

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF WILLOWCREST )  
DEVELOPMENT CORPORATION FOR )  
AN ADJUSTMENT OF RATES PUR- ) CASE NO. 8680  
SUANT TO THE ALTERNATIVE )  
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On October 15, 1982, Willowcrest Development Corporation ("Willowcrest") filed an application with the Commission to increase its sewer rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method in order to minimize the necessity for formal hearings, to reduce filing requirements, and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and, therefore, results in lower rates to the ratepayers.

Willowcrest requested a rate which would produce an annual increase of \$8,513. In this Order the Commission has allowed a rate to produce an increase of \$4,504.

There were no intervenors in this matter. All information requested by the Commission has been submitted.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rate, the 12-month period ending December 31, 1981, has been accepted as the test period.

VALUATION METHOD

Willowcrest proposed and the Commission has accepted the operating ratio method as the basis for determining rates in this matter. The Commission has used this method in determining rates for most sewer utilities under its jurisdiction for the past several years and finds the results have been reasonable and fair to both utilities and ratepayers. Therefore, the Commission, after consideration of various methods, will use the operating ratio method calculated as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

REVENUES AND EXPENSES

Willowcrest proposed various adjustments to its income statement to reflect more current operating conditions. The Commission is of the opinion that these adjustments are proper and has accepted them for rate-making purposes with the following exceptions:

Operating Revenues

Willowcrest reported total operating revenues for the test period of \$12,635 of which \$1,000 was from customer tap-on fees. Tap-on fees are contributions in aid of construction and not revenues. Therefore, the Commission has reduced operating

revenues by this amount. The Commission found that reported sewage service revenues were greater than what should have been received under the existing tariffed rates and the number of customers served during the year. Therefore, the Commission further reduced operating revenues by \$499 to reflect normalized test period operations.

#### Management Fee

Willowcrest proposed to adjust the management fee to \$2,400. Based on its experience with other similarly operated sewer utilities, the Commission is of the opinion that \$2,400 for management services is excessive and should be reduced to a more reasonable level of \$1,800.

#### Miscellaneous and General Expenses

Willowcrest proposed no increase in miscellaneous and general expenses of \$512. However, it was disclosed that \$311 was booked as expense for travel and entertainment not directly associated with sewer utility operations. Therefore, the Commission has reduced miscellaneous and general expenses to \$201.

#### Repairs and Maintenance Expense

Willowcrest proposed a 10 percent increase in repairs and maintenance expense of \$457 without providing any documentation to support known and measurable increases in these expenses. The Commission is of the opinion that because of the inadequacy of the evidence supporting this proposed adjustment, it cannot be accepted for rate-making purposes.

Utilities Expense

Willowcrest proposed an increase in electric and water expense of \$1,238. However, the Commission found that excessive water usage occurred during 3 months of the test period, and Willowcrest could not provide an explanation for the increased usage. Therefore, the Commission adjusted water usage by \$192<sup>(1)</sup> to reflect more normal test period operations.

Depreciation Expense

During the test year Willowcrest booked depreciation expense of \$2,892. However, the Commission found that Willowcrest depreciated its assets using shorter lives than those found reasonable by the Commission to properly match revenue and expenses. It is the opinion of the Commission that the asset useful lives in Appendix B to this Order are proper for rate-making purposes. Recalculating depreciation expense based upon these asset useful lives and employing the whole-life, straight-line method, the Commission has determined that normalized depreciation expense for the test period should be \$2,430.<sup>(2)</sup> Further, Willowcrest proposed to increase depreciation expense by \$372<sup>(3)</sup> but did not

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(1) Average monthly usage during remaining 9 months of test period: 5766 gal/month.

|                                                                                                  |              |
|--------------------------------------------------------------------------------------------------|--------------|
| Actual water expense from 7-20-81 to 9-16-81                                                     | \$229        |
| Less: Adjustment to reflect normalized operating conditions (5766 gal X water rates* X 3 months) | 37           |
| Reduction in water expense                                                                       | <u>\$192</u> |

\*Based upon Frankfort Electric and Water Plant Board Rate Schedule Tariff No. 2.

(2) Appendix B.

(3) Application, page 2.

provide any verification for the proposed increase, and the Commission has therefore rejected this adjustment.

