

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BECKLEY STATION)
DISPOSAL SYSTEMS, INC. FOR AN ORDER)
PURSUANT TO CHAPTER 278 OF THE)
KENTUCKY REVISED STATUTES)
AUTHORIZING AND PERMITTING AN) CASE NO. 9541
ADJUSTMENT IN RATES FOR THE)
EXISTING SEWAGE TREATMENT PLANT)
SERVING BECKLEY WOODS SUBDIVISION)
AND LAKE FOREST SUBDIVISION,)
JEFFERSON COUNTY, KENTUCKY)

O R D E R

IT IS ORDERED that the staff report for Beckley Station Disposal Systems, Inc., attached hereto as Appendix A shall be included as a part of the record in this proceeding.

Done at Frankfort, Kentucky, this 13th day of August, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Skene, Jr.
For the Commission

ATTEST:

Executive Director

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

APPENDIX A

STAFF REPORT

ON

BECKLEY STATION DISPOSAL SYSTEMS, INC.

CASE NO. 9541

**Prepared By: Dennis Jones
Public Utilities Financial
Analyst, Chief**

PREFACE

On March 31, 1986, Beckley Station Disposal Systems, Inc. ("Beckley Station") filed its general rate application seeking to increase its rates by \$24,191, an increase of approximately 25.8%.

As part of its endeavor to shorten the regulatory process the Commission chose to perform a review of Beckley Station's test period operations, the twelve month period ending December 31, 1985. The Commission's objective was to substantially reduce the need for written data requests, decrease the time necessary to examine the application and therefore, decrease the expense to the utility. Mr. Dennis Jones of the Commission's Division of Rates and Tariffs performed the review on August 8, 1986, at the office of Beckley Station located in Louisville, Kentucky.

SCOPE

The scope of this review was limited to satisfying staff as to the accuracy and propriety of the test period operations and the proposed pro forma adjustments. In order to determine this staff reviewed expenditures charged to plant in service and to test period operations and examined the invoices of large or potential improper charges.

FINDINGS

Utility Plant In Service

During conversations with representatives of Beckley Station it was determined that the amount shown for plant in service reflects the amount paid for the system to Beckley Station's prior owners rather than the original cost of the system when first

dedicated to public service as required by the Uniform System of Accounts for Sewer Utilities. However, the amount shown did not include the cost of collection lines which had been recovered through the sale of lots. The cost of plant recovered through the sale of lots should also be included as original cost with an offsetting entry made to the account for contributions in aid of construction.

The original cost of the system at the time of the transfer of ownership according to the 1981 Annual Report of Beckley Station on file with the Commission was \$458,324 for utility plant with \$24,677 of accumulated depreciation and \$360,304 in contributions in aid of construction. The staff is of the opinion that the books of Beckley Station should be adjusted to reflect these amounts for the original cost of the system rather than the \$75,010 paid for the system. Accumulated depreciation and retained earnings have been further adjusted to reflect the additional depreciation expense which would have been recorded from 1982 through 1985. The amounts utilized for plant in service in this report were taken from the annual reports of Beckley Station and its predecessor Beckley Woods Sanitation Company, Inc., however Beckley Station should attempt to varify these amounts with any discrepancies reported to the Commission.

OPERATING REVENUES AND EXPENSES

Beckley Station had test period operating revenues of \$38,782, operating expenses of \$45,218 and a net operating loss of \$6,436. Beckley Station made several pro forma adjustments to its test period operations to reflect the recently completed plant

expansion operating at full capacity. The expansion was authorized by the Commission in Case No. 9388. Since Beckley Station adjusted both revenues and expenses to reflect operations at full capacity, the staff has accepted the pro forma adjustments as proposed with the following exceptions:

Repairs and Maintenance Expense

Beckley Station reported a test period repair and maintenance expense of \$7,873. A review of the supporting invoices revealed that this amount included \$1,413 of prior period expenditures. Therefore, staff has reduced this test period expense by \$1,413 to \$6,460.

Depreciation Expense

Beckley Station proposed a pro forma depreciation expense of \$13,385. This expense reflects only depreciation on the non-contributed portion of the recent construction project and does not include \$9,222¹ of allowable depreciation on existing plant in service, therefore staff has increased the pro forma depreciation expense by this amount.

