

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF TRIPORT)
DISPOSAL COMPANY, FOR A CER-)
TIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY AUTHORIZING AND)
CONFIRMING SAID COMPANY'S)
CONSTRUCTION OF ITS SANITARY)
SEWAGE FACILITIES TREATMENT)
AND DISPOSAL SYSTEM LOCATED)
IN MOON LAKE SUBDIVISION AND)
PORTIONS ADJACENT THERETO IN)
SCOTT COUNTY, KENTUCKY, AS)
WELL AS AN APPLICATION FOR)
APPROVAL OF A RATE INCREASE)
FOR TARIFFS)

CASE NO. 8506

O R D E R

On May 17, 1982, Triport Disposal Company ("Triport") filed an application with this Commission requesting authority to increase its rates and charges by approximately \$4,123 annually, an increase of 32 percent based on test year revenue. Triport is also seeking a certificate of public convenience and necessity for the construction of its sewage treatment plant and related facilities which were completed in 1974 and for extensions and additions to the original facilities.

A public hearing was held in this matter on July 29, 1982, in the Commission's offices in Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's office was allowed to intervene.

Commentary

Triport is a privately-owned sewage treatment system serving 25 residential customers in Moon Lake Estates Subdivision ("Moon Lake"), 3 commercial customers, and 2 industrial customers in Scott County, Kentucky.

Test Period

Triport proposed and the Commission has adopted the 12-month period ending February 28, 1982, as the test period for determining the reasonableness of the rate approved herein. In utilizing the historical test period, the Commission has given full consideration to appropriate known and measurable changes.

Revenues and Expenses

Triport proposed several adjustments to revenues and expenses as reflected on its comparative income statement submitted with the application. On June 22, 1982, the Commission issued an information request which ordered Triport to provide support for the pro forma adjustments. In response to that request, Triport submitted a comparative income statement for the test year which differed from the one originally filed, and no support was provided for the pro forma adjustments. At the hearing of July 29, 1982, an income statement was submitted by Triport's accountant, Mr. Mark Ray, which differed from the previous two. Upon cross-examination, Mr. Ray stated that the first two statements submitted were prepared by Mrs. Crabtree, the wife of the owner of Triport, who

did not have access to the books and accounts when the statements were prepared.^{1/} Mrs. Crabtree was not available for cross-examination regarding the statements and adjustments that she prepared. However, Mr. Ray provided a reconciliation of the three statements. The Commission finds the income statement prepared by Mr. Ray to be the most accurate representation of the test year operations of Triport and has accepted this statement for rate-making purposes. However, this statement did not include any pro forma adjustments. The Commission is of the opinion that the pro forma adjustments prepared by Mrs. Crabtree are without support and should not be considered herein. Thus, the following adjustments have been made by the Commission in accordance with its established rate-making policy to Triport's test period income statement:

Repairs Expense

During the test year Triport incurred approximately \$1,401 in expenses related to the repair of a pump. Generally, these pump repairs were major overhauls, which in the opinion of the Commission should have been capitalized. The Commission further recognizes that without proper retirement accounting, the capitalization of these costs would overstate Triport's plant in service. Therefore, the Commission is of the opinion that since these repairs would have extended the lives of the

^{1/} Transcript of evidence of July 29, 1982, ("T.E.")
page 52.

pumps and proper capitalization was impractical, the extraordinary repair costs may be amortized over a 3-year period. Thus, the Commission has reduced repairs expense by \$1,401, to an adjusted level of \$1,338, and has included \$467 for amortization expense.

Depreciation Expense

Triport's actual depreciation expense for the test year was \$9,896. The Commission finds that depreciation expense should be computed for rate-making purposes on the basis of the original cost of the plant in service less contributions in aid of construction. The record herein reflects that the level of contributions in aid of construction at the end of the test year was \$56,544 which is approximately 28.6 percent of the total cost of utility plant in service. This results in a reduction to depreciation expense of \$2,827.

