

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENTS OF SEWER RATES)
OF SANICO, INC., OF MAYSVILLE,) CASE NO. 8083
KENTUCKY)

O R D E R

On December 1, 1980, Sanico, Inc., ("Applicant") filed with the Public Service Commission, formerly the Utility Regulatory Commission, its notice of a general adjustment of rates to become effective on January 1, 1981. The proposed adjustment would produce additional annual revenues of approximately \$17,000, an increase of 143% based on test year revenues.

On December 2, 1980, the Commission issued an Order which suspended the proposed rate increase for a period of five months, or until June 1, 1981. On February 3, 1981, the Commission issued an additional Order directing Applicant to provide statutory notice of the pending rate increase and the scheduled hearing, set for March 17, 1981, to its consumers. On March 17, 1981, the Commission issued an Order wherein the hearing scheduled for March 17, 1981, was rescheduled for April 16, 1981; and Applicant's waiver, for a period of thirty days, of the five-month suspension period and the ten-month statutory period prescribed in KRS 278.190 was approved. On March 18, 1981, the Commission issued an additional Order wherein Applicant was directed to provide, to its consumers, statutory notice of the requested rate increase and the rescheduled hearing.

On December 9, 1980, the Division of Consumer Intervention in

the Office of the Attorney General filed a motion to intervene in this proceeding which was sustained.

On March 16, 1981, a group of ten of Applicant's consumers ("Intervenors"), filed a motion to intervene in this proceeding citing that Applicant's requested rate adjustment was unreasonable, unjustified, and unjustly discriminatory. The Intervenors' motion was sustained and the hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky.

COMMENTARY

Sanico, Inc., is a privately owned utility providing water service and sewage treatment service in Mason County, Kentucky. Applicant provides sewage treatment to 56 customers in Jersey Ridge I and Jersey Ridge II subdivisions and water and sewage treatment service to Jersey Ridge Apartments which consists of 51 units.

TEST PERIOD

Applicant proposed and the Commission has accepted the twelve-month period ending August 31, 1980, as the test period for determining the reasonableness of the proposed rates. In utilizing the historic test period, the Commission has given full consideration to known and measurable changes where appropriate.

REVENUE REQUIREMENTS

Applicant proposed several pro forma adjustments to expenses on the pro forma sewer income statement included in Applicant's second response to the Commission's Order for additional information. The Commission is of the opinion that the adjustments are generally proper

and accepted for rate-making purposes with the following modifications:

1. The Commission has adjusted operating revenues by \$357 to reflect the elimination of sales tax from revenues. Applicant erroneously included sales tax in revenues and expenses during the test year. Applicant made an adjustment to reduce its expenses for sales tax but did not make the proper adjustment to revenues.

2. Applicant, in making its adjustment to taxes, did not take into account the annual regulatory assessment imposed by this Commission. In so doing, Applicant understated its operating expenses by \$50, which is the amount of the assessment for a utility of Applicant's size. The Commission, therefore, has adjusted Applicant's pro forma operating expenses to include the \$50 assessment.

3. Applicant proposed to adjust its depreciation expenses by \$1,400, from \$6,317 recorded during the test year to \$4,917 on a pro forma basis. This was, in effect, a retroactive change reflecting revisions in the estimated service lives of the items that make up Applicant's utility plant in service. The Commission accepts Applicant's changes in the estimated service lives; however, it does not accept the manner in which these changes have been applied. Changes in estimates may be accounted for currently and prospectively, but not retroactively.¹ The method proposed by Applicant would result in some instances, in duplicate depreciation of a portion of the plant in service. Therefore, Applicant's depreciable plant should be depreciated over the remaining lives of the assets based on the revised estimated service lives. The resulting annual depreciation charge is \$4,934; however, for rate-making purposes, we have made a further adjustment to reflect that approximately 56 percent of Applicant's utility plant in service is

¹Accounting Principles Board, Opinion No. 20-Accounting Changes (American Institute of Certified Public Accountants, Inc., (1971), paragraph 31.

contributed property. Therefore, Applicant's depreciation expense allowable for rate-making purposes is reduced to \$2,164.

4. The Commission has adjusted Applicant's operating expenses to reflect an increase in Applicant's routine maintenance service fee. Subsequent to the end of the test period, this charge was increased from \$60 to \$100 per month. The portion allocated to sewer operations increased from \$50 to \$85 per month, which results in an increase in operating expenses of \$420 for sewer operations.

5. Applicant's pro forma operating expenses have been understated by the omission of a provision for federal and state income taxes. The Commission has determined, based on the additional revenues granted herein, that Applicant should be allowed a provision for income taxes of \$424 and has adjusted operating expenses accordingly.

The effect of these adjustments on net income is as follows:

	<u>Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 11,936	\$ (357)	\$ 11,579
Operating Expenses	22,949	(10,118)	12,831
Operating Income	<u>\$(11,013)</u>	<u>\$ 9,761</u>	<u>\$(1,252)</u>
Interest Expense	2,918	-0-	2,918
Net Income	<u><u>\$(13,931)</u></u>	<u><u>\$ 9,761</u></u>	<u><u>\$(4,170)</u></u>

Based on proposed sewer expenses of \$26,044, Applicant originally requested sewer revenues of \$28,620 which would result in an operating ratio of .91. The Commission, however, is of the opinion that an operating ratio of .88 will be adequate to allow Applicant to pay its operating expenses found reasonable for rate-making purposes. Based on this operating ratio, Applicant's operating revenues from sewer operations should be \$17,500 which will require additional revenue of \$5,921.

SUMMARY

The Commission, after consideration of the evidence of record

and being fully advised, is of the opinion and finds that the rates set out in Appendix A, attached hereto and made a part hereof, will produce gross annual sewer revenues of \$17,500 and are the fair, just and reasonable rates for Applicant.

The Commission further finds that the rates proposed by Applicant would produce revenues in excess of those found reasonable herein and, therefore, must be denied upon application of KRS 278.030.

The Commission further finds that the water rate for service to Jersey Ridge Apartments set out in Appendix A, attached hereto and made a part hereof, will produce gross annual water revenues of \$4,440 and is the fair, just and reasonable rate for Applicant.

The Commission further finds that Applicant erroneously collected sales tax from its residential customers during the period from June 1979 to December 1980. The collection of these taxes resulted in excess charges of approximately \$450, which should be refunded to Applicant's residential consumers.

IT IS THEREFORE ORDERED that the rates set out in Appendix A, attached hereto and made a part hereof, are approved for sewage disposal service rendered by Sanico, Inc., on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Sanico, Inc., would produce revenues in excess of those found reasonable herein and, therefore, must be denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates for water service to Jersey Ridge Apartments set out in Appendix A, attached hereto and made a part hereof, is approved for water service rendered on and after the date of this Order.


IT IS FURTHER ORDERED that Sanico, Inc., shall, without delay, refund to its residential customers the monies erroneously collected

as sales tax from June 1979, to December 1980. This refund should be in the form of a credit on the residential consumer's monthly bills for the first two months the increased rate is in effect.

IT IS FURTHER ORDERED that Sanico, Inc., 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 1st day of July 1981.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