SUMMARY OF STAFF RECOMMENDATIONS

Based on the recommendations proposed by the staff in this report, Beckley Station's balance sheet and income statement are as follows:

¹	Staff Adjusted Plant In Service	\$604,571
	Less: STP Expansion #3 Included	59,820
	Contribution in Aid of Construction	<u>360,304</u>
	Adjusted Depreciable Plant	\$184,447
	Depreciation Rate	5%
	Depreciation Expense	<u>\$ 9,222</u>

BECKLEY STATION DISPOSAL SYSTEMS, INC.
BALANCE SHEET
DECEMBER 31, 1985

	Application	Staff Adjustments	Staff Recommended
ASSETS			
Plant In Service	\$ 221,257	\$ 383,314 ²	\$ 604,571
Less Accum. Dep.	26,629	84,474 ³	111,103
Net Plant In Service	\$ 194,257	\$ 298,840	\$ 493,468
Notes Receivable From Assoc. Companies	213,630		213,630
Other Current and Accrued Assets	100		100
TOTAL ASSETS	\$ 408,358	\$ 298,840	\$ 707,198
LIABILITIES AND EQUITY			
<u>Liabilities</u>			
Notes Payable	\$ 340,000		\$ 340,000
Accounts Payable to Assoc. Companies	28,000		28,000
Notes Payable to Assoc. Companies	68,245		68,245
Interest Accrued	1,889		1,889
Other Current and Accrued Liabilities	3,539		3,539
Sub total	\$ 441,673		\$ 441,673
Contributions In Aid of Construction	-0-	360,304	360,304
<u>Equity</u>			
Common Capital	\$ 100		\$ 100
Retained Earnings	<33,415>	\$ <61,464>	\$ <94,879>
TOTAL LIABILITIES AND EQUITY	\$ 408,358		\$ 707,198

² 1981 Annual Report, page 2. \$458,324 - \$75,010 purchase price of the systems = \$383,314.

³ Est. Cost of Collection lines: \$210,000 taken from Case No. 7597.

Collection Lines	\$210,000 @ 2% dep. rate =	\$ 4,200
Other Plant	\$248,324 @ 5% dep. rate =	12,416
	Total Yearly depreciation expense	\$16,616
	1982 - 1985 inclusive	4 yrs
	Total additional accumulated dep.	\$66,464

Total additional accumulated dep. of \$66,464 plus \$24,677 accumulated depreciation from 1981 annual report less \$6,667 accumulated depreciation from the 1982 annual report = \$84,474

BECKLEY STATION SYSTEMS, INC.
PRO FORMA INCOME STATEMENT

ACCOUNT	Beckley Station <u>Pro Forma</u>	<u>Staff Adjustments</u>	<u>Staff Adjusted</u>
OPERATING REVENUES	\$ 93,840 ⁴	\$ -0-	\$ 93,840
OPERATING EXPENSES			
Electric	\$ 29,983		\$ 29,983
Water	3,274		3,274
Operation	4,800		4,800
Repairs and Maint.	9,000	<1,413>	7,587
Sludge Hauling	7,680		7,680
Chemicals and Supplies	2,050		2,050
Testing	600		600
Insurance	400		400
Accounting Fees	1,500		1,500
Engineering Fees	667		667
Legal Fees	1,167		1,167
Health Dept. Fees	700		700
Billing and Collecting	3,291		3,291
Property Tax and Licenses	2,400		2,400
Office Rent	600		600
Telephone	228		228
Printing	300		300
Management Fee	1,800		1,800
Depreciation	13,385	\$ 9,222	22,607 ⁵
	<u>\$ 83,825</u>	<u>\$ 7,809</u>	<u>\$ 91,634</u>
Operating Income before Interest Expense and Taxes	\$ 10,015		\$ 2,206
Interest Expense	<u>17,181</u>		<u>17,181</u>
Net Income <Loss> before Taxes	\$ <7,166>	\$ <7,809>	\$ <14,975>

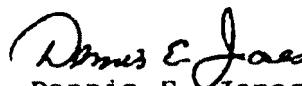
⁴ Current rates of \$10/mo. X 782 customers = \$93,840

⁵ For reporting purposes only Beckley Station would calculate depreciation expense inclusive of contributed property. Depreciation expense reflected above is for rate-making purposes.

REVENUE REQUIREMENT

Beckley Station's adjusted operations result in a negative operating ratio and staff is of the opinion that this is neither fair, just nor reasonable as required by KRS 278.030. The increased revenues requested by Beckley Station result in an operating ratio of $.93X^6$ after consideration of interest expense and taxes. Staff is of the opinion that this coverage meets the above requirements since it provides sufficient revenues to satisfy the operating expenses recommended in this report and allows for reasonable equity growth. Therefore, staff recommends that Beckley Station be allowed to increase its revenues on an annual basis by \$24,191 when operating at full capacity.

Submitted By:



Dennis E. Jones
Public Utilities Financial
Analyst, Chief

⁶ (Operating Expenses of \$91,634 plus taxes of \$1,862) ÷ (Gross revenues of \$118,031 less \$17,181 interest expense) = .93.