The Commission has further adjusted depreciation expense by \$1,834 to exclude depreciation expense on the excess capacity of the system.^{2/} The present capacity of the Triport treatment plant is 80,000 gallons per day ("GPD") and the present demand on the system is approximately 38,500 GPD. Since the plant will be able to accommodate new customers in the foreseeable future, the present users of the system should not pay the total cost of this excess capacity. The Commission has decided in fairness

^{2/} $80,000 \text{ GPD} - 38,500 \text{ GPD} = 41,500 \text{ GPD} \div 80,000 \text{ GPD} = .5188$.
 $\$9896 - \$2827 \text{ (contributions)} = \$7069 \times .5188 \div 2 = \1834 .

to all parties concerned that the costs associated with the excess capacity should be shared equally by the owner and the ratepayer.

Annual depreciation expense after the adjustments for contributions in aid of construction and excess capacity is \$5,235.

Maintenance Expense

At the hearing on July 29, 1982, Mr. R. W. Crabtree, owner of Triport, submitted copies of the current and previous contract for maintenance of the plant by Charles Miracle. The monthly maintenance fee was increased on April 4, 1982, from \$505 to \$655. However, the duties performed by Charles Miracle did not change. Moreover, Mr. Crabtree testified that Mr. Miracle is no longer visiting the plant daily, but his visits are now every other day.^{3/} Therefore, the Commission is of the opinion that the increased monthly fee is excessive based on the duties performed and the reduction in time at the plant site. The Commission finds the level of maintenance expense actually incurred during the test year of \$6,947, which includes the monthly maintenance fee of \$505, to be reasonable and therefore, has allowed this amount for rate-making purposes.

The Commission finds that Triport's adjusted test period operations are as follows:

^{3/}
T.E. at 31.

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 12,855	-0-	\$ 12,855
Operating Expenses	29,715	(5,595)	24,120
Net Operating Income	<u>\$(16,860)</u>	<u>\$ 5,595</u>	<u>\$(11,265)</u>
Interest Income	637	-0-	637
Net Income	<u><u>\$(16,223)</u></u>	<u><u>\$ 5,595</u></u>	<u><u>\$(10,628)</u></u>

Revenue Requirements

The Commission is of the opinion that the adjusted operating loss is clearly unjust and unreasonable. Further, the Commission is of the opinion that the proposed rate should be approved as the revenues of \$16,978 generated by the proposed rate will improve Triport's financial position. However, the Commission is concerned that while the rate requested by Triport and approved herein will improve its financial position, it is inadequate to produce an operating ratio of 88 percent, the operating ratio normally found to be fair, just and reasonable to provide a reasonable surplus necessary for equity growth. Moreover, Triport's financial position may be further improved by future growth, but the Commission is of the opinion that Triport will be unable to continue operating for an extended period of time at these rates.

Rates and Charges

Triport proposed to recover the costs of constructing the treatment plant, pumping system, trunk sewer and lines in Moon Lake through contributions in aid of construction from

customers requesting sewage service. Customers who could receive service by connecting an individual line to an existing main line would be charged \$2,837, including a \$727 tap-on fee. Where extension of the main line is necessary before individual service lines can be installed, the customer requesting service would be required to deposit the total cost of the extension and pay a contribution in aid of construction of \$1,152, including a \$727 tap-on fee. Triport further proposed to charge a fee of \$75 per trip to cover the cost of inspecting lines.

Home State Savings Corporation ("Home State") of Cincinnati, Ohio, assumed title to 97 lots in Moon Lake by foreclosure and retains title to 73 lots at the present time.^{4/} A contract between Home State and Triport provides that Home State "shall cause to be constructed at no expense to Disposal Corporation . . . all necessary sewerage lines, appurtenances and facilities . . .;" and that "[A]ll sewerage lines, appurtenances and facilities so constructed when connected to Disposal Corporation's sewage collection system shall become the property of Disposal Corporation."^{5/} In addition, Mr. Crabtree testified that the collection lines located in Moon

^{4/} Determined by Commission staff investigation and records of the Scott County Property Valuation Administrator.

^{5/} Agreement dated April 28, 1975, page 2, filed in Case No. 7979, Complaint of Mr. Ray Parks Against Triport Disposal Company and Mr. William Daugherty, the record of which has been made a part of this case by reference.

