

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF MOST, INC.            )  
D/B/A/ HEATHER HILLS SEWAGE            )    CASE NO. 8784  
TREATMENT PLANT FOR AN                 )  
ADJUSTMENT OF RATES                    )

O R D E R

On March 15, 1983, Most, Inc., d/b/a/ Heather Hills Sewage Treatment Plant ("Most") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. This regulation permits utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method 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. Most requested a rate which would produce revenues of \$26,523 annually.

Motions to intervene were filed by the Attorney General's Office of Consumer Protection and the Heather Hills Homeowners' Association. Due to the complexity of the issues at hand, a hearing was held on June 14, 1983, at the Commission's offices in Frankfort, Kentucky. The two intervenors were present and participated in the proceeding.

TEST PERIOD

The Commission has accepted the 12-month period ending December 31, 1982, as the test period in this case.

### VALUATION METHOD

Most proposed the operating ratio method as the basis for determining revenue requirements in this matter. The Commission has used this method in determining revenue requirements for most sewer utilities under its jurisdiction in the past and finds the results to be reasonable and fair to both the utility and its ratepayers. Therefore, the Commission, after consideration of various other methods, has determined to use the operating ratio method calculated as follows:

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

### REVENUES AND EXPENSES

Most showed a net loss of \$7,638 for the test period. Most proposed adjustments to interest and depreciation expense resulting in a net loss of \$13,638. The appropriate adjusted net loss for the test period as determined by the Commission is \$5,491.

The Commission has accepted Most's pro forma revenues and expenses with the following adjustments:

#### Depreciation

The Commission relied upon the testimony of the witnesses in Case No. 8512, The Application of the Equitable Assurance Society of the United States and the Equitable Life Mortgage and Realty Investors for Approval and Authorization of the Proposed Sale and Conveyance of All of the Heather Hills Sewage System Properties and Assets to Most, Inc., in order to approve the purchase-sale in June, 1982. The president of Most, Marjorie

Morgan, stated in her testimony in Case No. 8512 that depreciation "would have to be recovered through...lot sales, real estate."<sup>1/</sup> Ken Chandler, the accountant for Most, stated in his testimony in the present case that nothing has transpired since the last case (Case No. 8512) to warrant the inclusion of depreciation in rates other than for the "economic viability" of the corporation.<sup>2/</sup>

In addition, there is substantial evidence that the pro rata cost of the sewage treatment plant has been recovered through the sales price of the first 77 lots sold in the subdivision.<sup>3/</sup> Most sold the remaining lots to Bocamost, a corporation under the same ownership as Most. According to the testimony of Marjorie Morgan, had this sale been an arms-length transaction, the remaining cost of the sewage treatment plant would have been recovered from Bocamost. According to the testimony in this case, Bocamost will recover the cost of the sewage treatment plant through the sales of the remaining lots.<sup>4/</sup> However, there is no agreement between Most and Bocamost to transfer the portion of the sales price of the lots charged for the sewage treatment plant back to Most.

Finally, the sewage treatment plant was built to serve approximately 170 customers. Only 77 customers are currently served. It is questionable when the additional lots will be sold due to the economy and the fact that the land in Section III of the subdivision is not yet developed.

Because the customers in Sections I and II of the subdivision have paid for their portion of the sewage treatment plant in the price of the lots, and further because it would be

unfair to require these same customers to provide recovery on the portion of the sewage treatment plant built to serve additional customers, the Commission has disallowed depreciation expense for rate-making purposes.

Interest Expense

Most proposed to include in pro forma test year expense \$6,933 of pro rated interest expense applicable to the financing of the \$57,774 sewage treatment plant. In the purchase-sale case (Case No. 8512), Marjorie Morgan again testified that carrying costs on the financing of the sewage treatment plant should be recovered through the sale of lots.<sup>5/</sup> Again, Mr. Chandler stated that the inclusion of interest expense in the rate in this case was merely to assure economic viability and that nothing had transpired since the previous case to warrant inclusion of interest costs in the rate base. It is inappropriate to charge the current 77 customers carrying charges on the portion of the sewage treatment plant they actually paid for in the price of their lots, and it is further unfair and inappropriate for these customers to bear the carrying charges on investment that will be recovered by Bocamost through the eventual sale of the remaining lots. Thus the Commission has disallowed all interest expense herein.

