

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION AND PETITION)
OF THE FARMDALE DEVELOPMENT)
CORPORATION, INC., FOR AN) CASE NO. 8102
ORDER AUTHORIZING SAID)
CORPORATION TO REVISE RATES)

O R D E R

PROCEDURAL BACKGROUND

On September 10, 1981, the Commission issued its Order granting the petition for rehearing of Farmdale Development Corporation, Inc., ("Farmdale") solely to consider the Commission's finding, in its Order of August 5, 1981, that customer accounting and collection fees should not exceed \$1.00 per month per customer for rate-making purposes.

Farmdale has a contract with Farmdale Water District ("District") whereby the District performs the customer accounting and collection functions for Farmdale at a contract rate of 15 percent of the monthly rate per customer approved by the Commission. As the District's costs to perform this service were relevant to this proceeding, the Commission made the District a party and requested that a representative of the District be present for cross-examination. The hearing was held October 8, 1981, at the

Commission's offices with all parties of interest being present.

At the conclusion of the hearing, the record in this matter was submitted for final determination by the Commission.

ANALYSIS AND DETERMINATION

The two major areas developed through cross-examination and testimony were the costs of the District in providing the billing and collection services to Farmdale, and the estimated costs Farmdale would incur if this collection service were unavailable.

The Commission was of the opinion that a just and reasonable billing and collection fee should be based on cost rather than a percentage of customer charges and directed Farmdale to renegotiate its contract with the District. Farmdale's president, Mr. Charles Weaver, advised the Commission in testimony presented at the hearing that he had attempted unsuccessfully to renegotiate the contract. Mr. Berl Robinson, Commissioner and General Manager of the District, confirmed Mr. Weaver's testimony. It was his opinion that when the Commission raised Farmdale's rates, the District should have had an increase in the billing and collection fee as well.

The District performs the same services for two other sewer companies, Four-Way Enterprises, Inc., ("Four-Way") and County Wide Rentals, Inc. ("County Wide"). The District's charges to each of these companies are also on a percentage basis. Although the District presently charges Four-Way a fee of only 10 percent of its customers' sewer bills, it plans to increase this to the 15 percent fee charged County-Wide and Farmdale following the expiration of the current contract on December 31, 1981.

The current monthly sewer charge and number of customers at December 31, 1980, for Four-Way was \$11.70 and 206, for County-Wide was \$14.25 and 193, and for Farmdale was \$18.00 and 222. 1/ As can readily be seen the percentage method produces widely varying monthly charges to the sewer utilities and monthly revenues to the District.

Counsel for the District maintained in the hearing that, as this billing and collection service was a non-utility function and a business separate from the provision of water service, the Commission had no jurisdiction to determine its charges to the sewer companies. 2/ The Commission clearly has jurisdiction to determine the accounting methods the District employs.

1/ 1980 Annual Reports of Four-Way, County Wide and Farmdale.

2/ Transcript of Evidence, October 8, 1981, page 44.

In reviewing the District's 1980 Annual Report, the Commission finds that, although the revenues derived from the non-utility operations are accounted for "below the line" in Account 421, Miscellaneous Nonoperating Income, the expenses associated with the provision of this service are accounted for "above the line" in the District's utility operating expenses. This is improper as the Uniform System of Accounts for Class C Water Utilities requires these expenses to be included as deductions to Account 421 and netted against revenues. Moreover, the Commission finds that although no assets were recorded in Account 121, Non-utility Property, the billing machine, office building and other miscellaneous assets were used in the provision of the non-utility service. It would be speculative at best for the Commission to segregate expenses related to the billing and collection function. The District's failure to properly allocate customer accounting, administrative and general, and depreciation expenses as well as debt service requirements applicable to the non-utility sector of the business has resulted in the inability of the District to determine its profit margins.

Counsel for the District moreover made reference to potential subsidization of the sewer customers by the water customers. 3/ From an analysis of the District's 1980 Annual

3/ Ibid.

Report, it is impossible to determine the costs applicable to the sewer billing and collection function. However, it is apparent that as these non-utility costs are not separated from the utility cost of service, the ratepayers of the District and of the sewer utilities are each paying for the same costs.

Farmdale also maintained that its estimated cost per customer to perform the billing and collection services would be \$3.12 per month. Many of the assumptions included in this estimate are, in the opinion of the Commission, questionable. For instance, Farmdale serves approximately 222 customers; these customers are billed a flat rate of \$18 per month. Farmdale estimated that it would require a full-time clerk working 160 hours per month to execute the billing and collection procedures. The Commission disagrees with this estimate. Although Farmdale stated that it would require a full-time effort to collect unpaid bills, 4/ it offered no evidence to support this claim. This and certain other assumptions included in Farmdale's exhibit are unsupported by either analyses or explanations in the record.

