

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CHENOWETH)
SANITATION, INC., FOR AN)
ADJUSTMENT OF RATES PURSUANT) CASE NO. 8709
TO THE ALTERNATIVE PROCEDURE)
FOR SMALL UTILITIES)

O R D E R

On November 1, 1982, Chenoweth Sanitation, Inc., ("Chenoweth") filed an application with the Commission to increase its sewer rate 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 filing method in order to minimize the necessity for formal hearings, to reduce the filing requirements, and to shorten the time between the application and the Commission's final Order. This procedure reduces rate case expenses to the utility and, therefore, results in a lower rate to the ratepayers.

Chenoweth requested to increase its rate to produce additional annual revenues of \$15,984 from its 333 customers. In this Order, the Commission has allowed additional revenues of \$1,022.

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

TEST PERIOD

To determine the reasonableness of the proposed rate, Chenoweth has proposed and the Commission has accepted the 12-month period ending December 31, 1981, as the test period in this case.

REVENUES AND EXPENSES

Chenoweth showed a net loss for the test period of \$7,864. Chenoweth did not propose any pro forma adjustments. The Commission has, however, made several adjustments to the test period revenues and expenses in order to reflect more current operating conditions. These adjustments are as follows:

Operating Revenues

Chenoweth reported revenues from sewer operations of \$41,307. Based on an analysis of Chenoweth's test period customers at the present monthly rate the Commission has increased operating revenues by \$5,246^{1/} to reflect the appropriate annualized revenues from sewer operations.

Sludge Hauling

Chenoweth's test period expenses included \$1,252 for sludge hauling. Chenoweth furnished invoices for sludge hauling for the first 10 months of 1982 which totaled \$2,299.

^{1/} \$11.65 per month x 333 customers x 12 months = \$46,553 - \$41,307 = \$5,246.

The Commission is of the opinion that the test period expenses for sludge hauling were abnormally low and should be increased. Therefore, the Commission has annualized the 10 months of expenses for 1982, and has allowed additional expense of \$1,507.^{2/}

Routine Maintenance Service Fee

On April 1, 1982, Chenoweth Hills Developers Company was employed to perform the routine sewer maintenance services at \$448 per month. On an annualized basis this cost exceeds the test period expense for this service by \$576.^{3/} The Commission has, therefore, increased test period expenses by \$576.

Administrative and General Salaries

During the test year, Chenoweth paid \$7,875 for management and supervision fees and \$1,400 for bookkeeping services. In Chenoweth's last rate case before this Commission, the Commission found that the reasonable fees for the management and supervision services and bookkeeping services were \$1,800 and \$2,400, respectively. Chenoweth presented no evidence in this case to justify any increases in these expenses. Therefore, the Commission has reduced operating expenses for rate-making purposes by \$5,075 to reflect allowance of the same amount of fees as in the prior case.

^{2/} $\$2,299 \div 10 \times 12 - \$1,252 = \$1,507.$

^{3/} $\$448 \times 12 - \$4,800 = \$576.$

Depreciation Expense

Chenoweth's test period expenses included depreciation of \$10,000. Chenoweth's plant in service as of the end of the test period is fully supported by contributions in aid of construction, and under Commission policy no depreciation expense is appropriate because it is unfair to require the ratepayers to provide recovery on plant provided at zero cost. Chenoweth proposed a similar depreciation expense or depreciation reserve fund in its last two rate cases before this Commission and in each instance the Commission disallowed these expenditures.

The Commission has allowed pro forma depreciation expense of \$600^{4/} on a plant addition to cloth wire for a microstrainer placed in service subsequent to the test period in this case.

Payroll Taxes

The Commission has reduced Chenoweth's test year payroll taxes by \$497 to reflect only the amount of payroll tax on salaries found reasonable in this case.

