its rates rendered on and after April 21, 1980.

The Commission, by its order dated March 28, 1980, suspended the Utility's proposed rates, charges and classifications for a period of five (5) months on and after April 21, 1980. Also the Commission ordered, in Case No. 7692 - Complaint of Mr. Fred Pfannenschmidt against Highview Sewer District, Inc., that the issue of the reasonableness of the commercial rates of the utility with reference to the complainant be consolidated with and merged into Case No. 7792 wherein the Commission is currently considering the rate application.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on July 10, 1980 at 1:00 p.m., Eastern Daylight Time. All parties of interest were notified with the Consumer Protection Division of the Attorney General's Office 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 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 sewage utilities has indicated that these valuation methods are not always appropriate. Sewage 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"<sup>1/</sup> 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.

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<sup>1/</sup> Operating ratio is defined as the ratio of expenses, including depreciation and taxes to gross revenues.

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

2. That the Commission should consider 237 customers (230 residential and 7 commercial) in its determination of proforma adjustments to the utility's test-year revenues and expenses.

3. That the rates prescribed and set forth in "Appendix "A", attached hereto and made a part hereof should produce gross annual revenues of approximately \$56,362 from 237 customers and are the fair, just and reasonable rates to be charged for sewer service rendered by the Utility to customers located in the Glencoe and Spring Mill Subdivisions and environs, of Jefferson County, Kentucky.

4. That an "Operating Ratio" of 0.88 results from test-year operations as adjusted and provides a reasonable "Return Margin"<sup>(2)</sup> in this instance.

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

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

7. That the Commission after consideration of the tabulation of test-year and proforma revenues and expenses submitted by the Utility, concludes that these revenues, expenses and adjustments thereto 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 revenues in the amount of \$57,167 are necessary and will permit the Utility to meet its reasonable expenses for providing sewage collection and disposal service to 237 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 rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof be and they are hereby fixed as the fair, just and and reasonable rates of the Utility for providing sewage disposal services to customers located in the Glencoe and Spring Mill Subdivisions and environs of Jefferson County, Kentucky, to become effective for services rendered on and after the date of this Order.

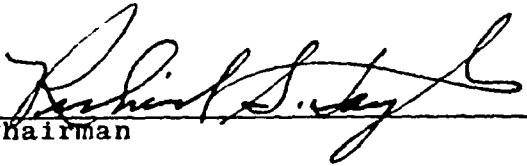
<sup>2/</sup> Return margin is the amount remaining for the payment of a return on the investment of the security holders.

IT IS FURTHER ORDERED, that the rates sought by the Utility be and the same are hereby denied.

IT IS FURTHER ORDERED that the Utility file with this Commission, within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates 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

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Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7792 DATED SEPTEMBER 26, 1980

The following rates are prescribed for sewage disposal services rendered to all customers served by the Highview Sewer District, Inc. in the Glencoe and Spring Mill Subdivisions and environs of Jefferson County, Kentucky.

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Single-Family Residential	\$19.30 per Single-Family Residence
All Other	\$29.40 per Residential Equivalent*

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\* The number of residential equivalents and/or fractional parts thereof shall be determined by dividing the customer's average monthly water consumption in gallons by 12,000 gallons. The minimum bill for this type of service will be \$19.30.

APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7792 DATED SEPTEMBER 26, 1980

In accordance with Finding No. 7, the following tabulation is the Commission's summary of "Test-Year" and projected annual revenues and expenses for the Utility's 100,000 GPD sewage collection and treatment system serving 237 customers in Jefferson County, Kentucky.

	Actual (1) Expenses (Test-Year)	Pro forma (2) Requested	Pro forma Found Reasonable
<u>Revenues:</u>			
Residential Revenues	\$29,506	\$64,680	\$53,268
Commercial Revenues	4,685	10,270	3,094
Interest Income	367	805	805
<b>Total Revenues</b>	<b>\$34,558</b>	<b>\$75,755</b>	<b>\$57,167</b>
<u>Expenses:</u>			
1. Operation Expenses:			
(a) Management Fee	\$ 1,200	\$ 1,200	\$ 1,200 (3)
(b) Treatment System-Operation	7,760	7,760	7,560 (4)
(c) Sludge Hauling	2,353	3,104	2,353 (6)
(d) Water Cost	681	681	584 (7)
(e) Other-Req. Daily Testing	2,198	2,578	2,578
(f) Rents-Non-Owned Sewers	3,240	3,240	-0- (8)
(g) Fuel and Power	6,678	6,678	6,678
(h) Chemicals	725	725	725
(i) Treat. and Disposal Supplies	211	211	211
2. Maintenance Expenses:			
(a) Supervision and Engineering	720	720	720 (3)
(b) Routine Maint.-Daily Greasing	800	800	-0- (4)
(c) Internal Supervision	240	240	-0- (3)
(d) Maint. of Collection System	620	620	600 (4)
(e) Maint. of Treatment Plant- Labor & Repairs	6,566	6,905	4,709 (9)
3. Customer Accounts Expense:			
(a) Supervision	120	120	-0- (3)
(b) Agency Collection Fee	843	843	1,408 (10)
4. Adminis. & Gen'l. Expenses:			
(a) Office Supplies and Other	48	48	48
(b) Outside Services Employed	2,865	2,865	2,745 (3)
(c) Insurance Expense	152	152	152
(d) Regulatory Comm. Expense	-0-	2,200	1,850 (11)
(e) Transportation Expense	2,694	2,694	1,980 (4)(5)
(f) Misc. General Expense	1,250	670	670
(g) Rents-Office	1,320	1,320	1,320
5. Other Expenses:			
(a) Depreciation	2,653	2,653	2,653
(b) Taxes Other Than Inc. Taxes	1,026	1,026	1,026
(c) Income Taxes-Federal, State, County	-0-	2,000	1,703
(d) Interest on Long-Term Debt	5,100	4,590	4,590
(e) Provision to Retire L.T.D.	-0-	4,250	-0- (12)
(f) Accounts Payable	-0-	5,861	2,067 (13)
<b>Total Expenses</b>	<b>\$52,063</b>	<b>\$66,754</b>	<b>\$50,130</b>
<b>Net Income (Loss)</b>	<b>\$(17,505)</b>	<b>\$ 9,001</b>	<b>\$ 7,037</b>

