

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES)	
OF A. B. SCHLATTER D/B/A)	
FAIRHAVEN MOBILE HOME VILLAGE)	CASE NO. 8192
SEWAGE TREATMENT PLANT TO)	
BECOME EFFECTIVE ON APRIL 21,)	
1981)	

O R D E R

On March 31, 1981, A. B. Schlatter d/b/a Fairhaven Mobile Home Village Sewage Treatment Plant ("Applicant") filed with this Commission its notice of an increase in rates to become effective on April 21, 1981. The proposed rates would produce annual operating revenues of \$92,745. Applicant has not generated revenues from sewage treatment operations in the past as it has never charged a fee for sewage treatment service. This application is the request of Applicant to be recognized as a public utility subject to regulation by this Commission. Applicant stated that it now requires a rate for sewer services provided to the residents of the mobile home park due to the fact that revenues collected for rental of trailer pads are not sufficient to absorb the increase in expenses incurred in providing sewage treatment service.

On May 13, 1981, the Commission issued an Order which set the matter for hearing on June 30, 1981, and directed Applicant to provide notice to the residents of the trailer park of the scheduled hearing and the proposed rate.

On May 22, 1981, the Commission issued an Order which rescheduled the hearing set for June 30, 1981, to July 30, 1981, and directed Applicant to provide notice to the trailer park residents of the rescheduled hearing and the proposed rate.

On April 7, 1981, the Consumer Protection Division in the Office of the Attorney General filed a motion to intervene in this proceeding which was sustained. There were no other formal motions to intervene although one consumer made a statement at the public hearing and several letters and petitions were submitted in opposition to the proposed rate. The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance.

COMMENTARY

Fairhaven Mobile Home Village Sewage Treatment Plant is a privately owned sewage treatment utility providing service for approximately 225 mobile homes in Fairhaven Mobile Home Village in Jefferson County, Kentucky. Mr. Schlatter purchased the trailer park, including the sewage treatment facilities, for \$850,000 in December 1977 and is now applying to this Commission to be recognized as a public utility and for an initial rate for sewer service. In the past, Applicant recovered its costs incurred in providing sewage treatment, along with all other costs, through its monthly rental fee for trailer pads.

TEST YEAR

Applicant proposed and the Commission has accepted the 12 months 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. Applicant stated that the test period reflected normal operations with no extraordinary or nonrecurring expenses.

REVENUE REQUIREMENTS

Applicant's proposed rates were based on actual test year sewage treatment operating expenses and proposed allocations of property tax expense and interest expense for the entire mobile home park. The Commission is of the opinion that Applicant's proposed expenses are generally proper and accepted for rate-making purposes with the following modifications:

1. During the test year, Applicant incurred property taxes of \$9,439 and interest expense of \$60,403 on the total mobile home park facilities. Applicant proposed to allocate 62% of these expenses, or \$5,836 and \$37,530, respectively, to utility operations. This allocation was based on the appraisal of the mobile home park submitted by Applicant as part of its initial application. This appraisal, in which sewer facilities were valued at \$755,518 and the entire trailer park was valued at \$1,214,609, consisted of an independent engineering appraisal of the sewer facilities and Mr. Schlatter's personal appraisal of the remainder of the trailer park. Applicant submitted a second appraisal performed by an independent appraisal firm in which sewer facilities were valued at \$428,200 and the entire

trailer park was valued at \$1,481,700. Based on the evidence of record, the Commission is of the opinion and finds that the appraisal performed by the independent appraisal firm is a fairer and more accurate valuation of the sewer facilities and the entire trailer park. The values in this appraisal result in a ratio of utility property to total property of 28.9%. For rate-making purposes, the Commission has applied this ratio to the \$850,000 cost to Applicant, of the entire trailer park, and established a value of \$245,650 for utility plant in service.^{1/} The Commission is of the opinion that the residents of the trailer park should pay only for the facilities required to provide sewage treatment service to those residents. The Commission finds, therefore, that Applicant's rate-making expenses should reflect only the required capacity of the treatment plant and the portion of sewer lines actually serving those persons presently receiving sewage treatment service. The Commission is of the opinion that the Applicant was fully cognizant of the excess plant capacity at the time the facilities were purchased and that the Applicant has full control of the number of customers served, therefore, the owner should bear the full cost of excess or unused sewage treatment plant and related facilities.

