

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of

THE APPLICATION OF GOSHEN UTILITIES, INC.)	
FOR (1) AN ADJUSTMENT OF WATER SERVICE)	
RATES AND CHARGES AND SEWAGE RATES; AND)	
(2) APPROVAL OF THE PURCHASE AGREEMENT)	CASE NO. 7797
OF CARDINAL HARBOUR SANITATION)	

O R D E R

On March 28, 1980, Goshen Utilities, Inc., hereinafter referred to as the Applicant, filed with this Commission its application seeking approval of a proposed increase in its water service rates and charges and sewage service rates; and for the approval of the purchase agreement with Fourth Avenue Corporation - James C. Irvin Company, a joint venture, d/b/a Cardinal Harbour Sanitation.

The Applicant filed Notice to the Commission of its intent to adjust rates for service rendered on and after May 1, 1980. On March 28, 1980, the Commission, pursuant to KRS 278.190 (2), ordered the suspension of the proposed rates for a period of five (5) months ending October 1, 1980. The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on July 30, 1980, and August 20, 1980. All parties of interest were notified in the manner prescribed by the Kentucky Revised Statutes. The Consumer Intervention Division of the Attorney General's office was the sole intervenor of record in this matter. However, there were several consumers present at the hearing on August 20, 1980, who voiced opposition to the proposed rate increase. Additional information which was requested prior to and at the hearing has been filed, and the entire matter is submitted for a final determination by this Commission.

Test Period

The Applicant proposed and the Commission has adopted the twelve months ending December 31, 1979, as the test period for determining the reasonableness of the proposed rates. Proforma adjustments have been included where found fair, just and reasonable.

Revenues and Expenses

The Applicant proposed several proforma adjustments to revenues and expenses as reflected on its Comparative Income Statements. Separate comparative income statements were submitted for the water company and the sewer company with some expenses assigned on a pro rata basis between the two utilities. The Commission will accept in full for rate-making purposes some of the proposed adjustments. However, those rejected or modified are more fully discussed below:

(1) The Applicant proposed an increase in payroll expense including payroll taxes of \$5,880 for the water company and an increase of \$2,942 for the sewer company. There was no justification for these adjustments from the evidence submitted in this matter and they have been excluded from consideration herein. The Commission is of the opinion that the costs actually incurred during the test year were adequate for a utility of this size.

(2) The Applicant proposed adjustments to Operation and Maintenance Expenses to reflect the increased costs of maintenance and materials and supplies. The Commission finds that these adjustments totalling \$5,752 for the water company and \$9,030 for the sewer company are improper in that the materials and supplies expense is an estimated value and, therefore not measureable, and the amounts for the test year were considered sufficient to cover these expenses under normal operating conditions.

(3) The Applicant proposed an adjustment to interest expense of \$72,500 based on the interest rate of fourteen and one-half percent. Subsequent to the hearing the Applicant submitted additional information which reflected the estimated interest expense based on an interest rate of twelve percent. The Commission finds the interest rate of twelve percent to be reasonable in this case.

(4) The Commission has adjusted depreciation expense for the amount relating to contributed property for both the water company and sewer company. The Commission is of the opinion and finds that depreciation on contributed property for water and sewage utilities is not justified and should not be included for rate-making purposes. The amount of depreciation found reasonable for the water and sewer company was \$21,420 and \$7,732 respectively.

(5) The Applicant proposed an adjustment for estimated rate case expense totalling \$24,000 to be amortized over five years between the water and sewer company. This expense was adjusted to amortize the amount actually incurred of \$19,294 for both utilities.

(6) The Applicant proposed an adjustment of \$5,558 to operating expenses for extraordinary losses due to the abandonment of certain water facilities. These facilities were originally constructed to provide service to an area intended for future residential development. Subsequent to rezoning, at the request of the property owners, the development plan was altered whereby the facilities were rendered useless for service in that area as planned. The Commission is of the opinion that the cost associated with this extraordinary loss should not be borne by the ratepayers and therefore should not be included in operating expenses.

Based on the foregoing analysis, the level of annual operating expenses, including depreciation and taxes, found reasonable for the water company and sewer company were \$102,599 and \$52,941, respectively. Using an operating ratio of eighty-eight percent (88%), revenues of \$173,695 for the water company and \$65,273 for the sewer company would be necessary to meet the reasonable operating costs of providing water and sewage service to its customers. The following is a schedule for each company showing the effect on net income after the accepted adjustments to revenues and expenses.

