

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF THE)
SARGENT & STURGEON BUILDERS, INC.) CASE NO. 8238

O R D E R

On May 12, 1981, Sargent and Sturgeon Builders, Inc. ("Sargent") filed with this Commission its notice of adjustments of sewage service rates of Garden Heights Subdivision Treatment Plant ("Garden Heights") and Gardenside Subdivision Treatment Plant ("Gardenside") to become effective on June 2, 1981. The proposed rates of Garden Heights would produce annual operating revenues of \$15,732, an increase of \$9,522 or 153% over normalized test year revenue. The proposed rates of Gardenside would produce annual operating revenue of \$36,883, an increase of \$19,255 or 109% over normalized test year revenue. Sargent stated that the proposed increases were necessary due to the fact that it could no longer absorb the operating and management expenses incurred by the treatment plants.

On June 1, 1981, the Commission issued an Order which suspended the proposed rate increases for a period of 5 months, or until November 2, 1981. On August 11, 1981, the Commission issued an Order directing Sargent to provide notice

to its customers of the proposed rate increases and the hearing scheduled for September 11, 1981.

On May 15, 1981, the Consumer Protection Division in the Office of the Attorney General filed a motion to intervene in this proceeding, which was sustained. No other parties of interest formally intervened, 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

Garden Heights and Gardenside are owned and operated by Sargent in Daviess County, Kentucky, and provide sewage treatment service to 115 and 226 customers, respectively. Sargent is a corporation engaged in the business of developing and managing residential subdivisions, including the management and operation of the subdivisions' sewage treatment facilities.

TEST YEAR

Sargent proposed and the Commission has accepted the 12 months ending February 28, 1981, as the test year for determining the reasonableness of the proposed rates. In utilizing the historic test year, the Commission has given full consideration to known and measurable changes where appropriate.

REVENUES REQUIREMENTS - GARDEN HEIGHTS

Sargent proposed several adjustments to the test year operating expenses of Garden Heights as reflected on Exhibit 10(b). The Commission finds the adjustments to be proper and acceptable for rate-making purposes with the following modifications:

(1) Sargent did not normalize revenue to reflect year-end customers. The Commission has, therefore, increased revenues by \$99 to reflect the 115 customers at test year-end.

(2) Sargent proposed adjustments totaling \$554 to purchased water, accounting fees, testing and chemicals, sludge hauling, and repairs and maintenance, 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, these adjustments have not been allowed for rate-making purposes.

(3) Sargent proposed an adjustment of \$457 to management expenses based on an anticipated inflation rate of 10%. For the reason set out in adjustment no. 2, this increase has likewise not been allowed for rate-making purposes. Furthermore, the Commission has reduced the test year expenses by \$1,445 to reflect the elimination, for rate-making purposes, of one-half of the salary and travel expense of Mr. Sargent for inspection of the treatment plants. The Commission is of the opinion that once-a-day inspections should provide for sufficient

maintenance and operation of the treatment plants, and that Mr. Sargent's twice daily inspections are not essential to an efficient operation and should not be allowed for rate-making purposes herein. The Commission is of the opinion that management and clerical salaries should be allocated based on the number of customers served by Garden Heights to the total customers of both sewage treatment plants. Travel expenses have been charged to Garden Heights based on the distance traveled which is approximately one-half of the total distance.

(4) Sargent originally projected \$1,300 in rate case expense for Garden Heights to be amortized over 2 years at \$650 per year. Sargent also projected \$100 as miscellaneous expense to cover the cost of printing and copying documents required for these proceedings. Based on the compilation of professional fees and related expenses filed on September 21, 1981, the Commission, utilizing an amortization period of 3 years for all rate case expenses, will allow the proposed annual rate case expense of \$650, which includes printing and copying costs.

The net effect of all adjustments to the operating statement of Garden Heights is as follows:

	<u>Actual Test Year</u>	<u>Pro forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenue	\$ 6,111	\$ 99	\$ 6,210
Operating Expenses	<u>11,926</u>	<u>(130)</u>	<u>11,796</u>
Net Income	<u>\$(5,815)</u>	<u>\$ 229</u>	<u>\$(5,586)</u>

The Commission finds that Garden Heights should be allowed an increase in revenues sufficient to produce an operating ratio of 88%. Therefore, the revenues of Garden Heights should be increased by \$7,195 annually to achieve the required ratio.

