

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE AMENDED APPLICATION OF ORCHARD)
GRASS SANITATION, INC., FOR AN)
ORDER PURSUANT TO CHAPTER 278 OF)
THE KENTUCKY REVISED STATUTES) CASE NO. 8193
AUTHORIZING AN ADJUSTMENT IN RATES)
FOR THE EXISTING SEWAGE TREATMENT)
PLANT SERVING ORCHARD GRASS HILLS)
SUBDIVISION, OLDHAM COUNTY,)
KENTUCKY)

O R D E R

On February 1, 1982, the Commission issued its Order authorizing Orchard Grass Sanitation, Inc., ("Orchard Grass") to charge a monthly rate of \$10 per single-family residential customer for sewer service and denying the amended application to issue evidence of indebtedness. On February 19, 1982, Orchard Grass filed a petition for rehearing of the Commission's Order alleging five items in support of its claim that further consideration of this case was necessary. On March 9, 1982, the City of Orchard Grass Hills filed a response in opposition to Orchard Grass' request for rehearing.

The first item in Orchard Grass' petition for rehearing alleges that the cost of the treatment plant was not recovered through the sale of subdivision lots and consequently

depreciation should be allowed as a ratemaking expense. The second item alleges that the funds used by Orchard Grass to construct the treatment plant were supplied by advances from its parent corporation, Titan Development Corporation, Inc., and that interest payable on these advances should be allowed as a ratemaking expense. The Commission believes that the arguments presented by Orchard Grass on the issues of depreciation and interest expense deserve further consideration, and the Commission will, accordingly, grant a rehearing to allow the parties to present evidence on these issues.

The third item raised is the Commission's reduction of the manager's salary for ratemaking purposes. Orchard Grass' contractual obligation to pay 20 percent of Mr. Guyton's salary is not determinative of the salary expense for ratemaking purposes. Orchard Grass presented uncontroverted evidence that the daily inspections and operations of the sewer plant are handled by Eubank, Hall and Associates, Inc., the billing and collecting is performed by the Louisville Water Company and the financial matters are supervised by an employee of Titan Development Corporation, Inc. The record gives ample support to the finding that many of the manager's duties are unnecessary and duplicative of those performed by outside contractors. Based upon this finding, the Commission allowed a salary expense which was commensurate with the manager's necessary duties and in line

with ratemaking expenses allowed for similar utilities for employees with similar supervisory functions.

The fourth item raised is the disallowance of a portion of the parent company overhead allocated to Orchard Grass. The operating statement for the test year reflected that no parent company overhead was allocated to Orchard Grass. (Exhibit U.) The accountant for Orchard Grass indicated that services were performed by the parent company but there was no evidence to determine the reasonableness of the hours worked, the estimated charge per hour or the basis for the allocated cost of materials and supplies.

The final item presented in support of a rehearing is the disallowance of projected inflationary increases for repairs and maintenance, taxes and utilities. The Commission has followed its long-standing policy of disallowing any increase in expenses which is not known and measurable. Although Orchard Grass was given ample opportunity to justify the basis for its projected increases, it presented estimates derived from previous increases caused by inflation. Such estimates are not known and measurable.

Based upon the above analysis of the items presented by Orchard Grass, and being fully advised, the Commission is of the opinion and finds that:

1. Orchard Grass presented arguments in its petition for rehearing on the issues of depreciation and interest

which deserve further consideration. A rehearing should be granted to allow the parties an opportunity to present additional evidence on items one and two of the petition for rehearing.

2. Orchard Grass has not presented any arguments in support of items three, four or five of its petition for rehearing which were not fully considered and addressed by the Commission in its Order of February 1, 1982. A rehearing should be denied for items three, four and five of the petition for rehearing.

IT IS THEREFORE ORDERED that a rehearing be and it hereby is granted on items one and two of the petition for rehearing.

IT IS FURTHER ORDERED that a rehearing be and it hereby is denied on items three, four and five of the petition for rehearing.

IT IS FURTHER ORDERED that Orchard Grass shall submit prefiled testimony within 20 days of the date of this Order on the issues addressed in items one and two of the petition for rehearing.

IT IS FURTHER ORDERED that a procedural schedule setting forth dates for information requests and a hearing will be issued at a later date.

Done at Frankfort, Kentucky, this 11th day of March,
1982.

PUBLIC SERVICE COMMISSION

Merlin M. Voth
Chairman

Katherine Randall
Vice Chairman

Don Carrigan
Commissioner

ATTEST:

Secretary