Goshen Water Department

	<u>Actual</u>	<u>Proforma Requested</u>	<u>Proforma Found Reasonable</u>
Operating Revenues	\$58,565	\$217,082	\$173,695
Operating Expenses	95,842	133,002	102,599
Operating Income	(\$37,277)	\$ 84,080	\$ 71,096
Interest Expense	33,516	68,874	57,000
Other Income Deductions	-0-	-0-	5,558
Net Income	<u>\$70,793</u>	<u>\$ 15,206</u>	<u>\$ 8,538</u>

Goshen Sewer (Including Cardinal Harbour)

	<u>Actual</u>	<u>Proforma Requested</u>	<u>Proforma Found Reasonable</u>
Operating Revenues	\$28,090	\$101,109	\$ 65,273
Operating Expenses	64,411	86,436	52,941
Operating Income	(\$36,321)	\$ 14,673	\$ 12,332
Interest Expense	1,764	5,525	4,850
Other Income (Loss)	(3,763)	(4,600)	(4,600)
Net Income	<u>\$41,848</u>	<u>\$ 4,548</u>	<u>\$ 2,882</u>

Other Issues

During the test year, the Applicant initiated a construction project for expansion of its existing system and borrowed the money necessary for this project without approval from this Commission. According to KRS 278.020, no person, partnership, public or private corporation thereof shall begin the construction of any plant, equipment, property or facility for furnishing to the public any of the services enumerated in KRS 278.010 until such person has obtained from the appropriate Commission a certificate that public convenience and necessity require such construction. The Applicant did not comply with the statutes concerning the expansion program which was seventy-five percent complete as of December 31, 1979, and the related financing of this project. Also, the Applicant did not comply with the statutes concerning the purchase of Cardinal Harbour Sanitation. The Commission is of the opinion and finds that the Applicant shall file an application for approval, prior to any further construction of the facilities remaining to be completed under the current expansion program.

Summary

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

1. The rates and charges prescribed and set forth in Appendix "A", attached hereto and made a part hereof, are the fair, just and reasonable rates to charge for water and sewage service rendered by Goshen Utilities, Inc., in that based on test period operating conditions, these rates will produce annual revenues of \$173,695 for the water company and \$65,273 for the sewer company and will permit the Applicant to meet its reasonable operating expenses and to accumulate a reasonable surplus for equity growth.
2. The rates proposed by the Applicant are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.
3. In this instance, the determination of rates and revenue requirements should be based on the operating ratio⁽¹⁾ method.

⁽¹⁾ Operating ratio is defined as the ratio of expenses including depreciation and taxes to gross revenues.

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

4. An operating ratio of approximately 0.88 will result from the revenues of the water and sewer company and should provide a reasonable return margin in this instance.

IT IS THEREFORE ORDERED

1. That the rates proposed by the Applicant and set out in the Application insofar as they differ from those in Appendix "A" be and hereby are denied.

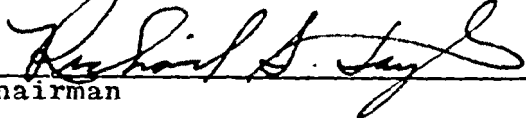
2. That the rates in Appendix "A" hereto attached and made a part hereof are fixed and prescribed as the rates for water service and sewage service rendered by Goshen Utilities, Inc., on and after the date of this Order.

3. That the Applicant shall file with this Commission within thirty (30) days from the date of this Order their revised tariff sheets setting out the rates and charges approved herein.

4. That the purchase agreement between Goshen Utilities, Inc. and Fourth Avenue Corporation - James C. Irvin, d/b/a Cardinal Harbour Sanitation be and hereby is approved.

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. 7797 DATED SEPTEMBER 26, 1980

The following rates are prescribed for all customers served by Goshen Utilities, Inc. All other rates and charges not mentioned specifically herein shall remain the same as those in effect prior to the date of this Order.

WATER: Monthly Rate

First	2,000 gallons	\$8.75 (Minimum Bill)
Next	13,000 gallons	3.00 per 1,000 gallons
Next	15,000 gallons	2.50 per 1,000 gallons
Next	20,000 gallons	2.00 per 1,000 gallons
Over	50,000 gallons	1.50 per 1,000 gallons

Minimum Bill \$8.75

For which 2,000 gallons or less of water shall be delivered.

PUBLIC AND PRIVATE FIRE HYDRANT RENTALS:

FIRE HYDRANT RENTALS: \$100.00 per year

SPRINKLER CONNECTION 6": \$35.00 per month

SEWER:(1) Monthly Rate

First	2,000 gallons	\$5.50 (Minimum Bill)
Next	13,000 gallons	1.50 per 1,000 gallons
Next	15,000 gallons	1.25 per 1,000 gallons
Next	20,000 gallons	1.00 per 1,000 gallons
Over	50,000 gallons	.75 per 1,000 gallons

Minimum Bill \$5.50

(1) The customers metered water usage shall be the basis for the computation of the bill for sewage service.