Moreover, it appears to the Commission that Farmdale has failed to consider various alternatives in arriving at its estimated cost. An alternative which would reduce the

4/ Ibid., page 10.

cost considerably would be quarterly or bimonthly billing rather than Farmdale's proposed monthly billing. Another alternative would be for Farmdale to compare the charges of other collection agencies with the District's charges and its own projected internal costs. Neither these nor other possible alternatives were presented by Farmdale.

Finally, the Commission made a random survey of the customer accounting and collecting costs of 40 of the 219 sewer utilities under its jurisdiction. This survey, which is attached as Appendix A to this Order, shows that the average customer accounting and collecting cost of these 40 utilities was approximately \$.69 per customer per month. Adjusting the 1980 average for cumulative inflation based on the change in the Consumer Price Index-W from December 1979 through September 1981 produces an adjusted average cost of approximately \$.84 per customer per month.

SUMMARY

Neither Farmdale nor the District substantiated any deviation from the original opinion of the Commission that Farmdale's customer accounting and collection fees should not exceed \$1.00 per customer per month. Therefore, the Commission is of the opinion that the allowance of \$1.00 per customer per month is a fair amount to be charged to the ratepayers and represents a cost reduction achievable by Farmdale.

IT IS THEREFORE ORDERED that the Commission reaffirms its findings in its Order entered August 5, 1981.

Done at Frankfort, Kentucky this 9th day of December, 1981.

PUBLIC SERVICE COMMISSION

Martin M. Vohr
Chairman

Katherine Randall
Vice Chairman

Sam Carozou
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 8102 DATED DECEMBER 9, 1981

	<u>Annual No. of Bills</u>	<u>\$ Agency Collection Fee</u>	<u>¢ Average Cost Per Bill</u>
Ash Avenue Sanitary Sewer Company, Inc.	1,320	890	67.4
Beckley Woods Sanitation Company, Inc.	800	576	72.0
Brownsboro Utilities, Inc.	1,242	1,001	80.6
Bullitt Utilities, Inc.	1,062	796	74.9
Bullitt Utilities, Inc.	420	268	63.8
Cedar Creek Sewer Company, Inc.	2,352	1,657	70.5
Cedar Hills Sanitation Disposal Corporation	1,116	276	24.7
Cooper Chapel Sanitary Facilities, Inc.	2,516	2,116	84.1
Cooper Chapel Sanitary Facilities, Inc.	1,496	1,300	86.9
Douglass Hills Sanitation Facility, Inc.	4,811	3,978	82.7
Enviro Utilities, Inc.	3,240	1,850	57.1
Fern Hills Utilities, Inc.	2,724	3,508	128.8
Forest Hills Development, Inc.	4,296	3,597	83.7
Glengarry Utilities, Inc.	2,034	1,651	81.2
Montgomery, Lee and Patterson	2,052	943	45.9
Orchard Grass Sanitation, Inc.	3,840	1,369	35.7
Owensboro Countryside, Inc.	676	169	25.0
Popular Level Road Sewer Construction District	2,562	1,859	72.6
Prairie Facilities, Inc.	1,518	1,101	72.5
Rolling Hills Service Company	8,324	6,007	72.2
Running Creek Disposal System, Inc.	2,388	831	34.8

	<u>Annual No. of Bills</u>	<u>\$ Agency Collection Fee</u>	<u>¢ Average Cost Per Bill</u>
SCC Development Company	1,362	970	71.2
Sanitation District No. 1 of McCracken County	4,020	1,152	28.7
Sanitation District No. 1 of Perry County	4,764	1,080	22.7
Shallow Creek Sanitation Corporation	1,086	642	59.1
Silver Heights Sewer Construction District	3,426	2,575	75.2
Simpson Construction Company, Inc.	2,280	1,233	54.1
Springdale Sanitation Sewage Treatment	216	197	91.2
Stone Bluff Sanitation Company, Inc.	432	402	93.1
Treasure Island Sewer Construction District	4,368	3,606	82.6
Water Fern Creek Gardens Construction District	2,010	1,615	80.3
Burl Park Sanitation, Inc.	684	700	102.3
GHK Sewerage Company, Inc.	2,376	1,685	70.9
Friendly Hills Sewage Treatment Plant	2,928	1,304	44.5
Maple Grove Sewer Construction	2,856	2,345	82.1
Markham Corporation	887	660	74.4
Lake of the Woods Sanitation, Inc.	276	208	75.4
JAMPAC Corporation	2,580	2,410	93.4
Highview Sewer District, Inc.	1,524	1,054	69.2
Havalock Sanitation Company	1,146	812	70.8