

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AMENDED APPLICATION OF CHARLES T.)
WEAVER, OWNER OF THE STOCK OF FARMDALE)
DEVELOPMENT CORPORATION AND FARMDALE)
UTILITIES, INC., FOR AUTHORITY TO PUR-) CASE NO. 8449
CHASE THE STOCK OF FARMDALE DEVELOP-)
MENT CORPORATION AND TO BORROW THE)
FUNDS NECESSARY FOR SUCH PURPOSES)

O R D E R

On January 29, 1982, Farmdale Utilities, Inc., ("Farmdale") and Charles T. Weaver ("Weaver") jointly filed an application with the Commission seeking approval of the transfer of all the outstanding stock of Farmdale Development Corporation ("Development") from Weaver to Farmdale pursuant to a stock purchase agreement entered into by Farmdale and Weaver dated January 27, 1982. This agreement was filed as evidence of record with the application.

A public hearing was held on March 9, 1982, at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance.

On May 28, 1982, Farmdale and Weaver jointly filed an amended application with the Commission asking to include the approval of financing in the application. Farmdale requested authorization to borrow \$95,000 to acquire the outstanding stock

of Development at which time Development will be liquidated and assumed by Farmdale.

COMMENTARY

Development is located in Franklin County, Kentucky, and consists of the sewage treatment plant and its adjacent collection system, Development serves 222 customers and has a treatment capacity of 80,000 gallons per day. In addition, Farmdale has agreed to provide service to certain other lots presently owned by Weaver pursuant to conditions specified in the stock purchase agreement. It should be noted that if said provisions to provide service result in the requirements of additional construction and/or financing, said construction and/or financing must have Commission approval.

Farmdale received its Articles of Incorporation on October 30, 1981, with Carroll F. Cogan being sole stockholder and president.

FINDINGS IN THIS MATTER

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

1. Farmdale is ready, willing and able to purchase, operate and provide adequate and reliable service to the customers presently served by Development. Furthermore, Weaver is ready and willing and he desires to sell, inasmuch as he wishes to divest himself of the ownership and operation of this sewage treatment system.

2. The quality of service to the present customers of Development will not suffer in that Andriot-Davidson Service

Company, Inc., which has knowledge and experience in the operation and maintenance of sewage treatment facilities, will be available to operate and/or assist in the operation of this system.

3. The agreed-upon purchase price is \$95,000 which was determined through negotiations between Farmdale and Weaver.

4. Farmdale has adopted the tariffs, rates, rules and regulations filed with the Commission by Development for furnishing sanitary sewer service to its customers.

5. The sewer treatment plant third party agreement entered into on March 25, 1982, by and between Farmdale and Citizens Fidelity Bank and Trust Company has been filed as evidence of record in this matter.

6. Farmdale has filed with the Commission its Articles of Incorporation and Certificate of Incorporation as well as the bylaws adopted by its board of directors.

7. Farmdale should maintain its books of account in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by this Commission. Accounting for an acquisition includes:

- A. Recording the utility plant acquired at its original cost to the person first devoting it to public service, estimated if not known, in the appropriate utility plant in service accounts;
- B. Crediting the requirements for accumulated provision for depreciation and amortization applicable to the original cost of the properties acquired to the appropriate account for accumulated provision for depreciation and amortization;

- C. Transferring the cost of any nonutility property to Account 121, Nonutility Property;
- D. Crediting contributions in aid of construction to Account 271, Contributions In Aid of Construction; and
- E. Including in Account 108, Utility Plant Acquisition Adjustment, any difference between the purchase price and the original cost of the utility plant and nonutility property less the amounts credited to accumulated depreciation and amortization reserves and contributions in aid of construction.

8. Books and records should be maintained for Development independent of any other assets of Farmdale. In addition, common stock of Farmdale should be prorated between this treatment plant and any other operations of Farmdale on the basis of net book value at the time of acquisition.

9. While legal and proper for general accounting purposes, these acquisition transactions, if not at "book value," can either increase or decrease the debt and/or equity on the utility's books. Therefore, Farmdale and its stockholders are hereby apprised that the Commission will not allow, for rate-making purposes, interest charges on debt that exceed those charges which would have been incurred to finance the original cost of plant in service excluding any acquisition adjustment less accumulated depreciation and contributions in aid of construction. Allowable interest charges should be computed using the weighted average cost of debt. The Commission also will not allow a return on equity or amortization of an acquisition

adjustment that resulted from this transaction for rate-making purposes.

10. Farmdale requested authorization to borrow \$95,000 from Weaver. The financing is in the form of a promissory note as described in letter seven of the stock purchase agreement which has been filed as part of the evidence of record in this matter. The note has a term of 30 years and an interest rate of 16.5 percent.

11. Farmdale should be able to reduce its operating costs for economies of scale inherent in Mr. Cogan's management and ownership of a number of sewer utilities under this Commission's jurisdiction.

12. The Commission will review Farmdale's financial statements to be filed as a part of its Annual Report for 1982 to determine the appropriateness of existing customer rates at that time.

13. Should operating expenses not be reduced as noted in finding number 11, the Commission will upon its own motion institute a formal investigation of Farmdale's rates and operations.

14. The transfer of the stock of Development from its stockholders and Weaver to Farmdale should be approved.

ORDERS IN THIS MATTER

The Commission, on the basis of the evidence of record and the findings herein set forth:

HEREBY ORDERS that the transfer of Development from its stockholder, Weaver, to Farmdale be and it hereby is approved.

IT IS FURTHER ORDERED that the financing of funds of \$95,000 as described in finding number 10 be and it hereby is approved.

IT IS FURTHER ORDERED that in future rate cases before the Commission allowable interest charges shall be determined as set out in finding number 9.

IT IS FURTHER ORDERED that Farmdale shall adopt the existing rates, rules and regulations filed with and approved by the Commission for Development.

IT IS FURTHER ORDERED that Farmdale shall file with this Commission within 30 days from the date of this Order its original tariff sheets setting forth rates, rules and regulations as required by KRS 278.160.

IT IS FURTHER ORDERED that Farmdale shall file with this Commission within 30 days from the date of this Order the balance sheets of Development and Farmdale at the date of the transfer, the final journal entries required to consummate the transfer and the resulting balance sheet subsequent to the assumption of Development by Farmdale.

Nothing herein contained shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 5th day of August, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Cook
Chairman

Katherine Leudall
Vice Chairman

Len Corrigan
Commissioner

ATTEST:

Secretary