

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

AND

THE COMPLAINT OF DOUGLAS H.)
MORRIS, ET AL., AGAINST) CASE NO. 8151
GOSHEN UTILITIES, INC.)

O R D E R

On September 26, 1980, the Commission issued an Order granting Goshen Utilities ("Applicant") an increase in its water and sewer service rates. On October 17, 1980, the Consumer Intervention Division of the Attorney General's Office filed a petition for rehearing. An Order granting the rehearing was issued by the Commission on October 27, 1980. On October 24, 1980, Douglas H. Morris, et al., submitted a letter in opposition to the rate increase granted in Case No. 7797, and was subsequently granted intervention in these proceedings under the name United Goshen Homeowners ("Homeowners"). The Homeowners did not intervene in the original rate case proceedings.

For the purpose of establishing procedural guidelines for the rehearing, a conference was conducted on December 18, 1980, including all parties of record and Commission staff. On February 19, 1981, a hearing was scheduled solely for the purpose of oral argument with respect to interrogatories requested of the Homeowners and the objections to those and other related matters. At this hearing, the Commission decided that the late-filed petition for rehearing by Douglas H. Morris, et al., would be treated as a complaint, Case No. 8151, with the entire record of Case No. 7797 being incorporated in that matter.

On May 26, 1981, the rehearing was conducted at Goshen Elementary School, Goshen, Kentucky. An additional hearing was held on June 29, 1981, for purposes of rebuttal testimony of the Applicant and to complete cross-examination of the Homeowners' expert witness, Mr. Ralph Johanson. Throughout the course of these proceedings, the Applicant has responded to various written and oral requests for information from the Commission staff, the Attorney General and the United Goshen Homeowners.

Revenues and Expenses

There were several issues addressed by the Homeowners during the proceedings following the Order of September 26, 1980. Based on the entire evidence of record the Commission finds as follows:

Billing Analysis

For the test year, the Applicant did not include the usage of the Country Club in the billing analysis. There was an agreement in effect during the test year which specified that the Country Club could irrigate its greens, free of charge, from the well owned by the Country Club and leased to the Applicant. However, this agreement is no longer binding and the Country Club is presently being charged the retail water service rates now in effect. The Homeowners proposed to include usage of 4,320,000 gallons from information included in the 1979 annual report. This was based on half of the usage of the reported usage for the Country Club and fire hydrants combined. Subsequent to the hearing, the Applicant submitted bills for water sales for a three month period which included three bills for the Country Club proper, the tenant house and the barn. The Commission has determined that the reasonable usage to be included in the revised billing analysis is 150,000 gallons per month for the summer months and 50,000 gallons per month for the winter months for the Country Club, 16,000 gallons per month for the tenant house, and \$641 in revenue for the barn.

The Homeowners stated that the Applicant sells water to a Mr. Coffman who owns a water truck and buys water for resale at the old rates. The Applicant did not request a special rate in the rate case application for Mr. Coffman or make mention of the arrangement. The Applicant testified

at the hearing that plans were being made to request a wholesale rate for Mr. Coffman from the Commission. Inasmuch as the billing analysis did not include sales to Mr. Coffman, the Commission has included in the revised billing analysis sales for resale of 150,000 gallons per month which is based on actual bills submitted by the Applicant. The revenue derived from these sales is based on a wholesale rate of \$1.10 per 1,000 gallons.

During the test year, there were approximately 50 customers who were unmetered and who were being charged the minimum bill for 6,000 gallons. In the original billing analysis these 50 customers were included at this usage of 6,000 gallons per month. Since the installation of meters, the customers' actual measured usage is much higher than previously estimated. The Homeowners noted upon review of the actual bills from November 1980, to February 1981, that the average usage for these customers was approximately 9,400 gallons per month. The Commission has reviewed actual bills of these customers and determined that the rates should be based on sales to these customers of 8,236 gallons per month.

The Homeowners also proposed using the current number of customers of 607 based on actual bills for the months after the increase went into effect. The Commission used 578 customers in the original Order and does not find adequate justification for adjusting sales to the present level of customers without further adjusting expenses for

additional costs. In addition, the Commission is of the opinion that the customers of Goshen Utilities may reduce usage as a result of the higher rates.