Lake were constructed by Daugherty Engineers and paid for by Home State.^{6/} Both Mr. Crabtree and Mr. Daugherty testified that the tap-on fee of \$500 approved in Case No. 7979 includes a contribution toward the plant.^{7/}

In Case No. 7979, Complaint of Mr. Ray Parks Against Triport Disposal Company and Mr. William Daugherty, the Commission ordered that, as they are constructed and added to the Triport system, these collection lines shall become the property of Triport, be serviced and maintained by Triport, and be treated as contributed property for rate-making purposes. Triport has not complied with this provision of the Order. The Commission serves notice to Triport that it will not permit any future disregard of its Orders. In addition, the Commission may seek to impose the maximum statutory penalties pursuant to KRS 278.990 should additional offenses occur.

The Commission finds that the costs associated with these lines should be recorded on Triport's books of account. In addition, the Commission finds that Triport should file within 30 days of the date of this Order a detailed summary by plant account of the total utility plant in service including the additions of the lines. Further, the Commission advises Triport that future filings with this Commission should include

^{6/} T.E. at 25 and 26.

^{7/} T.E. at 43, 109-111.

a balance sheet that reflects the cost of the lines and the related contributions in aid of construction.

The Commission further finds that, pursuant to the agreement between Home State and Triport, Triport has already recovered a considerable portion of the costs of the lines and will recover additional amounts as more lines are constructed. Triport is also recovering costs of the plant through its present \$500 tap-on fee and may be allowed a return on its remaining investment through its rates. The contributions in aid of construction proposed by Triport are in excess of the present \$500 tap-on fee and should, therefore, be denied.

The Commission is also of the opinion and finds that the cost of inspection is sufficiently covered by the approved \$500 tap-on fee and that no additional inspection fee is justified.

Triport further proposed to charge for disconnection and reconnection but failed to state the amount to be charged or the conditions under which these charges would be made. Triport was advised during the hearing that cost justification should be provided to the Commission.^{8/} In response, Triport filed a letter from a plumbing and heating company stating that its fees are \$125 for installing a new hookup and \$125 for disconnection. No breakdown of the items making up these charges was provided. The Commission is of the opinion that the

^{8/} T.E. at 42.

disconnection and reconnection charges should be denied until such time as Triport provides adequate cost justification and the conditions under which such charges would be made.

Service Contract

Mr. Jesse Hulette,^{9/} a customer of Triport and resident of Moon Lake, indicated that Triport requires a contract for service; however, the contract given to Mr. Hulette stated that it would become void if Triport became a public utility. Copies of various other contracts were filed in Case No. 7979, and are currently in use by Triport, including "Application of Sewer Facilities," required by Kentucky Curb Service; "Preliminary Easement Agreement," required by Daugherty Engineers; and "Operating Agreement," required by Triport. A review of these contracts shows that numerous provisions are contrary to the statutes, administrative regulations and the Commission's Order in Case No. 7979. Triport should, therefore, develop a contract or application for service consistent with the statutes, regulations and the Commission's findings herein.

Convenience and Necessity

Triport was granted a construction permit by the Division of Water of the Department for Natural Resources and Environmental Protection on March 9, 1973, for an 80,000 GPD

^{9/} T.E. at 115.

sewage treatment plant. The plant was built before the Commission had jurisdiction over sewage utilities. The permit was granted under authority of KRS Chapter 224.

On August 14, 1975, subsequent to the grant of jurisdiction over sewage utilities, Triport was granted a construction permit by the Division of Water of the Department for Natural Resources and Environmental Protection for construction of sewers to serve the residential properties in Moon Lake, Scott County, Kentucky. This permit was granted under KRS Chapter 224. Triport has not previously applied for nor been granted a certificate of convenience and necessity for the construction and operation of a sewage system in Moon Lake as provided by KRS 278.020.

Summary

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

(1) A certificate of public convenience and necessity should be granted for operation of the sewage system to provide service to Moon Lake.

(2) Triport's construction projects have included the construction of an 80,000 GPD sewage treatment plant and approximately 18,565 feet of 8-inch sewer main.

(3) The contributions in aid of construction proposed by Triport in excess of the present \$500 tap-on fee should be

denied and sewage services should be provided to its customers in Moon Lake in accordance with the following procedure:

Normal Extension of Sewer

The Commission finds that an extension of 25 feet or less per applicant shall be made by Triport to an existing sewer line without charge to the applicant for sewage service provided that the applicant agrees to take such service for 1 year or more.