Therefore, Most's test period operations are adjusted as follows:

	<u>Most Proposed</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 9,702	\$ -0-	\$ 9,702
Operating Expenses	<u>16,407</u>	<u>(1,214)</u>	<u>15,193</u>
Net Operating Income (Loss)	(6,705)	1,214	(5,491)
Interest Expense	<u>6,933</u>	<u>(6,933)</u>	<u>-0-</u>
Net Income (Loss)	<u><u>\$(13,638)</u></u>	<u><u>\$ 8,147</u></u>	<u><u>\$(5,491)</u></u>

#### REVENUE REQUIREMENTS

The Commission is of the opinion that a fair, just and reasonable operating ratio is 88 percent in that it will permit Most to pay its operating expenses and provide a reasonable return to its owners. Therefore, the Commission is of the opinion that Most is entitled to increase its rate to produce total revenues of \$17,264 or an increase in revenues of \$7,562.

#### 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 Most is unfair, unjust and unreasonable in that it would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

2. The rate in Appendix A is the fair, just and reasonable rate to charge for sewage service rendered by Most in that it will permit Most to meet its operating expenses and provide a reasonable return to its owners.

IT IS THEREFORE ORDERED that the rate proposed by Most be and it hereby is denied.

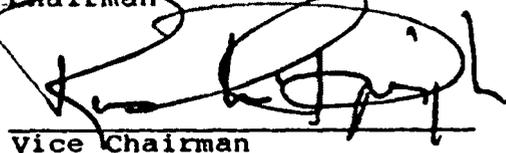
IT IS FURTHER ORDERED that the rate in Appendix A be and it hereby is the fair, just and reasonable rate for Most to charge for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Most shall file with this Commission within 30 days of the date of this Order its tariff sheet setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 3rd day October, 1983.

PUBLIC SERVICE COMMISSION

  
Chairman

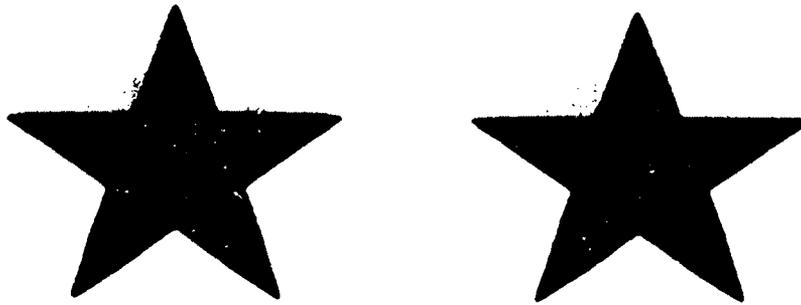
  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

# **CORRECTION**



***PRECEDING IMAGE HAS BEEN  
REFILMED  
TO ASSURE LEGIBILITY OR TO  
CORRECT A POSSIBLE ERROR***

IT IS THEREFORE ORDERED that the rate proposed by Most be and it hereby is denied.

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

IT IS FURTHER ORDERED that Most shall file with this Commission within 30 days of the date of this Order its tariff sheet setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 3rd day October, 1983.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

FOOTNOTES

- 1/ Case Number 8512, Transcript of Evidence, June 10, 1983, page 18.
- 2/ Case Number 8784, Transcript of Evidence, June 14, 1983, pages 77-78.
- 3/ Ibid., page 77.
- 4/ Id., pages 77-78.
- 5/ Case Number 8512, Transcript of Evidence, June 10, 1983, page 18.

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8784 DATED OCTOBER 3, 1983

The following rate is prescribed for the customers in the area served by Most, Inc., d/b/a Heather Hills Sewage Treatment Plant, located in Jefferson County, Kentucky. 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.

RATE: Monthly

Single Family Residential

\$18.69