

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF)
RATES OF WOODSTONE SEWAGE)
TREATMENT PLANT CORPORATION) CASE NO. 8273
TO BECOME EFFECTIVE)
JULY 21, 1981)

O R D E R

On June 30, 1981, Woodstone Sewage Treatment Plant Corporation ("Woodstone") filed with this Commission an application to establish an initial rate of \$34.97 for sewer service rendered to the 23 customers in Woodstone Subdivision. A motion was made at the hearing to amend the application to include a request for a certificate of public convenience and necessity.

The hearing was held on September 30, 1981, in the offices of the Public Service Commission at Frankfort, Kentucky. All parties of interest were allowed to be heard. The Consumer Protection Division of the Attorney General's Office and the residents of Woodstone, represented by counsel, were the only parties to intervene and participate in this matter.

Woodstone has furnished all information requested in the hearing, and the record now stands submitted for final determination by the Commission.

Commentary

The Woodstone sewage treatment plant was built in 1978 to serve the residential development of Woodstone Subdivision in Jefferson County, Kentucky. The plant has a capacity to treat sewage from 102 homes but at this time serves only 23 homes.

The plant was originally built by the Fenley Company ("Fenley") which later deeded it to Woodstone. Fenley did not obtain a certificate of public convenience and necessity prior to building the plant, nor did it apply to the Commission for an initial rate. The rate presently charged is \$20 per month per customer by agreement between Woodstone and the residents.

In order to help offset the tremendous potential increase in the customer rate, Woodstone has proposed basing the new rate on a total of 42 customers, as this is the number expected to be served at the end of a 3-year period. This proposal will help spread the cost of maintaining and operating the plant over a larger customer base, thus reducing the cost of sewer service per customer.

Certificate of Convenience and Necessity

Fenley, on the basis of a construction permit granted on June 22, 1977, by the Division of Water, Department for Natural Resources and Environmental Protection, constructed a 50,000 GPD sewage treatment plant in the Woodstone Development, on U.S. Highway 42 in Jefferson County, Kentucky. This permit was granted under the authority of Kentucky Revised Statutes Chapter 224.

The Department for Natural Resources and Environmental Protection, Division of Water, now withholds the granting of construction permits until the Public Service Commission has granted a certificate of public convenience and necessity, but in the instant case the Department did not observe its usual procedures.

For \$1,000 and deferred consideration of \$3,044, Fenley conveyed title and ownership of the sewage treatment plant to Woodstone, a corporation formed under Chapter 271A of the Kentucky Revised Statutes.

Test Year

Woodstone proposed, and the Commission has accepted, the year ending March 31, 1981, as the test period for the purpose of determining an initial rate.

Revenues and Expenses

Woodstone proposed several pro forma adjustments to its test year operations in order to normalize revenues and expenses for rate-making purposes. The Commission has accepted these adjustments with the following exceptions:

Repairs and Maintenance Woodstone projected that repairs to the plant would increase by \$1,047 in the next year, after which repairs would return to the present level of \$1,044. Woodstone proposed to amortize the increased cost over a 3-year period, thus increasing the expense by \$349 annually. The Commission is of the opinion that a new plant operating at 25 percent to 40 percent capacity should not require repairs of this

magnitude during the first few years in service. Moreover, it is unfair to require a small number of customers to subsidize the cost of repairs which will benefit a larger number of customers in the future. Therefore, the increase of \$349 is disallowed for rate-making purposes.

Office Supplies and Expenses Woodstone proposed an adjustment of \$155 to office expenses to reflect a \$10 per week charge for copying costs and bookkeeping supplies. The Commission has noted that copying costs are also provided for in rent and office expense. Moreover, Mr. Fenley stated that other office expenses were allocated as 5 percent of the overhead incurred by Woodstone's parent company, Fencroft Corporation. Therefore, the Commission is of the opinion that these expenses are duplicated in various other accounts that have been accepted for rate-making purposes, and has, therefore, denied the entire test period expense of \$520 for rate-making purposes.

Tax and License Woodstone proposed adjusting this expense by \$175 to reflect both current property taxes due and property taxes 2 years in arrears. Woodstone requested that the taxes in arrears be amortized prospectively over a 3-year period. The Commission has noted that Woodstone is not listed on the property tax rolls and has, therefore, never paid property tax on the plant. Since it is uncertain when Woodstone will be placed on the tax rolls, the Commission has allowed only the current portion of the property tax expense for rate-making purposes. The Commission is of the opinion that taxes in arrears are not the

customers' responsibility, as they should not be required to compensate for past management errors.

Hand-Tools Woodstone proposed to create a special account to expense incidental tools and equipment such as brooms, mops, shovels and various other items used by Andriot-Davidson's Service Co., Inc., according to contract. There is no reason to allow the creation of this account, as these incidental items should be classified as miscellaneous operating expenses. Because an adequate annual allowance of \$350 is already included in the miscellaneous operating expense account the adjustment for hand-tools of \$120 is disallowed.