Other Extensions

To accommodate one or more applicants for service from the same extension in those instances where the total length of the extension exceeds 25 feet per applicant, Triport may require a deposit from each applicant that will cover the cost of the extension that exceeds 25 feet per applicant. The amount of the deposit will be based on the average cost per foot of the sewer extension work, including manholes. Applicants shall agree to use the service provided by the extension for 1 year or more.

Refunds to Customers

Each customer who has paid Triport for extending a sewer line more than 25 feet will be reimbursed under the following plan: At the end of each year of the 10-year period following completion of the sewer extension, Triport will, for each new customer connected to the sewer extension during that year, refund to those customers who paid their part of the extension cost, an equal share of the cost of 25 feet of the original

cost of the sewer extension. In no case will the accumulated refunds made by Triport exceed the amount deposited with Triport to pay for the extension. No refunds will be made after expiration of the 10-year refund period.

Extensions to Serve a Proposed Real Estate Development

An applicant for sewer extensions to serve a proposed real estate development may be required to pay all of the costs of the extension. The refund plan defined under "Other Extensions" is also applicable to this type of extension.

Extensions Under Other Arrangements

Triport may make extensions under other arrangements that have not been defined herein provided such arrangements have been approved by the Commission.

Extensions Greater Than 25 Feet at Triport's Expense

Triport may in some instances make, at its own expense, an extension greater than 25 feet provided such extension is not discriminatory to its other customers or applicants for service.

The Commission, after the investigation of a complaint, may require Triport to construct an extension greater than 25 feet upon a finding by the Commission that such an extension is reasonable.

(4) Triport should obtain title to the lines located in Moon Lake and all costs associated with those lines should be recorded on Triport's books upon transfer. In addition,

Triport should file a detailed summary by plant account of the total utility plant in service including the additions of the lines.

(5) Triport should develop an application for service and file a copy with the Commission within 30 days of the date of this Order that is in compliance with the regulations of the Commission.

(6) The rates in Appendix A will produce gross annual operating revenue of \$16,978 and are the fair, just and reasonable rates to be charged, in that they will allow Triport to pay its operating expenses and provide a reasonable surplus for equity growth.

(7) The rates and charges proposed by Triport, insofar as they differ from those in Appendix A, should be denied.

(8) Within 30 days of the date of this Order Triport should file its tariff sheets setting out the rates and charges approved herein. Further, Triport should file tariff sheets setting out its rules and regulations governing the provision of service.

IT IS THEREFORE ORDERED that within 30 days of the date of this Order Triport shall obtain title to the lines located in Moon Lake and all costs associated with these lines shall be recorded on Triport's books upon transfer. In addition, Triport shall file a detailed summary by plant account of the

total utility plant in service which includes the additions of these lines.

IT IS FURTHER ORDERED that the proposed rates in Triport's application, insofar as they differ from those in Appendix A, be and they hereby are denied.

IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are approved for sewer service rendered by Triport on and after the date of this Order.

IT IS FURTHER ORDERED that the contributions in aid of construction proposed by Triport be and they hereby are denied.

IT IS FURTHER ORDERED that the inspection fee proposed by Triport be and it hereby is denied.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, Triport shall file its revised tariff sheets setting forth the rates approved herein. Further, Triport shall file tariff sheets setting forth the rules and regulations governing the provision of service.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Triport shall develop an application for service that is in compliance with the Commission's regulations and file a copy with the Commission.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Triport shall file an extension of service policy in accordance with finding number (3) herein.

IT IS FURTHER ORDERED that a certificate of public

convenience and necessity be and it hereby is granted for the extension of the system to provide service to Moon Lake.

Done at Frankfort, Kentucky, this 6th day of January, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8506 DATED JANUARY 6,
1983

The following rates and charges are prescribed for customers of Triport Disposal Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

<u>Class of Customer</u>	<u>Rate</u>
Single Family Residential	\$13.50 per month
Multi-Family Residential	\$11.00 per month per dwelling unit
Commercial/Industrial	\$1.40 per 1,000 gallons