

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)
PRAIRIE FACILITIES, INC., TO) CASE NO. 8113
BECOME EFFECTIVE JANUARY 20, 1981)

O R D E R

On January 5, 1981, Prairie Facilities, 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 20, 1981. The proposed adjustment would produce additional annual revenues of \$10,219, an increase of 56.2% based on test year revenues. Applicant stated that the rate adjustment was necessary in order to adequately render service and maintain its financial integrity.

On January 6, 1981, the Commission issued an Order which suspended the proposed rate increase for a period of five months, or until June 20, 1981. On April 6, 1981, the Commission issued an additional Order directing Applicant to provide statutory notice of the pending rate increase and the scheduled hearing, set for May 20, 1981, to its consumers.

On January 9, 1981, the Division of Consumer Intervention in the Office of the Attorney General filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein.

The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance. Based on cross-examination at the hearing, Applicant submitted, on June 2, 1981, an amended application requesting authority to acquire controlling interest in and to engage in the operation of the sewage treatment plant of Prairie Facilities, Inc.

In an Order issued June 8, 1981, the Commission granted Applicant an extension of time to file information requested at the hearing of May 20, 1981, extending said time to and including June 24, 1981. In the same Order, the Commission found that Applicant had waived the statutory suspension period to and including July 6, 1981. In a subsequent Order issued June 30, 1981, the Commission granted Applicant another extension of time to and including July 6, 1981, and also found that Applicant had waived the statutory five-month suspension period to and including July 31, 1981.

COMMENTARY

Prairie Facilities, Inc., is a privately owned sewage treatment system serving 254 customers in the Prairie Village Subdivision in Jefferson County, Kentucky. Applicant underwent a change of ownership in November 1980 when William Peterson and Rolleigh Peterson ("the original owners") sold 100 percent of Applicant's outstanding stock to Carroll Cogan ("the new owner") for ten cents per share of stock, or two dollars for the full twenty shares of stock outstanding. Neither the original owners nor the new owner came before the Commission seeking approval of the stock transfer.

TEST PERIOD

Applicant proposed and the Commission has accepted the twelve months ending September 30, 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 as reflected on the comparative income statement included in the application. The Commission is of the opinion that the adjustments are generally proper and accepted for rate-making purposes with the following exceptions:

1. Applicant proposed an adjustment of \$336 for the increased expense of its operations contract for daily inspection and routine maintenance at the treatment plant site. This adjustment was based on Applicant's change of service companies, from Eubank, Hall and Associates to Andriot-Davidson Service Company. Andriot-Davidson Service Company charges a monthly fee of \$300, an increase of \$28 over Eubank, Hall and Associates' monthly fee of \$272. Applicant's contention was that Andriot-Davidson Service Company, a sister company to Applicant in that Mr. Carroll Cogan is president of both companies, provided a greater range of services for its higher monthly fee. Applicant did not present sufficient evidence in support of this contention and, therefore, this adjustment has been eliminated for rate-making purposes.

2. Applicant's adjustment for water utilities expense of \$916 was incorrectly computed as a result of errors in calculating Applicant's average bi-monthly water usage and the water rates charged by Louisville Water Company. The Commission has reduced this adjustment

by \$828 to reflect Applicant's test year bi-monthly usage of 439,000 gallons and the current general service area rates charged by Louisville Water Company.

3. Applicant is one of 19 sewer utilities which rents office space from Andriot-Davidson Service Company. Applicant proposed an adjustment of \$600 to reflect a monthly fee of \$50 charged by Andriot-Davidson. This fee is based on recovery of a portion of Andriot-Davidson's office expenses from 15 sewer utilities, per Applicant's Exhibit XV. The Commission has reduced this expense by \$100 to reflect that there are now 19 sewer utilities using Andriot-Davidson's office space, thereby resulting in more units over which to spread Andriot-Davidson's costs.

4. Applicant made an adjustment of \$28 for bad debts based on the general experience of Mr. Cogan's sewer utilities. This adjustment has been eliminated for rate-making purposes in that there has been no bad debt experience with this particular utility.