Other Taxes

Chenoweth was delinquent in the payment of certain taxes which are applicable to the test period and normal recurring charges. The Commission is of the opinion that the following taxes are allowable and should be included in test year expenses:

$$\frac{4}{\$2,998 \times 20\% = \$600.}$$

Public Service Commission Assessment	\$ 50
Jefferson County Property Tax	638
Kentucky Ad Valorem Tax	350

Rate Case Expense

Chenoweth has incurred rate case expenses of \$697 since the end of the test period. The Commission has amortized this cost over a 2-year period and has therefore adjusted test period operating expenses by \$340.

Office Rent

Chenoweth shares an office with Raidt Construction Company, Inc. Chenoweth did not include the rent for its share of this office space in its test period operating expenses at \$100 per month. Therefore, the Commission has adjusted operating expenses by \$1,200.

Billing and Collection Fee

The Louisville Water Company performs the billing and collection functions for Chenoweth. The Louisville Water Company charges are based on a proportionate share of water and sewer collections. The Commission has calculated the pro forma cost to Chenoweth for this service and has adjusted test period operations by \$243 to reflect the annual increase in this charge.

Interest Expense

During the test year, Chenoweth incurred interest expenses of \$244. On June 17, 1982, Chenoweth negotiated a loan of \$13,200 at an interest rate of 12 percent per year

with Idlewood Enterprises, Inc., ("Idlewood") for the purpose of paying outstanding notes totalling \$9,135 plus accrued interest of \$4,041 to Raidt Construction, Inc., and Chenoweth Hills Developers Company. The Commission is of the opinion that interest expense on the note to Idlewood should be included as an adjustment to test period operations.

Therefore, Chenoweth's adjusted operations at the end of the test period are as follows:

	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 41,307	\$ 5,246	\$ 46,553
Operating Expenses	48,927	(10,068)	38,859
Operating Income (Loss)	\$ (7,620)	\$15,314	\$ 7,694
Interest Expense	244	1,584	1,828
Net Income (Loss)	\$ (7,864)	\$13,730	\$ 5,866

Revenue Requirements

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 as used by the Commission is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating expenses (Net of interest expense)} + \text{taxes}}{\text{Operating Revenues}}$$

The Commission is of the opinion that a .88 ratio is a fair, just and reasonable operating ratio in that it will enable Chenoweth 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 Chenoweth is entitled to adjust its rate to produce total revenues of \$47,575^{6/} which includes state, federal and Jefferson County income taxes of \$1,398. This results in an annual increase in revenue to Chenoweth of \$1,022.

Other Issues

Chenoweth stated that it would be required to make certain major repairs to its system in the near future. In its response to the Commission's request for information, Chenoweth provided a detailed list of these expenditures totalling \$13,850. While the Commission recognizes that these expenditures may be necessary to the operation of the sewer system, Chenoweth has not obtained the necessary financing of these costs. Therefore, the Commission cannot give rate-making treatment in the Order for the proposed expenditures. Further, the Commission advises Chenoweth to make application for approval of these expenditures and the related financing as soon as such financing arrangements are complete.

SUMMARY

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

1. The rate proposed by Chenoweth would produce revenues in excess of those found reasonable herein and should be

$$\frac{6/}{\$38,859 + \$1,398 \div 88\% = \$45,747 + \$1,828 = \$47,575.}$$

denied upon application of KRS 278.030.

2. The rate in Appendix A should produce gross annual revenues of approximately \$47,575 from 333 customers and is the fair, just and reasonable rate for Chenoweth to charge for sewer service.

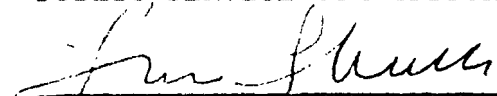
IT IS THEREFORE ORDERED that the rate in Appendix A be and it hereby is the fair, just and reasonable rate for Chenoweth to charge for sewer service rendered on and after the date of this Order.

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

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Chenoweth shall file with the Commission its tariff sheets setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 8th day of February, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER TO THE PUBLIC SERVICE
COMMISSION CASE NO. 8709 DATED FEBRUARY 8, 1983

The following rate is prescribed for customers of Chenoweth Sanitation, 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 date of this Order.

CUSTOMER CATEGORY

RATE

Single Family Residential

\$11.91 per month