

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MULBERRY ENTERPRISES,)
INC., FOR AN ADJUSTMENT OF RATES PURSUANT) CASE NO. 9469
TO THE ALTERNATIVE PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

On June 20, 1986, the Commission issued an Order in which Mulberry Enterprises, Inc., ("Mulberry") was allowed no increase in its revenues. On July 2, 1986, Mulberry filed a petition for reconsideration on the issues of sludge hauling expense, labor costs, agency collection fee, water testing expenses, depreciation and interest expense, and rate case expenses.

On July 22, 1986, the Commission issued an Order in which it invited Mulberry to present additional information, specific in nature, to support its position on the various issues. However, the Commission reserved its right to affirm its Order of June 20, 1986.

Sludge Hauling

Mulberry submitted as evidence in its petition of July 2, 1986, several invoices for sludge hauling expenses totaling \$1,459 incurred during the first 6 months of 1986. Mulberry had sludge hauling expenses of \$0, \$410, \$50, in 1982, 1983, 1984, respectively. The sludge hauling expense incurred in 1986 appears excessive and abnormal when compared to Mulberry's historical

cost. Furthermore, the invoices submitted as evidence were incurred fully a year beyond the test year in this case.

Although this evidence shows that Mulberry incurred this level of sludge hauling expense in 1986, it is not persuasive evidence that this is the normal level of ongoing sludge hauling expense. Therefore, no additional revenue should be allowed for this expense item.

Labor Costs

Mulberry provided in its August 21, 1986, filing a "typical breakdown of the time involved to perform the duties necessary to keep the three plants operating." However, Mulberry did not provide evidence that these services were actually performed. Such evidence would have been available in a daily maintenance log. Nonetheless, since routine maintenance was performed by the owner of Mulberry and was less than an arms-length transaction, additional evidence representing the cost and prudence of these services is normally required by the Commission. This evidence could have been provided by supplying copies of bids and terms of other non-related parties offering routine maintenance service or through details of work performed on daily visits to the plant by the owner. However, no such evidence or documentation was provided. Therefore, no adjustment has been made for additional labor costs herein.

Agency Collection Fee

Mulberry's collection fee expenses are based on 15 percent of gross customer billing. The Commission in its Order of June 20, 1986, found collection expenses based on a percentage of gross

billings rather than a collection expense based on a per-bill-rendered basis to be inherently unreasonable. In fairness to Mulberry, the Commission then estimated a reasonable amount for collection expense which it allowed for rate-making purposes.

In its August 21, 1986, filing, Mulberry submitted cost estimates of hypothetical in-house costs of billing. These costs ranged from \$5,280 to \$14,232 annually and double counted costs which were incurred during the test period such as office rent and utilities.

The Commission does not require that billing be performed in-house, but the Commission does require evidence that the charges are prudent, fair and reasonable. Mulberry could have provided such evidence by submitting bids and terms from other credible billing agencies and bookkeeping services such as from small public accounting firms which routinely provide such services. However, no such evidence was provided. Therefore, no adjustment has been made to increase this cost for rate-making purposes.

Water Testing Expense

Mulberry in its filing of July 2, 1986, submitted four invoices for water testing expense which was incurred in 1986 and totaled \$213. The invoice purportedly represented quarterly expenses incurred during 1986, indicating an annual expense of approximately \$850. However, the invoices represented the period from April 1986 to June 1986, indicating a semiannual expense of \$213 or an annual expense of approximately \$425 which contrasts with the \$600 annual expense allowed for rate-making purposes in the Order of June 20, 1986. Additionally, the invoices represent

expenses incurred fully a year beyond the 1984 test period in this case. Therefore, no adjustment has been made to increase this expense for rate-making purposes.

Depreciation Expense and Interest Expense

In its Order of June 20, 1986, the Commission disallowed depreciation and interest expenses associated with contributed property. In its August 21, 1986, filing, Mulberry cited as evidence that the plant was not fully contributed, a deed of transfer of the plant between the previous owners and Mulberry. The Commission is of the opinion that the deed of transfer merely evidences the mutual consideration rendered and does not attest to whether the original plant was contributed. Therefore, no adjustment has been made herein to increase this expense.

Rate Case Expense

Mulberry estimated its total rate case expenses on this proceeding to be \$1,195 with \$750 yet to be incurred. Mulberry requested that the total rate case expense be amortized over a 3-year period, \$398 annually, for rate-making purposes. The Commission in its Order of June 20, 1986, allowed rate case expense of \$323 annually. Mulberry requested in its filing of August 21, 1985, an additional \$75 annually in rate case expense.

As all other issues have been denied and since \$750 of the estimated rate case expense has yet to be incurred, which would result in an annual amount requested below that previously granted by the Commission, the Commission denies additional revenues on this issue.

SUMMARY

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

1. Mulberry has not presented any new evidence of a sufficient competent nature to warrant rehearing on any issues.

2. The Commission's Order of June 20, 1986, should be affirmed in its entirety.

3. Mulberry has incurred certain expenses which were incurred too far beyond the test period for consideration in this case.

IT IS THEREFORE ORDERED that:

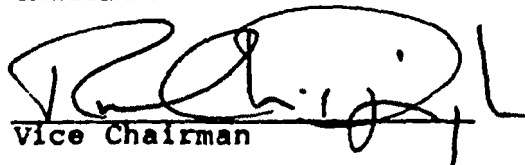
1. The Commission's Order of June 20, 1986, is affirmed in its entirety.

2. Mulberry is denied rehearing in this case.

Done at Frankfort, Kentucky, this 10th day of October, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director