

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)
HAYFIELD UTILITIES, INC., d/b/a) CASE NO. 7802
COUNTRYSIDE SEWER SYSTEM)

O R D E R

On March 31, 1980, Hayfield Utilities, Inc., d/b/a Countryside Sewer System, hereinafter also referred to as the Applicant, filed with this Commission its petition seeking authority to adjust its rates for providing sewage service to the Countryside Subdivision of Oldham County and for said rates to become effective April 20, 1980. The Commission by its Order suspended the proposed rates until September 20, 1980, and set a public hearing in this matter for July 16, 1980. All parties of interest were appropriately notified with the Consumer Intervention Division of the Attorney General's Office and customers of the Applicant by Counsel being intervenors of record in this matter. A further hearing was held on August 14, 1980.

Hayfield Utilities, Inc., on April 3, 1980, filed in the United States Bankruptcy Court for the Western District of Kentucky bankruptcy proceedings under Chapter 11, Proceeding # 3-80-00925.

The complete record and testimony in this matter through the conclusion of the August 14, 1980, hearing has been considered by the Commission in making this Order.

TEST PERIOD

The Applicant has proposed, and the Commission has adopted for use, the twelve (12) months ending December 31, 1979, for the purpose of determining the reasonableness of the proposed rates. Proforma adjustments have been included where found fair, just and reasonable.

FINDINGS IN THE 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⁽¹⁾ method.

2. That the rates as prescribed and set forth in Appendix "A", attached hereto and made a part hereof, should produce annual revenues of \$38,474 from 130 customers and are the fair, just and reasonable rates to be charged for sewage services rendered by the Applicant to customers located in its service area.

3. That 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.

4. That an operating ratio of 0.88 should provide a reasonable return margin in this instance and the rates approved herein based on 130 customers should provide the company with a reasonable opportunity to achieve that ratio.

5. That there were 127 customers as of August, 1980, and that the Applicant anticipates annual growth of three (3) customers per year for the next three (3) years.

6. That the Applicant proposed several proforma adjustments to revenues and expenses as reflected on its Income Statement. Several of these requested expenses were the same as those granted in Case No. 7078 which was based on 162 customers. 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.

- a. The legal expense of Tarrant, Combs and Bullitt and Hamilton, McClellan and Croley totaling \$8,938 and amortized over 3 years, is for defending Hayfield Utilities, Inc., and other companies in the courts against alleged violations of environmental laws. As of this time the cases are still in litigation in the courts.

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

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

Therefore, no decision will be made as to the validity of this expense until such time that the court renders a decision. Accordingly the legal expense is disallowed without prejudice, to the company's right to claim this item after the litigation is resolved or a decision is rendered by the courts.

- b. The interest expense of \$3,983 was modified to \$2,000, which allows \$120 for the interest expense on the \$1,000 note payable and \$1,880 for interest at 12% on accounts payable of Androit Davidson Service Co.
- c. In accordance with the Commissions decision in Case No. 7078, the Commission will normalize the lease cost over a ten year period for rate making purposes. The annual cost is \$4,700.
- d. The Proforma Adjustment to Extraordinary Repairs of \$18,000 was proposed to be amortized to repairs over 3 years was reduced by \$10,000 due to lack of supporting documentation. Until the study has been performed, a reasonable cost for this repair would be difficult to document, therefore, in this case the Commission has allowed the \$8,000 study cost to be amortized over a five (5) year period for an amount of \$1,600 per year.
- e. The contracts for management fees from Androit Davidson Service Co., and G Apple, Inc., state a \$525 monthly charge or \$6,300 annually. The Commission has used \$6,300 for rate making purposes.
- f. The Commission has made a provision of \$1,117 for Federal and State Income Taxes.

g. The following is a schedule showing the effect on operating income after the revenue and expense adjustments.

	<u>Actual</u>	<u>Proforma Requested</u>	<u>Proforma Found Reasonable</u>
Operating Revenues	\$16,764	\$48,124	\$38,474
Operating Expenses	<u>39,124</u>	<u>45,124</u>	<u>33,858</u>
Operating Income	(\$22,360)	\$ 3,000	\$ 4,616

IT IS THEREFORE ORDERED:

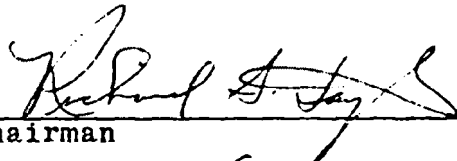
1. That the rates prescribed and set forth in Appendix "A", attached hereto and made a part hereof, be and they are hereby fixed as the fair, just and reasonable rates of the Hayfield Utilities, Inc., providing sewage disposal services to customers located in its service area and shall become effective for services rendered on and after the date of this Order.

2. That the rates proposed by the Hayfield Utilities, Inc., be and the same are hereby denied.


3. That Hayfield Utilities, Inc., shall 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 copies of all the Applicant's rules and regulations for providing service to customers located in Oldham County, Kentucky shall be filed with the said tariff sheets.

Done at Frankfort, Kentucky, this 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. 7802 DATED AUGUST 29, 1980.

The following rates are prescribed for sewage disposal services rendered to customers of the Hayfield Utilities, Inc., located within its service area of Oldham County, Kentucky.

<u>Type of Service Rendered</u>	<u>Monthly Charge</u>
Single-Family Residence	\$24.70 per Residence