(1) Test year revenues and expenses were taken from Utility's Exhibit No. 4-Comparative Income Statement for the period January 1, 1979 thru December 31, 1979.

(2) Pro forma requested revenues and expenses were taken from Utility's Exhibit No. 4-Comparative Income Statement for the period January 1, 1979 thru December 31, 1979.

(3) The total management fees were reduced from \$2,400 to \$1,920 which was deemed reasonable in comparison with fees paid for this service by similar sized utilities operating under the jurisdiction of this Commission. Individual items deleted in this adjustment are 2(c)-\$240, 3(a)-\$120, and 4(b)-\$120.

(4) Operation and Maintenance expenses were reduced by \$1,200 which represents the cost of services for Mr. Ron Shipley. It was determined that these services should be performed under the O&M service contracts of John Treitz and Sons. Individual items deleted in this adjustment are 1(b)-\$200, 2(b)-\$800, 2(d)-\$20, and 4(e)-\$180.

(5) Transportation expense was also reduced by \$534 to correct a duplication of cost that is included in the Account "Other-Required Daily Testing."

(6) The Utility's request for \$3,104 with regard to Sludge Hauling was reduced to the test year figure of \$2,353 as it was considered to be speculative at best, and it was determined by the Commission not to be a reasonable, known and measurable adjustment to test-year expenses.

(7) Water Cost was reduced by \$97. An examination of the water invoices submitted for the test period revealed that this computation erroneously included 27 days, December, 1978 and 29 days, January, 1980.

(8) This Commission has received a letter dated September 11, 1980 from the Utility's attorney (Mr. Charles H. Zimmerman, Jr.) in which he states in item number four (4) that Highview Sewer District, Inc. will no longer pay Treitz and Sons the monthly rental for the lease of sewers. Therefore, this item of expense has been deleted from the pro forma expenses in arriving at a final determination in rates.

(9) It was determined that the account Outside Labor, Materials and Repairs includes two capital items: 130 feet of Z-85 collector drag chain purchased from Andriot Davidson Company at a cost of \$2,181.27, and installation of chain and flight adapters \$564.18. The allowable depreciation is as follows:  $\$2,181.27 + \$564.18 = \$2,745.45 \div 5 \text{ years} = \$549.09 \text{ per year.}$

(10) An expense of \$1,408 was allowed for billing and collecting based on apportionment of the \$1.36 charge of the collection agency (Louisville Water Company) for each bi-monthly bill which includes the customers charge for both water and sewer service.

(11) The \$2,100 estimated cost of Case # 7692 - Fred Pfannenschmidt vs. Highview Sewer District, Inc., has been apportioned equally between Highview and Case # 7919 - John Treitz and Sons. The monthly sewage charge to Mr. Pfannenschmidt applies to the rate case; the capital contribution to John Treitz and Sons. Allowable expense:  $\$2,100 \div 2 = \$1,050 + \$4,500 \div 3 \text{ yrs.} = \$1,850.$

(12) The inclusion of a provision to retire Long-Term Debt in the amount of \$4,250 per year has been disallowed. Normal recovery for this item is thru an annual depreciation charge of \$1,417 on the tertiary treatment plant with a straight line-life of 30 years.

(13) In considering the Utility's pro forma adjustment of \$5,861 applicable to the Accounts Payable write-off within three years, this adjustment has been determined to be improper. The Commission recognizes that these amounts are indeed owed by the Utility. However, to include an additional allowance would be to allow the Utility to recover such items twice as they have been included in pro forma operating expenses. The Commission is of the opinion that the proper adjustment is to include an adjustment of \$2,067 to allow the Utility to service the debt which would be necessary to pay its Accounts Payable. In arriving at this adjustment, the Commission has used an interest rate of 12% and has reduced the Utility's proposed Accounts Payable by \$360--Internal Supervision, \$240 and Supervision Customers Accounts, \$120--to delete excessive supervision fees. Computation of the allowable adjustment is as follows:  $(\$17,582 - \$360) \times 12\% = \$2,067$ .