Expenses

Repair and Maintenance (Water)

The Commission, in its original Order, denied the proposed pro forma adjustment to repair and maintenance expense proposed by the Applicant. The Homeowners have proposed to reduce the actual test year repair and maintenance expenses for a bill paid to Reynolds Supply during 1978, in the amount of \$4,859, and a sundry expense item of \$392. In support of the adjustment, the Homeowners have submitted actual invoices dated in 1978, for costs actually incurred outside the test year. The Commission concurs with the position of the Homeowners in this regard and will adjust the test year expenses accordingly.

The Homeowners proposed to reduce the test year expenses by \$2,925 for the cost of a preliminary engineering report which should have been capitalized and depreciated over a ten year period. The Commission concurs with the Homeowners and has therefore reduced the actual test year expense to an adjusted amount of \$325. Also included in the actual repairs and maintenance expense was a bill for major reworking of a pump in the amount of \$1,156. The Homeowners proposed to amortize this extraordinary item over a four-year

period. The Commission concurs and has adjusted the expense to include only \$289 for rate-making purposes.

The Homeowners proposed to exclude the test year allowed expense for maintenance labor of \$5,855 that was paid to Goshen Developers. The basis of the adjustment was that the major shareholder of Goshen Developers, Mr. J. F. Stone, was placed on the payroll of the Applicant during the test year which caused "double-dipping" to Goshen Utilities.

The Commission denied in its original Order an adjustment to payroll expense and found that the cost actually incurred during the test year was reasonable. This determination included the amount paid to Goshen Developers for services performed by Goshen Developers, for Applicant. Therefore, the Commission will maintain its original decision to include the \$5,855 as an allowable operating expense.

Electric Expense

The Applicant's actual electric expense for the test year was \$13,447. The Commission found the pro forma adjustment to this expense reasonable and adjusted the annual cost to \$20,117. The Homeowners proposed to reduce the allowed electric expense by approximately twenty percent or \$4,000. The basis for the reduction was that Applicant's non-revenue producing water usage was excessive. Of the total water produced during the test year, only 60% was revenue producing. Since the Commission has included the usage for the Country

Club and unmetered customers in the revised billing analysis, the non-revenue producing water usage would be much lower. Also, after considering the rate increase granted the Louisville Gas and Electric Company in September 1980, the Commission is of the opinion that the allowed electric expense is reasonable.

Equipment Repair Expense

The Homeowners originally proposed to reduce the actual equipment repair expense by approximately \$1,000 to an adjusted expense of \$1,321 because no back-up data was provided by the Applicant. At the May 29, 1981 hearing, however, Mr. Johanson, witness for the Homeowners, testified that \$1,758 should be removed from the total allowable equipment repair expense for water and sewer. In support of the adjustment, the Homeowners submitted 1978 invoices totaling \$1,066, two invoices for car repairs of \$226 and an item of \$467 from Goshen Developers. The Commission has adjusted the expense to exclude the prior period invoices of \$1,066. However, the Commission does not agree with the Homeowners' further adjustment to reduce these expenses.

Auto Rental and Repair Expenses

The Commission found the actual auto rental and repair expense to be reasonable for the water and sewer department. The Homeowners did not propose an adjustment to this expense prior to the hearing. However, at the hearing the Homeowners

testified that at least half of the expense or \$1,636 should be removed from the test year. The Applicant testified that a large down payment was contributed by the president in order to reduce the monthly rental payments to a more reasonable level comparable to that of a more economical automobile. The Commission is therefore of the opinion that the allowed test year amount is the reasonable amount to be used for rate-making purposes in this case.

Office Expenses and Service Charges

The Commission found the actual office expenses for the water and sewer department to be reasonable in the previous Order. The Homeowners proposed to reduce these expenses by 50% based on the sharing of office space by several businesses. In support of the adjustment, the Homeowners submitted a breakdown of the expenses showing that the Applicant paid the total telephone expense, coffee expense and janitorial expense. For example, the Applicant did not pay rent or electric expense. The Applicant testified that there was no allocation of office expenses among the other businesses, but that certain expenses were paid by each. Applicant also contended that the activities by the other businesses were insignificant during the test year and have been steadily declining in the past two years. The Commission is of the opinion, after consideration of all the evidence of record, that the actual office expenses and service charges are reasonable and should be allowed.