REVENUE REQUIREMENTS - GARDENSIDE

Sargent proposed several adjustments to the test year operating expenses of Gardenside as reflected on Exhibit 10(a). The Commission finds the adjustments to be proper and acceptable for rate-making purposes with the following modifications:

(1) Sargent did not normalize revenue to reflect year-end customers. The Commission has, therefore, increased revenues by \$1,908 to reflect 226 year-end customers.

(2) Sargent proposed adjustments totaling \$1,365 to purchased water, accounting fees, testing and chemicals, sludge hauling, and repairs and maintenance, 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, these adjustments have not been allowed for rate-making purposes.

(3) Sargent proposed an adjustment of \$931 to management expense based on an anticipated inflation rate of 10%. For the reasons set out in adjustment no. 2, this increase has not been allowed for rate-making purposes. Furthermore, the Commission has reduced the test year expense by \$4,164

to reflect the elimination, for rate-making purposes, of one-half of the salary and travel expense of Mr. Sargent for inspection of the treatment plants. The Commission is of the opinion that once-a-day inspections should provide for sufficient operation and maintenance of the treatment plants, and that Mr. Sargent's twice daily inspections are not essential to an efficient operation and, therefore, should not be allowed for rate-making purposes herein. The Commission is of the opinion that management salaries and clerical salaries should be allocated based on the number of customers served by Gardenside to the total customers of both treatment plants. Travel expenses have been charged to Gardenside based on the distance traveled which is approximately one-half of the total distance.

(4) Sargent originally projected \$2,600 in rate case expense for Gardenside to be amortized over 2 years at \$1,300 per year. Sargent also projected \$100 as miscellaneous expense to cover the cost of printing and copying documents required for these proceedings. Based on the compilation of professional fees and related expenses filed September 21, 1981, the Commission, utilizing an amortization period of 3 years, will allow the proposed annual rate case expense of \$1,300, which includes printing and copying costs.

(5) Sargent proposed an adjustment of \$1,979 to maintenance expense to reflect the projected \$2,000 cost of cleaning and painting the tanks at the Gardenside plant site. Based on

the bid received, the actual cost to clean and paint the tanks is \$1,850. For rate-making purposes, the Commission is of the opinion that this is a capital expenditure which should be amortized over a period of 10 years, which results in an annual expense of \$185. The Commission has, therefore, reduced the proposed adjustment by \$1,815.

The net effect of all adjustments to the operating statement of Gardenside is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenue	\$ 15,724	\$ 1,904	\$ 17,628
Operating Expenses	27,830	(1,918)	25,912
Net Income	<u>\$(12,106)</u>	<u>\$ 3,822</u>	<u>\$(8,284)</u>

The Commission finds that Gardenside should be allowed an increase in revenues sufficient to produce an operating ratio of 88%. Therefore, the revenues of Gardenside should be increased by \$11,817 annually to achieve the required ratio.

SUMMARY

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

(1) The rates in the attached Appendix A and Appendix B are the fair, just and reasonable rates for Garden Heights and Gardenside Subdivision Treatment Plants, respectively.

(2) The rates proposed would produce revenue in excess of that found to be reasonable herein for both sewage treatment plants and, therefore, must be denied upon application of KRS 278.030.

(3) Sargent shall, in future rate proceedings, file separate applications for each individual sewage treatment plant.

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

IT IS FURTHER ORDERED that the rate proposed for Garden Heights Subdivision Treatment Plant is hereby denied.

IT IS FURTHER ORDERED that the rate in Appendix B, attached hereto and made a part hereof, is approved for service rendered by Gardenside Subdivision Treatment Plant on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed for Gardenside Subdivision Treatment Plant is hereby denied.

IT IS FURTHER ORDERED that Sargent and Sturgeon Builders, Inc., shall file with this Commission within 30 days from the date of this Order revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 28th day of October, 1981.

PUBLIC SERVICE COMMISSION

Martin A. Volk
Chairman

Bathelme Randall
Vice Chairman

Don Carver
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8238 DATED OCTOBER 28,
1981

The following rates are prescribed for all customers in the area served by Sargent and Sturgeon Builders, Inc., Garden Heights Subdivision. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

Customer Category

Single Family Residential

\$ 9.71

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8238 DATED OCTOBER 28,
1981

The following rates are prescribed for all customers in the area served by Sargent and Sturgeon Builders, Inc., Gardenside Subdivision. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

Customer Category

Single Family Residential

\$ 10.86