Based on capacity requirements of the Louisville and Jefferson County Department of Health, Applicant's required capacity is 45,000 gallons per day, or 45% of actual capacity. Taking into consideration the 57.36% ratio of Applicant's purchase price to the appraised value of \$92,000 for the plant and

$$\frac{1}{\$850,000} \times 28.9\% = \$245,650.$$

equipment, the Commission has established a value, for rate-making purposes of \$23,749.^{2/}

The Commission has determined that the residents of the trailer park are presently being served with only 50% of Applicant's sewer lines and that the value of these lines is \$96,438, based on the ratio of the purchase price to the appraised value. These adjustments result in a value of total utility plant of \$120,187 or 14.1% of the \$850,000 purchase price. By allocating this portion of property tax expense and interest expense to utility operations, the resulting expenses are \$1,331 for property tax and \$8,517 for interest on long-term debt.

2. Applicant proposed to include depreciation expense of \$19,775 based on the appraisal submitted in Applicant's initial application. The calculated depreciation expense utilized accelerated depreciation methods acceptable for tax reporting but not for regulatory financial or rate-making purposes. The Commission has calculated depreciation expense for rate-making at \$4,474 based on the value of utility plant of \$120,187 established herein. This depreciation expense was based on the net book value of utility plant devoted to public use and the remaining service lives of those assets.

3. This proceeding concerned the organization and recognition of Applicant as a public utility as well as setting the utility's initial sewer rates. The Commission has, therefore, allocated professional fees of \$2,400 incurred as a result

^{2/} (\$92,000 x 57.36%) x 45% = \$23,749.

of this regulatory proceeding equally between intangible plant, to be amortized over 40 years, and rate case expense, to be amortized over three years. These allocations result in annual expenses of \$30 and \$400, respectively, for amortization of intangible plant and amortization of rate case expense.

4. The Commission has classified Applicant's pro forma collection expense of \$1,040, which is the anticipated collection charges of the Louisville Water Company, as an operating expense. Applicant had shown this as a 77¢ surcharge added to individual sewer bills.

Adding these pro forma expenses to actual sewage treatment expenses results in operating expenses found reasonable for rate-making purposes of \$23,847 and interest expense of \$8,517. Applicant proposed an operating ratio of 88% for determining revenues. The Commission concurs with this methodology. Based on the expenses found reasonable for rate-making purposes, operating revenues of \$35,616 are required to achieve the operating ratio of 88%.

SUMMARY

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

1. Applicant is in fact a public utility and is subject to the jurisdiction and regulations of this Commission.

2. The rate set out in Appendix A, attached hereto and made a part hereof, is the fair, just, and reasonable rate for A. B. Schlatter d/b/a Fairhaven Mobile Home Village Sewage Treatment Plant and will produce gross annual revenues sufficient

to cover the operating expenses found reasonable herein and provide for an operating ratio of 0.88.

3. The rate proposed by Applicant would produce revenues in excess of those found to be reasonable herein and, therefore, must be denied upon application of KRS 278.030.

4. The Applicant shall establish its sewer utility operation as a separate corporate entity and maintain records thereof separate from all other operations.

5. Applicant, as a regulated utility, shall keep its books of account according to the Uniform System of Accounts for Class C and D Sewer Utilities prescribed by this Commission.

6. Applicant shall, as required in 807 KAR 5:006E, file with this Commission annual operating reports beginning with the calendar year 1981.

IT IS THEREFORE ORDERED that the rate set out in Appendix A, attached hereto and made a part hereof, is approved for sewage disposal service rendered by A. B. Schlatter d/b/a Fairhaven Mobile Home Village Sewage Treatment Plant on and after September 21, 1981.

IT IS FURTHER ORDERED that the rate proposed by A. B. Schlatter d/b/a Fairhaven Mobile Home Village Sewage Treatment Plant 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 A. B. Schlatter d/b/a Fairhaven Mobile Home Village Sewage Treatment Plant shall keep its books of account according to the Uniform System of Accounts for Class C and D Sewer Utilities prescribed by this Commission.

IT IS FURTHER ORDERED that A. B. Schlatter d/b/a Fairhaven Mobile Home Village Sewage Treatment Plant shall file with this Commission annual operating reports beginning with the calendar year 1981.

IT IS FURTHER ORDERED that A. B. Schlatter d/b/a Fairhaven Mobile Home Village Sewage Treatment Plant shall file with this Commission within 30 days from the date of this Order its tariff sheets setting out the rate approved herein.

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

PUBLIC SERVICE COMMISSION

Marlin M. Cook
Chairman

Katherine Randall
Vice Chairman

Jim Karuga
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8192 DATED OCTOBER 2, 1981

The following rate is prescribed for sewage disposal service rendered to all customers served by Fairhaven Mobile Home Village Sewage Treatment Plant. All other rates and charges shall remain the same as those in effect prior to the date of this Order.

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Residential Mobile Home Rate	\$13.20/Month