Insurance Expense

The Commission found the actual insurance expense for the water and sewer departments to be reasonable. The Homeowners proposed to reduce the expenses by \$2,521 to exclude prior period amounts that were included in the test year and to exclude all insurance costs associated with the Lincoln Continental Mark V leased by the Applicant for the use of W. F. Stone, President, as they contended that this type of automobile was not essential to the operation of the utility. The Applicant testified that for health reasons a larger car was essential. The Commission is of the opinion that the test year expenses should be reduced by \$1,289 for costs incurred outside the test period, but the cost of insurance on the company automobile should not be reduced. This will result in an adjusted insurance expense of \$2,396 for the water department and \$1,355 for the sewer department.

Interest Expense

During the test year the Applicant borrowed \$500,000 at a 12% interest rate for the unauthorized expansion program and to pay its operating expenses. In the original Order an interest expense of \$60,000 was allowed with 95% or \$57,000 being allocated to water operations and \$3,000 to the sewer operations. The Homeowners contended that the interest expense on \$119,636 should be eliminated because that portion of the expansion project was not completed

during the test year and was denied by the Commission in its Order of September 1980. Also, the Homeowners feel that the interest expense on the debt associated with the unrecovered cost of \$30,989 connected with the acquisition of a lake for improvements to the dam should be eliminated and that the Commission should order the Applicant to sell the lake back to the president, W. F. Stone. The Commission is of the opinion that the lake should be recorded by the utility as Nonutility Property, Account 121 and the interest expense associated with the lake of \$3,719 should be recorded as a below-the-line expense for rate-making purposes. Since there is no apparent benefit to the ratepayers of owning and maintaining the lake, the ratepayers should not bear those expenses. The Commission does not, however, agree with the Homeowners' reduction of interest expense for the \$119,636. The Applicant testified that the funds were used for legitimate utility purposes and that it was currently incurring much higher interest costs than the 12% currently allowed in the original Order. Therefore, the Commission will make no further reduction of the allowed interest expense.

Depreciation Expense

The Commission found in its Order of September 1980, that only depreciation on non-contributed property should be included for rate-making purposes. The Homeowners propose to reduce this expense further for depreciation associated with the excess capacity and depreciation associated with

a line that did nothing, in their opinion, to help the pressure in the existing system. Also, the Homeowners felt that office equipment, tools and equipment, power operated equipment and communication equipment represented 25% of the depreciation expense and were used jointly by Goshen Developers and Goshen Utilities. The Homeowners are seeking to reduce the depreciation expense by ten percent or \$2,000 based on those items. The Commission is of the opinion that the allowed depreciation expense is reasonable and that the adjustment proposed by the Homeowners is not supported by the evidence of record.

Repair and Maintenance (Sewer)

The Homeowners submitted invoices from Herrick Electric in support of the test year allowed expense of \$2,621. Of this total amount, \$2,313 was for invoices issued in 1978 and actually paid in 1979. The Commission is of the opinion that the costs incurred outside the test year should not be included for rate-making purposes herein. Therefore, the repair and maintenance expense has been adjusted accordingly.

The bills submitted by the Homeowners in support of the Andriot-Davidson expense for the test year reflected \$2,817 for the installation of two new pumps and \$1,360 for the repair of a grinder pump. The bill of Fisher Porter for \$1,421 related to a float-actuated flow meter. The Homeowners felt that these expenses should be written off over

five years with \$4,479 being deleted from test year expenses. The Commission concurs with the Homeowners in this regard and has adjusted the expenses accordingly.

The Homeowners proposed to further reduce repair and maintenance expenses for the test year by \$3,772 for costs unaccounted for by the Applicant. Of this amount, \$1,521 was paid to Goshen Developers for maintenance labor. The Commission is of the opinion that the record herein does not reflect that these costs were unreasonable operating costs of the Applicant, and will make no further adjustment.

In the Order of September 1980, the Commission did not allow actual repair and maintenance expenses and electric expenses of Cardinal Harbour totaling \$5,121 upon combining the two utilities, but felt that the expenses actually incurred by the Applicant were adequate. The Homeowners are seeking to reduce these expenses further. After examining all evidence of record, the Commission remains of the opinion that the level of expense allowed in its Order of September 26, 1980, is reasonable and has made no further adjustment herein.