Regulatory Commission Expense Woodstone proposed to increase this expense by \$800 (\$400 accounting and \$400 legal expenses) in consideration of the costs incurred in the present case establishing an initial rate and requesting a certificate of convenience and necessity. The Commission has determined that the costs incurred by a utility in obtaining a certificate of convenience and necessity and establishing an initial rate are more properly classified as organization costs and are of a capital nature. Therefore, the Commission has allowed an adjustment for accounting and legal expenses of \$480 representing the total regulatory expense amortized over a 5-year period.

Income Tax Expense The Commission has taken into consideration the above-mentioned adjustments and their effect on the proposed net income for Woodstone. Using the 88 percent operating ratio method, the Commission has determined that the

income tax expense should be increased \$41 over Woodstone's proposed adjustment of \$450. Therefore, the Commission has allowed \$491 for income tax expense.

Considering the above adjustments to expenses, Woodstone's test period operations are as follows:

	<u>Actual</u>	<u>Adjustment</u>	<u>Adjusted</u>
Operating Revenues	\$ 3,440	\$ -0-	\$ 3,440
Operating Expenses	<u>11,929</u>	<u>2,229</u>	<u>14,158</u>
Net Operating Income	<u>\$(8,489)</u>	<u>\$(2,229)</u>	<u>\$(10,718)</u>

Revenue Requirements

The Commission finds the net operating loss to be unjust, unfair and unreasonable. The Commission has used the operating ratio method as the basis in determining sewer rates in the past and has found it to be a fair and reasonable method to both the utility and its customers. The operating ratio method used by the Commission follows:

$$\text{Operating ratio} = \frac{\text{Operating expenses} + \text{depreciation} + \text{taxes}}{\text{Operating revenues}}$$

The Commission is of the opinion that an 88 percent ratio is a fair, just and reasonable operating ratio in that it will enable Woodstone to pay its operating expenses and provide an adequate debt service coverage with a reasonable return to the plant's owner. Therefore, the Commission finds that Woodstone is entitled to adjust its rate to produce revenues of \$15,977.^{1/}

$$\frac{1/}{.88} \frac{\$13,339}{.88} + \$819 = \$15,977$$

Summary

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

(1) Public convenience and necessity require the construction of a 50,000 GPD sewage collection and treatment system in accordance with the application and exhibits of record in this matter.

(2) Woodstone has financed the project cost of approximately \$381,139 with private funds. Further, Woodstone plans to recover the project cost by allocating it to the sale price of the lots in the Woodstone Subdivision. The Commission should make no additional findings regarding Woodstone's proposed financing, other than that the financing should not have any adverse effect on Woodstone's rate or its ability to continue to provide sewage disposal services to its customers.

(3) Woodstone should provide this Commission with duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 30 days of the date of this Order. Further, the documents filed should clearly separate the costs for major components of the system as follows: (1) the collection system with a breakout for lift stations, if any, and (2) the sewage treatment plant.

(4) Within 30 days of the date of this Order, Woodstone should furnish this Commission with a copy of the as-built plans

and a certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications that were approved by the Kentucky Department for Natural Resources and Environmental Protection.

(5) The rate proposed by Woodstone will produce revenues in excess of those found to be fair, just and reasonable and should be denied upon application of KRS 278.030.

(6) The rate in Appendix A is the fair, just and reasonable rate to charge for sewer service and should be approved.

IT IS THEREFORE ORDERED that the sewage treatment facility as constructed in the Woodstone Subdivision of Jefferson County, Kentucky, for which a construction permit was granted June 22, 1977, by the Department for Natural Resources and Environmental Protection, be and it hereby is certificated by this Commission.

IT IS FURTHER ORDERED that Woodstone shall file with the Commission duly verified documentation which shows the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 30 days of the date of this Order, all in accordance with Finding Number 3 of this Order.

IT IS FURTHER ORDERED that Woodstone shall within 30 days of the date of this Order furnish this Commission with a copy of the as-built plans and a certification that the construction has been satisfactorily completed and was done in accordance with the contract plans and specifications as approved by the Kentucky Department for Natural Resources and Environmental Protection.

IT IS FURTHER ORDERED that the rate as proposed by Woodstone hereby is denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rate in Appendix A is the fair, just and reasonable rate for Woodstone to charge for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Woodstone shall file its revised tariff sheet setting forth the rate approved herein within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 8th day of December, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh
Chairman

Katherine Randall
Vice Chairman

Jim Carigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION OF KENTUCKY IN CASE NO. 8273
DATED DECEMBER 8, 1981

The following rate is prescribed for sewage disposal rendered to all customers served by Woodstone Sewage Treatment Plant, Inc., in Woodstone Subdivision in Jefferson County, Kentucky.

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

Applicable: Single Family Residence

Rate:

Monthly Sewer Service Rate

Monthly Charge

\$ 31.70