5. Applicant proposed an adjustment of \$1,200 to reflect a three-year amortization period for \$3,600 claimed as rate case expenses. For rate-making purposes, the Commission has reduced this adjustment by \$300, to \$900, to reflect elimination of Mr. Cogan's engineering fee related to preparation of this rate application. The Commission is of the opinion that Mr. Cogan's rate case duties are part of his responsibilities as the company's president. The policy of not allowing these fees was previously established in Case No. 7931.

6. Applicant proposed an adjustment of \$273 for insurance expense based on the general experience of Mr. Cogan's sewer utilities. The Commission has reduced this by \$23 based on the actual insurance expense for Applicant.

7. The Commission has reduced Applicant's operating expenses by \$16 to reflect the elimination, for rate-making purposes, of Applicant's test year interest expense. Applicant had no outstanding debt at test year-end and, therefore, should incur no interest expense.

8. Applicant proposed an allowance of \$150 for recurring engineering fees. The Commission feels this expense is unwarranted inasmuch as these fees generally go to Mr. Cogan for performing tasks that overlap with those tasks listed by Applicant as directors' duties. The policy of not allowing these fees for rate-making purposes was also established in Case No. 7931.

In addition to these adjustments, the Commission has adjusted test year revenues by \$119 to reflect the annualization of Applicant's 254 year-end customers. The Commission has also reduced Applicant's adjustment for income taxes by \$68, from \$920 to \$852, to reflect the level of revenues granted herein. The net effect of all adjustments to Applicant's test year is as follows:

	<u>Actual Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 18,169	\$ 119	\$ 18,288
Operating Expenses	19,037	4,095	23,132
Net Income	<u>\$ (868)</u>	<u>\$(3,976)</u>	<u>\$ (4,844)</u>

Applicant requested an increase in revenues sufficient to produce an operating ratio of 88%. The Commission concurs with this operating ratio, based on the adjusted operating expenses found reasonable for rate-making purposes. To achieve this ratio, Applicant's revenues from sewer operations should be \$26,286 which will require additional revenues of \$7,998.

SUMMARY

The Commission, having considered the evidence of record and being fully advised, is of the opinion and finds that:

(1) The rates set out in Appendix A, attached hereto and made a part hereof, will produce gross annual revenues of \$26,826 and are the fair, just, and reasonable rates for Applicant.

(2) 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.

(3) Any prospective buyer of a utility, regardless of the method of purchase, must be determined to be "ready, willing, and able" to own and operate the utility as required by Public Service Commission v. City of Southgate, 268 S.W.2d 19 (1954).

(4) The direct acquisition of the assets of a utility and the purchase of a controlling interest in a utility's common stock result in various legal and accounting differences; however, the practical effect of either transaction is to transfer control of the utility from one party to another.

(5) The original owners and the new owner made no attempt, prior to the actual transfer, to obtain approval by this Commission for the transfer of 100 percent of the stock of Prairie Facilities, Inc.

(6) In the instant case the Commission will take no punitive action toward either party. However, the Commission hereby gives notice to both parties that in any and all future transactions wherein the control or ownership of a utility is transferred, approval must be obtained from this Commission prior to the actual transfer

of ownership or control. Further, failure of any party to seek the required authorization may result in the Commission seeking the maximum penalty possible under KRS 278.990.

(1) IT IS THEREFORE ORDERED that the rates proposed by Prairie Facilities, Inc., would produce revenues in excess of those found reasonable herein and, therefore, must be denied upon application of KRS 278.030.

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

(3) IT IS FURTHER ORDERED that in any and all future transactions wherein the control or ownership of a utility is transferred, the participants involved in said transactions shall seek this Commission's approval of the proposed transfer prior to the actual transfer of ownership or control.

(4) IT IS FURTHER ORDERED that Prairie Facilities, 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 5th day of August, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Volk
Chairman

Katherine Randall
Vice Chairman

Don Starnes
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8113 DATED AUGUST 5, 1981.

The following rates are prescribed for sewage disposal service rendered to the customers of Prairie Facilities, Inc., located in southwestern portion of Jefferson County, Kentucky.

All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Type of Service Rendered

Monthly Charge

One-Family Residence

\$ 8.65