

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF FORDHAVEN, INC.,)
FOR AN ADJUSTMENT OF RATES PURSUANT)
TO THE ALTERNATIVE PROCEDURE FOR) CASE NO. 9303
SMALL UTILITIES)

O R D E R

On March 20, 1985, Fordhaven, Inc., ("Fordhaven") 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 ("ARF") 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 should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

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

Fordhaven requested rates which would produce an annual increase of \$4,099 to its present gross revenues. In this Order, the Commission has allowed rates estimated to produce an increase of \$323.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1984, has been accepted as the test period.

REVENUES AND EXPENSES

Fordhaven showed a net profit on its books for the test period of \$1,084. Fordhaven proposed several pro forma adjustments to its test period operating revenues and expenses to more accurately reflect current operating conditions. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Inflation Adjustment

Fordhaven proposed an inflation adjustment of \$1,555 which was computed on the basis of 5 percent of the actual operating expenses for the test period of \$31,100. It is the practice of this Commission to allow only known and measurable increases to actual test year expenses which can be substantiated by appropriate documentation supporting increases to the actual expense. Fordhaven failed to meet this requirement of the Commission. Therefore, the Commission has denied the inflation adjustment of \$1,555 in its entirety.

Water Expense

During the test period, Fordhaven incurred water expense of \$1,416. The Louisville Water Company announced in the month of December 1984 that rates for water service would be increased effective January 1, 1985. In response to this Commission's request for information dated April 30, 1985, Fordhaven submitted

working papers showing a comparative analysis of water expense using test period usage, rates in effect during the test period and the revised rates effective January 1, 1985, which results in adjusted water expense of \$1,541. The Commission is in agreement with Fordhaven's calculations and finds it appropriate to increase water expense by \$125.

Testing Expense

Fordhaven incurred sampling, analysis and reporting services fees of \$670 paid during the test period to Beckmar Environmental Laboratory to be in compliance with the requirements of the Federal and Kentucky Pollution Discharge Elimination System. On May 3, 1985, Beckmar notified Fordhaven that, as of July 1, 1985, the monthly analysis would be increased to \$160 per month resulting in an annual charge of \$1,920 which would require a pro forma adjustment of \$1,250. Therefore, the Commission has found it appropriate to increase testing expense by \$1,250.

Purchased Power Expense

Fordhaven recorded purchased power expense for the test period of \$10,583. In its response to the Commission's request for additional information dated April 30, 1985, Fordhaven furnished an analysis of test period electric expense, by months, using rates in effect during the test period and an estimate for 1985. From the information contained on the working papers of Fordhaven, the Commission finds no reason to change the test period electric expense of \$10,583.

Chemicals

Fordhaven booked \$840 in chemical expense for the test period. In its response to the Commission, Fordhaven furnished an analysis of chemical cost which showed liquid chlorine being purchased from Ulrich Chemical Company of \$397, and a chlorinator cylinder unit at a cost of \$443 from the Chlorination Company. The Commission is of the opinion that the cost of the chlorinator cylinder unit is a capital item and should be removed from chemical expense and given proper consideration in the depreciation expense section of this Order. Therefore, chemical expense has been reduced by \$443.

Maintenance of Treatment and Disposal Plant

Fordhaven's recorded expense for the maintenance of its treatment and disposal plant during the test year was \$7,067 which is composed of the following:

Routine Maintenance Service Fee	\$4,500
Thurman Electric Company - Major Motor Repair	525
Jimmy's Electric Motor Co. - Major Motor Repair	478
Minor Maintenance Repairs	<u>1,564</u>
Total	<u>\$7,067</u>

Jack Wolford Enterprises, Inc., was paid \$375 per month during the test period for its services rendered in the routine maintenance of Fordhaven's treatment and disposal system. The Commission considers the major motor repairs by Thurman Electric Company and Jimmy's Electric Motor Company of \$525 and \$478, respectively, to be capital expenditures. Consideration is given to these items in the depreciation expense section of this Order.

Collection Expense

The collection expense is directly related to the amount of revenue that Fordhaven collects via the formula used by the Louisville Water Company ("LWC") to calculate the collection charge.¹ Therefore, the Commission has modified this calculation to include the increased rate allowed herein. The Commission is also using the most recent collection fee charged by the LWC effective May 1, 1985, which results in an annual collection expense of \$1,304, an increase of \$434.

Depreciation and Amortization Expense

At the end of the test period, Fordhaven had recorded depreciation expense of \$219. Moreover, the Commission, in its disallowance of a capital item of \$443 included in the cost of chemicals and two capital items totalling \$1,003 included in the cost of maintenance of the treatment and disposal plant, as discussed earlier in the Order, has allowed a pro forma adjustment of \$482 computed on the basis of a 3-year amortization of the property more appropriately included in Account No. 373, Treatment and Disposal Equipment. Thus, the Commission finds that the

¹ $\$1.96 \times \frac{\text{Sewer Charge}}{\text{Water Charge} + \text{Sewer Charge}} \times \text{Number of Customers} \times 6.$

appropriate adjusted test period depreciation and amortization expense is \$701.²

Rate Case Expense

In response to the Commission's request for information dated April 30, 1985, Fordhaven projected accounting fees of \$2,500 to be considered as its rate case expense, and proposed that it be amortized over a 3-year period. The Commission is of the opinion that accounting fees of \$2,500 for services rendered in the preparation of the rate application are excessive for a utility the size of Fordhaven under the ARF procedure, which was developed and implemented by the Commission to reduce substantially the level of professional assistance required in the preparation of rate cases. It is the Commission's opinion in ARF cases that if rate case expense exceed \$1,000, then the burden of proof is on the applicant to show that such fees were required because of unusual circumstances. If the unusual circumstances involve poor records, then the level of on-going accounting and management expenses will be considered in determining the reasonableness of the rate case expense. If it is determined that the fees are high because of management preferences, then the fees may be disallowed or divided between management and ratepayers.