Other Deductions - Sale of Grinder Pumps

The Commission did not include the revenue and expenses associated with the grinder pump sales by the sewer department in determining revenue requirements as they were non-operating in nature. The Homeowners have assumed that the amounts were included for rate-making purposes and

proposed to make an adjustment to these amounts. The Commission is of the opinion that Applicant has properly accounted for these revenue and expense items and, therefore, will make no adjustment.

Sewer Tap Fees

The Homeowners proposed to include sewer tap fees as operating revenue for 1/6 of the amount collected between 1974 and 1979, or \$41,400. The Homeowners stated that for the fee of \$1,000 charged by the Applicant no work is performed, that the actual sewer taps have been previously contributed by developers and that the money collected becomes a part of operating capital. The Commission is of the opinion that the tap-on fees should continue to be accounted for by the Applicant as contributions in aid of construction in accordance with the uniform system of accounts and not as revenue.

Income Taxes

The Commission has provided an amount of \$3,137 for the water department and \$1,552 for the sewer department for income taxes based on the level of revenues and expenses found reasonable herein.

Based on the adjustments to the allowed revenues and expenses in the Order of September 1980, the revised test period operations would appear as follows:

Goshen Water Department

	<u>9-26-80 Order</u>	<u>Adjustment</u>	<u>Final Adjusted</u>
Operating Revenues	\$173,695	(\$12,443)	\$161,252
Operating Expenses	<u>102,599</u>	<u>(7,584)</u>	<u>95,015</u>
Operating Income	\$ 71,096	(\$ 4,859)	\$ 66,237
Interest Expense	57,000	(3,719)	53,281
Other Income Deductions	<u>5,558</u>	<u>-0-</u>	<u>5,558</u>
Net Income	<u>\$ 8,538</u>	<u>(\$ 1,140)</u>	<u>\$ 7,398</u>

Goshen Sewer Department

	<u>9-26-80 Order</u>	<u>Adjustment</u>	<u>Final Adjusted</u>
Operating Revenues	\$ 65,273	(\$6,986)	\$ 58,287
Operating Expenses	<u>52,941</u>	<u>(5,917)</u>	<u>47,024</u>
Operating Income	\$ 12,332	(\$1,069)	\$ 11,263
Interest Expense	4,850	-0-	4,850
Other Income (Loss)	<u>(4,600)</u>	<u>-0-</u>	<u>(4,600)</u>
Net Income	<u>\$ 2,882</u>	<u>(\$1,069)</u>	<u>\$ 1,813</u>

Using an operating ratio of 88%, revenues of \$161,252 for the water department and \$58,287 for the sewer department would be necessary to permit Applicant to pay its operating expenses, service its debt and provide a reasonable return to Applicant's owners. Therefore, the Commission finds that Applicant shall decrease the rates granted by this Commission in its Order of September 26, 1980, to produce total revenues of \$161,252 for the water company and \$58,287 for the sewer company, which is a decrease in previously allowed revenues of \$12,443 and \$6,986, respectively.

Summary

The Commission, after consideration of the additional evidence of record and being fully advised, is of the opinion and so finds that the rates set out in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged for water and sewage service rendered by Applicant in that it will permit Applicant to meet its reasonable operating expenses, service its debt and to accumulate a reasonable surplus for equity growth.

IT IS THEREFORE ORDERED that the rates set forth in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged for water and sewage service rendered by Goshen Utilities, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED that the rates granted Goshen Utilities in the Commission's Order of September 26, 1980, are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein, and are hereby rescinded.

IT IS FURTHER ORDERED that Goshen Utilities shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 27th day of July, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Did not participate
Vice Chairman

Jim Hansen
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 7797 DATED JULY 27, 1981

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	\$8.25 (minimum bill)
Next	13,000 gallons	2.60 per 1,000 gallons
Next	15,000 gallons	2.10 per 1,000 gallons
Next	20,000 gallons	1.60 per 1,000 gallons
Over	50,000 gallons	1.10 per 1,000 gallons

Minimum Bill \$8.25

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

MISCELLANEOUS WATER SALES:

Tank truck sales shall be a minimum of \$1.10 per 1,000 gallons or any part thereof.

SEWER:^{1/} Monthly Rate

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

Minimum Bill \$5.50

^{1/} The customer's metered water usage shall be the basis for the computation of the bill for sewage service.