Moreover, the Commission has determined that Willowcrest's depreciation expense includes depreciation on \$58,900<sup>(4)</sup> of plant financed by contributions in aid of construction from its rate-payers. It is the policy of the Commission to compute depreciation expense on the basis of the original cost of the plant, less contributions in aid of construction, as ratepayers should not be required to provide recovery on that portion of plant that has been provided free of cost. Therefore, the Commission has determined that Willowcrest's adjusted depreciation expense for rate-making purposes is \$429.<sup>(5)</sup>

Thus, the Commission finds that Willowcrest's adjusted test period operations are as follows:

|                      | <u>Willowcrest<br/>Pro Forma</u> | <u>Commission<br/>Adjustments</u> | <u>Commission<br/>Adjusted</u> |
|----------------------|----------------------------------|-----------------------------------|--------------------------------|
| Operating Revenues   | \$ 12,635                        | \$ (1,499)                        | \$ 11,136                      |
| Operating Expenses   | <u>17,731</u>                    | <u>(4,395)</u>                    | <u>13,336</u>                  |
| Net Operating Income | <u>\$ (5,096)</u>                | <u>\$ 2,896</u>                   | <u>\$ (2,200)</u>              |

(4) Item 2, information request response 12-29-82.

(5) Calculation:

|                                            |                   |
|--------------------------------------------|-------------------|
| Utility plant in service                   | \$ 71,514         |
| Less: Contributions in aid of construction | 58,900            |
| Non-contributed plant in service           | <u>\$ 12,614*</u> |

\*Non-contributed property of \$12,614 X composite depreciation rate of 3.4 percent = \$429 adjusted depreciation expense.

## REVENUE REOUIREMENT

The Commission is of the opinion that a fair, just and reasonable operating ratio is 88 percent in that it will provide a reasonable return to Willowcrest's owner. Therefore, the Commission finds that Willowcrest is entitled to increase its rates to produce total revenues of \$15,640,<sup>(6)</sup> or an increase of \$4,504 which includes an allowance for state and federal income taxes.

### SUMMARY

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

(1) The rate in Appendix A is the fair, just and reasonable rate to charge for sewer services rendered to Willowcrest's customers and should produce annual revenues of approximately \$15,640.

(2) The rate proposed by Willowcrest will produce revenue in excess of the revenue found reasonable and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rate in Appendix A is the fair, just and reasonable rate to be charged for sewage services rendered by Willowcrest on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Willowcrest be and it hereby is denied.

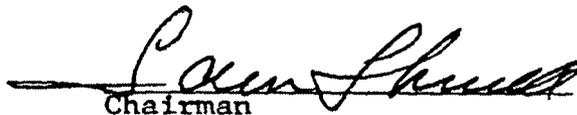
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(6) \$13,336 Operating Expense + \$427 Income Taxes ÷ .88 = \$15,640.

IT IS FURTHER ORDERED that Willowcrest shall file with this Commission within 30 days of the date of this Order its revised tariff sheets setting out the rate approved herein.

Done at Frankfort, Kentucky, this 27th 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. 8680  
DATED JANUARY 27, 1983

The following rate is prescribed for the customers  
in the area served by Willowcrest Development Corporation.  
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 date of this Order.

Sewer Service

| <u>Customer Class</u> | <u>Monthly Rate</u> |
|-----------------------|---------------------|
| Residential           | \$10.19             |

APPENDIX B

COMMISSION ADJUSTED DEPRECIATION EXPENSE SCHEDULE

| <u>Item</u>    | <u>Date<br/>Acquired</u> | <u>Method</u> | <u>Reasonable<br/>Useful<br/>Life For<br/>Rate-making<br/>Purposes</u> | <u>Cost</u> | <u>Annual<br/>Depreciation<br/>Expense</u> |
|----------------|--------------------------|---------------|------------------------------------------------------------------------|-------------|--------------------------------------------|
| Plant          | 62-69                    | S.L.*         | 20                                                                     | \$19,507    | \$ 975                                     |
| Addition       | 1970                     | S.L.          | 20                                                                     | 6,730       | 337                                        |
| Sludge Plant   | 1971                     | S.L.          | 20                                                                     | 1,763       | 88                                         |
| Sewer Tank     | 1971                     | S.L.          | 20                                                                     | 250         | 13                                         |
| Motor          | 10-72                    | S.L.          | 10                                                                     | 217         | 22                                         |
| Parts          | 7-73                     | S.L.          | 10                                                                     | 373         | 37                                         |
| Equipment      | 7-81                     | S.L.          | 10                                                                     | 1,292       | 130                                        |
| Sewer Lines    | 63-69                    | S.L.          | 50                                                                     | 40,938      | 819                                        |
| Line to Lot 23 | 12-75                    | S.L.          | 50                                                                     | 445         | <u>9</u>                                   |
|                |                          |               |                                                                        |             | \$2,430                                    |

\*Straight Line