²	Depreciation expense, per books, at 12/31/84	\$219
	Add: Depreciation expense on capital item transferred from Chemicals - $\$443 \div 3 \text{ years} =$	148
	Depreciation expense on capital items transferred from Maintenance of Treatment and Disposal Plant - $\$1,003 \div 3 \text{ years} =$	334
	Total allowable depreciation expense	<u>\$701</u>

The Commission has considered Fordhaven's ARF application and the evidence of record and finds no unusual circumstances to warrant the accounting fee of \$2,500 and has, therefore, concluded that \$1,000 of rate case expenses amortized over a 3-year period is the fair, just and reasonable amount to be paid by the ratepayers. Thus, the Commission has allowed total rate case expense of \$333 in the adjusted rate.

Jefferson County Board of Health Fee

Fordhaven paid waste water treatment fees of \$1,400 during the test period to the Jefferson County Board of Health. In response to the Commission's request for additional information dated April 30, 1985, Fordhaven furnished invoices covering the payment which indicated that the payment represented an annual fee of \$700 for 2 years. Therefore, the Commission has reduced this expense by \$700 related to the portion prior to the test period.

Sewer Plant Permit Fee

Fordhaven paid application fees and the sewer plant permit fee related to the National and Kentucky Pollution Discharge Elimination System program totalling \$400 during the test period. The Commission was advised by the Kentucky Department for Environmental Protection - Division of Water, that the sewer plant permit is in force for a 5-year period. Therefore, the Commission has amortized the total cost over a 5-year period allowing \$80 in test period expenses.

Interest on Debt to Associated Companies

As of the end of the test period, Fordhaven had incurred interest expense of \$3,317 on notes payable to its parent company, Suburban Mortgage Associates, Inc. The purpose of the notes was to provide funds to pay current operating expenses of Fordhaven's sewer system. The Commission's records indicate that Fordhaven, under the corporate name of Suburban Mortgage Associates, Inc., last requested rate relief on August 29, 1980. The burden of obtaining sufficient revenues to pay operating costs rests with the management of Fordhaven. The failure of Fordhaven to seek sufficient revenues to cover its operating costs in prior periods does not justify the recovery of those costs from the present ratepayers. To allow Fordhaven to recover these costs would constitute retroactive rate-making. Therefore, the Commission has excluded the interest on notes payable to associated companies of \$3,317 for rate-making purposes.

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

	<u>Fordhaven Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 31,575	\$	\$ 31,575
Operating Expenses	28,123	(2,003)	26,120
Net Operating Income	<u>\$ 3,452</u>	<u>2,003</u>	<u>5,455</u>
Interest Expense	<u>4,756</u>	<u>(3,544)</u>	<u>1,212</u>
Net Income	<u>\$ (1,304)</u>	<u>5,547</u>	<u>\$ 4,243</u>

REVENUE REQUIREMENTS

The Commission is of the opinion that Fordhaven's adjusted operating loss is unfair, unjust and unreasonable. The Commission is further of the opinion that an operating ratio of 88 percent is fair, just and reasonable in that it will allow Fordhaven to meet its operating expenses, service its debt and provide a reasonable return to its stockholders. Therefore, the Commission finds that Fordhaven should be permitted to increase its rates to produce total annual revenues of \$31,898,³ which includes federal, state and Jefferson County, Kentucky, income taxes of \$884. This results in an annual increase in revenue to Fordhaven of \$323.

SUMMARY

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

1. The rates proposed by Fordhaven would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.
2. The rates in Appendix A are the fair, just and reasonable rates to charge for sewer services rendered to Fordhaven's customers and should produce annual revenues of approximately \$31,898.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are the fair, just and reasonable rates of Fordhaven for sewer services rendered on and after the date of this Order.

³ $(\$26,120 + \$884) \div .88 = \$30,686 + \$1,212 = \$31,898.$

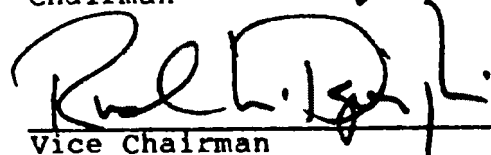
IT IS FURTHER ORDERED that the rates proposed by Fordhaven
be and they hereby are denied.

IT IS FURTHER ORDERED that, within 30 days of the date of
this Order, Fordhaven shall file with this Commission its tariff
sheets setting forth the rate approved herein and a copy of its
rules and regulations for providing sewer services.

Done at Frankfort, Kentucky, this 8th day of August, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

did not participate
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9303 DATED AUGUST 8, 1985.

The following rates and charges are prescribed for customers receiving sewer service from Fordhaven Sewer Plant. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

<u>CUSTOMER CLASS</u>	<u>RATE</u>
Residential	\$ 19.20
Apartments	
4-Plex	56.60
6-Plex	84.90
8-Plex	107.76