

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF)
WILLIAM DOHRMAN, INC., FALLS) CASE NO. 9065
CREEK SEWAGE TREATMENT PLANT)

O R D E R

On May 22, 1984, William Dohrman, Inc. - Falls Creek Sewage Treatment Plant ("Falls Creek") 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. This procedure minimizes rate case expenses to the utility and, therefore, results in lower rates to the ratepayers.

Falls Creek requested rates to produce an annual increase of \$13,582. Falls Creek stated that the plant had sustained operating losses for several years and that the increase was necessary to enhance the financial position of the plant. In this Order the Commission has granted the requested rate.

TEST PERIOD

The Commission has accepted the 12-month period ending December 31, 1983, as the test period in this case.

REVENUES AND EXPENSES

Falls Creek had a net operating loss of \$21,679 for the test period. In order to reflect current operating conditions, Falls Creek proposed numerous adjustments to expenses resulting in a net operating loss of \$22,396. The appropriate level of net operating loss as determined by the Commission is \$9,769.

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

Revenue Normalization

For the test period Falls Creek had operating revenue of \$16,226 from 85 customers. The designed capacity of the system is 108 customers. Falls Creek stated that new customers are currently being connected to the system, that 101 customers are currently connected, and that the system will be at or near capacity within the next 4 to 6 months. Therefore, Falls Creek's actual test period revenues have been normalized in the amount of \$4,380, for total operating revenue of \$20,606,¹ to reflect the total revenue generated based on the design capacity.

Depreciation Expense

Falls Creek had depreciation expense for the test period of \$10,640. The Commission in Case No. 7073² adjusted Falls Creek's depreciation expense, stating that the sewage plant expansion

¹ 108 customers X \$15.90 X 12 = \$20,606.

² The Application of William Dohrman, Incorporated, for a Certificate of Convenience and Necessity Authorizing it to Extend a Sewage Treatment Plant and for an Order Authorizing it to Increase the Rate it Charges for the Collection, Treatment, and Disposition of Sanitary Sewage.

authorized in Case No. 7073 would be recouped from lot sales by William Dohrman, Inc., and would thus be contributed property to Falls Creek. The Commission's policy is to disallow depreciation expense on contributed property as the utility should not be provided recovery on that portion of the plant which has been provided free of cost. Falls Creek in this proceeding was asked to provide evidence to indicate that the Commission's adjustment in Case No. 7073 was inappropriate but failed to do so. Therefore, the Commission has decreased Falls Creek's depreciation expense by \$7,275 to exclude depreciation expense on plant related to the third and final developmental phase of the Falls Creek expansion.³

In addition, Falls Creek's depreciation schedule indicated that pumps, motors, and other equipment are being depreciated over a 5-year period. Falls Creek stated that the 5-year life assigned to this plant was considered reasonable because of the constant operation of this equipment. The Commission's engineering staff has indicated that such items would be more appropriately expensed over a 15 to 20-year period. However, the Commission will accept useful life estimates as proposed by Falls Creek because depreciation expense has already been adjusted for contributed property. However, Falls Creek is advised that in future rate proceedings the Commission may adjust depreciation expense in

³ See Depreciation Schedule included in the Application for Rate Adjustment filed May 22, 1984.

instances where it is of the opinion that Falls Creek's useful life estimates are inappropriate.

Management Fee

Falls Creek proposed to increase its management fee from \$600 to \$1,490 based upon a standard of 5 percent of annual revenues collected. Falls Creek stated that this basis is standard in the real estate industry and that the responsibilities and duties of managing rental property are comparable to those of operating a sewer utility. The Commission has accepted the proposed adjustment because the total level of expense proposed of \$1,490 is reasonable in this instance. However, the Commission does not concur with Falls Creek's contention that a percentage standard for management fees is necessarily applicable to sewer utilities.

Billing Costs

Falls Creek proposed to increase test period billing costs of \$193 by \$972 in order to reflect current billing costs. In response to an information request,⁴ Falls Creek stated that the pro forma increase was based on the Louisville Water Company charge to perform billing functions. Falls Creek further stated that this billing was done internally by office personnel. Therefore, as no evidence was provided of an actual increase in billing costs, the Commission has rejected this adjustment in accordance with its policy of accepting only known and measurable increases in test period expenses.

⁴ Response to Staff Request No. 1 dated June 12, 1984, item (d).

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

	<u>Falls Creek Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 16,226	\$ 4,380	\$ 20,606
Operating Expenses	<u>38,622</u>	<u><8,247></u>	<u>30,375</u>
Operating Income (loss)	<u>\$ <22,396></u>	<u>\$ 12,627</u>	<u>\$ <9,769></u>

REVENUE REQUIREMENTS

The Commission is of the opinion that Falls Creek's adjusted operating loss is unfair, unjust and unreasonable. Further, the Commission is of the opinion that the proposed rate should be approved as the additional revenues of \$9,202 generated by the proposed rate will improve Falls Creek's financial position.

SUMMARY

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


1. The rate in Appendix A is the fair, just, and reasonable rate to charge for water service rendered by Falls Creek in that it should improve Falls Creek's financial position.

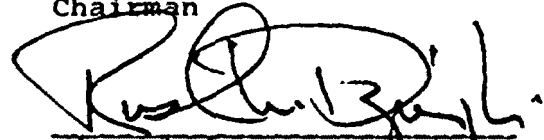
IT IS THEREFORE ORDERED that the rate proposed by Falls Creek and contained in Appendix A be and it hereby is approved for sewage treatment service rendered by Falls Creek on and after the date of this Order.


IT IS FURTHER ORDERED that within 30 days of the date of this Order Falls Creek shall file its revised tariff sheets setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 19th day of September, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9065 DATED 9/19/84

The following rate is prescribed for customers in the area served by William Dohrman, Inc. - Falls Creek 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 effective date of this Order.

RATE: Monthly

Single Family Residential

\$23.00