

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF THE)
SHALLOW CREEK SANITATION)
CORPORATION OF JEFFERSON) CASE NO. 8183
COUNTY, KENTUCKY)

O R D E R

On March 31, 1981, Shallow Creek Sanitation Corporation ("Shallow Creek") filed an application with this Commission requesting authority to increase its revenues by \$21,097 annually, an increase of 138 percent over normalized annual revenue.

Shallow Creek stated that this amount was necessary because of inflation and increased regulatory costs.

On May 27, 1981, the Commission issued an Order directing Shallow Creek to provide notice to its consumers of the proposed rate increase and the hearing scheduled for July 8, 1981.

On April 7, 1981, the Consumer Protection Division of the Attorney General's Office filed a motion to intervene in this proceeding, which was sustained. No other parties of interest formally intervened herein, although several letters and petitions were filed in opposition to the proposed increase. The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance.

COMMENTARY

Shallow Creek is a privately owned sewage treatment and collection system providing sanitary sewer service to 182 customers in the Shallow Creek Subdivision in Jefferson County, Kentucky.

TEST PERIOD

Shallow Creek proposed and the Commission has accepted the 12-month period ending December 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

Shallow Creek proposed several pro forma adjustments to expenses as reflected on Exhibit 10 attached to the application. The Commission is of the opinion that the adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

1. The Commission has increased operating revenues by \$621 to reflect the normalization of revenue based on year-end customers. Shallow Creek did not propose a normalization adjustment.
2. Shallow Creek proposed to increase purchased water expense by \$407 to reflect current costs as well as projections of future increases. The Commission has reduced this adjustment by \$220, to \$187, to reflect only the increased cost of water based on the current rates of the utility serving Shallow Creek.

3. Shallow Creek proposed to increase electricity expense by \$1,455 to reflect current costs as well as projections of future cost increases. The Commission has reduced this adjustment by \$784, to \$671, to reflect only the increased cost of electricity based on the current rates of the utility serving Shallow Creek.

4. Shallow Creek proposed to increase its operations contract expense by \$944 to reflect current costs as well as projections of future increases. The Commission has reduced this adjustment by \$432, to \$512, to reflect only the portion of the increased cost associated with the current operations contract.

5. Shallow Creek proposed to increase sludge hauling expense by \$630 to reflect current costs and projected future increases. The Commission has reduced this adjustment by \$240, to \$390, to reflect the current cost for sludge hauling based on the current charge of \$95 per load.

6. Shallow Creek proposed an adjustment of \$16 to supplies expense based on an anticipated inflation rate of 10%. The Commission is of the opinion that adjustments of this type are arbitrary in nature and do not reasonably project the level of expense that may be incurred in the future. Therefore, this adjustment has not been allowed for rate-making purposes.

7. Shallow Creek proposed an adjustment of \$641 to repairs and maintenance expense which included \$151 for inflation and \$490 for the cost of scraping and painting the sedimentation tank.

The Commission has excluded the proposed adjustment and has reduced the test year repair and maintenance expense to exclude a portion of extraordinary expenses incurred during the test year. The Commission is of the opinion that the \$922 expensed during the test year for filling and grading the access road should not be an annual expenditure and that the cost of this extraordinary maintenance should be amortized over a 3-year period for rate-making purposes. In addition, the Commission finds that the \$171 expensed for a new heater and exhaust fan should not be a recurring annual expense and should be capitalized and amortized over a 5-year period. The Commission also finds that the \$490 expenditure for cleaning and painting the tank is not a recurring annual expense and should be capitalized and amortized over a period of 10 years. The net effect of these adjustments will reduce the test year expense by \$786.

8. Shallow Creek proposed in its original application, that estimated total rate case expenses of \$4,300 be amortized over 3 years. At the hearing, Shallow Creek presented an amended petition wherein this was increased to \$5,071 to include estimated engineering expenses, the cost of water usage print-outs and preparing and mailing notices to customers. The Commission is of the opinion that this estimate for rate case expenses is excessive for a utility the size of Shallow Creek and that a more reasonable level, based on cases involving similar utilities, is \$2,971. Shallow Creek did not support its estimate in any way and, therefore, the Commission finds that this item should be reduced for rate-making purposes and amortized over a 3-year period resulting in an annual expense of \$990.

9. Shallow Creek proposed an adjustment of \$516 to collection expense to reflect the increase in its share of the total collection charge of Louisville Water Company resulting from this rate increase. The Commission has reduced this adjustment to \$363 to reflect the pro forma collection fees based on the rate increase approved herein and the increase in water rates of Louisville Water Company effective January 1, 1981.

10. Shallow Creek proposed an adjustment of \$1,205 to income taxes based on the requested increase in revenues. The Commission has reduced this adjustment to \$1,017 based on the adjusted operating expenses and the rate increase approved herein.

11. Shallow Creek proposed an adjustment of \$1,050 to depreciation expense based on the estimated cost of its new comminutor of \$6,300, which it proposed to recover over a period of 6 years. The Commission has reduced this to \$967 to reflect the actual cost of the comminutor which was below the original estimate. This reduction, however, is offset by the 5- and 10-year amortizations, respectively, of the \$171 for the new heater and exhaust fan and the \$490 for cleaning and painting the tank.

The Commission has allowed all other pro forma adjustments as proposed. After consideration of the accepted pro forma adjustments, Shallow Creek's adjusted operating statement is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 14,667	\$ 621	\$ 15,288
Operating Expenses	22,800	4,830	27,630
Operating Income	\$(8,133)	\$(4,209)	\$(12,342)
Interest Expense	2,592	(1,958)	634
Net Income	<u>\$(10,725)</u>	<u>\$(2,251)</u>	<u>\$(12,976)</u>

Shallow Creek proposed an increase in revenues sufficient to produce an operating ratio of 88%. The Commission finds that the operating ratio method is a reasonable method for determining revenues for Shallow Creek. Based on the adjusted operating expenses found reasonable for rate-making purposes, Shallow Creek should be allowed to increase its revenue by \$16,744 annually to achieve an operating ratio of 88%. The rate in Appendix A is designed to produce annual revenue of \$32,032 based on adjusted test year conditions.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate in Appendix A, attached hereto, is the fair, just, and reasonable rate for Shallow Creek Sanitation Corporation.
2. The rate proposed by Shallow Creek would produce revenue in excess of that found to be reasonable herein and therefore must be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rate in Appendix A, attached hereto and made a part hereof, is approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Shallow Creek Sanitation Corporation is hereby denied.

IT IS FURTHER ORDERED that Shallow Creek Sanitation Corporation shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rate approved herein and a copy of its rules and regulations for providing service to its customers.

Done at Frankfort, Kentucky, this 2nd day of November, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohz
Chairman

Kathleen Bussell
Vice Chairman

Jim Carver
Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION OF KENTUCKY IN
CASE NO. 8183 DATED NOVEMBER 2, 1981.

The following rate is prescribed for the customers of Shallow Creek Sanitation Corporation in 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.

<u>Customer Category</u>	<u>Monthly Rate</u>
Single Family Residential	\$14.67