

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF TIMOTHY FACILITIES, INC.,)
SEEKING APPROVAL OF A RATE INCREASE AND)
THE APPROVAL OF THE SCHEDULE OF RATES AND) CASE NO. 7796
CHARGES FOR THE SERVICES TO BE RENDERED)
BY THE TREATMENT PLANT TO ITS CUSTOMERS)

O R D E R

On March 28, 1980, Timothy Facilities, Inc., hereinafter referred to as the Applicant, filed Notice to the Commission of its intent to adjust rates for service rendered on and after April 21, 1980. The proposed adjustment in rates would increase annual revenues by approximately \$14,270. The Applicant stated that the present rates charged were insufficient to meet the necessary operating expenses of the treatment plant due to increased costs of operation, inflation, more stringent controls imposed by regulatory agencies, lack of funds for replacement of necessary and essential equipment and that additional funds were necessary for the proper administration of this public utility.

On April 1, 1980, the Commission, pursuant to KRS 278.190(2), ordered the suspension of the proposed rates for a period of five (5) months beginning April 21, 1980. The matter was set for public hearing at the Commission's offices in Frankfort, Kentucky, on July 16, 1980. All parties of interest were notified with the Consumer Intervention Division of the Attorney General's Office being the only party to intervene in the matter. At the hearing, certain requests for additional information were made by the Commission Staff. This information was filed on July 29, 1980.

The Attorney for the Consumer Intervention Division proposed by oral motion that the difference between the current rate of \$6.20 and the previous rate of \$5.60, which was placed in effect in December, 1975, as taken from the Applicant's testimony, be refunded to the consumers then affected for the period that this difference was charged unlawfully. This objection was lodged because no evidence could be found that the Applicant had applied for a rate increase or that an increase had been granted. On July

24, 1980, a written motion synonymous with the oral motion was filed by the Attorney General's Office. In response, the Applicant, by counsel, filed a motion to overrule the motion to refund monies on July 31, 1980, based on the fact that the Applicant submitted a letter from the Louisville Water Company which stated the rate of \$6.20 had been in effect since October, 1974, a date prior to Commission jurisdiction for regulatory purposes.

No other information or motions were submitted and the entire matter is now considered to be fully submitted for final determination by the Commission.

TEST PERIOD

The twelve (12) month period ending December 31, 1979, was used by the Applicant as the test period for purposes of testing the reasonableness of existing and proposed rates. Schedules of revenues and expenses including proforma adjustments to the actual test period results were submitted to the Commission for consideration. This test period met with the requirements of the administrative regulations of the Commission and adjustments where proper and reasonable were accepted as filed.

REVENUES AND EXPENSES

The existing rates charged by the Applicant during the test period produced annual revenues from sewage service of \$21,425. No proforma adjustments for changes in the number of customers or other variables were proposed by the Applicant as the treatment plant presently serves more customers than its rated capacity and expansion is not feasible at the present time.

The operating expenses as submitted for the test period were \$26,243. Several proforma expense adjustments were proposed to more clearly reflect current operating conditions. The Commission is of the opinion that the adjustments are generally proper and have been accepted for rate making purposes with the following exceptions:

1. Many of the proposed adjustments were based on the use of arbitrary percentage changes. The Commission finds that such adjustments totalling \$1,701 are improper as they are estimated values and, therefore, not measureable. Since the Applicant has

not presented sufficient justification to substantiate these adjustments, they have been excluded from the consideration of this matter. However, utilities, i.e., electric and water, were normalized as proposed by the Applicant for a total increment of \$246.

2. The Applicant proposed interest expense on its outstanding short-term note of \$15,500 based on the rate of twenty and one-half percent (20.5%), as this was the current rate when the Petition was filed. The Applicant stated in its hearing that the rate of interest on this note was variable and set at one and one-half percent (1½%) above prime interest rates, and further stated that a renewal date was soon forthcoming at which time the rate would be set at the then prevailing rate. The Commission finds that the prime interest rate has decreased dramatically and that this note could indeed be renewed at a much lower rate of interest. Therefore, since the Commission adjusts rates prospectively, the rate of interest found reasonable is twelve and one-half percent (12.5%) or a reasonable annual interest expense of \$1,938.

3. The Applicant proposed expenses for income taxes based on the net income proposed. In the above considerations, net income has been changed, thus, expenses for income taxes have been redetermined to be \$1,066 based on the latest applicable rates and the net income found reasonable.

Based on the foregoing analysis, the level of annual operating expenses, including federal, state and local income taxes of \$1,066, found reasonable was \$27,026, a reduction of \$1,214 from the level proposed by the Applicant. Including interest expense, total expenses of \$28,964 were found reasonable. Using an operating ratio of eighty-eight percent (88%), revenues of \$32,914 would be necessary to meet the reasonable operating conditions of providing sewage service to its customers. Following is a schedule showing the effect on net income after adjustments in revenues and expenses:

	<u>Actual Test Period</u>	<u>Proposed Proforma</u>	<u>Reasonable Proforma</u>
Operating Revenues	\$21,425	\$35,695	\$32,914
Operating Expenses	25,291	27,165	25,960
Utility Operating Income Taxes	52	1,075	1,066
Net Operating Income	<u>\$(3,918)</u>	<u>\$ 7,455</u>	<u>\$ 5,888</u>
Interest Expense	900	3,177	1,938
Net Income	<u>\$(4,818)</u>	<u>\$ 4,278</u>	<u>\$ 3,950</u>

SUMMARY

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

1. That the Applicant has filed with this Commission a valid third party beneficiary agreement.

2. That the rate prescribed and set forth in Appendix "A", attached hereto and made a part hereof, is the fair, just and reasonable rate to charge for sewage service rendered by Timothy Facilities, Inc., in that based on test period operating conditions, this rate will produce annual revenues of \$32,914 and will permit the Applicant to meet its reasonable operating expenses and to accumulate a reasonable surplus for equity growth.

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

4. That the motion to refund monies filed by the Consumer Intervention Division of the Attorney General's Office should be denied as the Applicant subsequently submitted adequate information to set the date of its latest rate adjustment as October 1, 1974, a date prior to Commission jurisdiction for regulatory purposes.

ORDERS IN THIS MATTER

The Commission, on the basis of the findings hereinbefore set forth and the evidence of record in this matter:

HEREBY ORDERS that the rate set forth in Appendix "A" be and hereby is fixed as the fair, just and reasonable rate to charge for sewage service rendered by Timothy Facilities, Inc., on and after the date of this Order.

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

IT IS FURTHER ORDERED that the motion to refund monies filed by the Attorney General's Office be and hereby is denied.

Done at Frankfort, Kentucky, this the 29th 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. 7796 DATED AUGUST 29, 1980

The following rate is prescribed for sewage disposal services rendered to all residential customers that are located in the Timothy Hills Subdivision of Jefferson County, Kentucky, and that are provided service by Timothy Facilities, Inc.

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Single-family residential	\$10.00 per customer