

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN UTILITIES, )  
INC., FOR: 1) ORDER AUTHORIZING A )  
RATE INCREASE; 2) INTERIM ORDER TO )  
IMMEDIATELY IMPLEMENT ITS PROPOSED )  
RATES ON AN EMERGENCY BASIS )  
PURSUANT TO KRS 278.190; 3) ORDER )  
APPROVING BORROWING \$162,000 FROM ) CASE NO. 9546  
THE COMMONWEALTH OF KENTUCKY, )  
DEPARTMENT OF LOCAL GOVERNMENT; )  
4) ORDER AUTHORIZING A CERTIFICATE )  
OF CONVENIENCE AND NECESSITY TO )  
RECONSTRUCT THE TOM'S CREEK AREA OF )  
THE SYSTEM )

O R D E R

On October 30, 1986, the Commission issued its Final Order in this proceeding wherein it granted Mountain Utilities, Inc., ("Mountain") additional revenues of \$34,710, approved the financing arrangements, and granted a certificate of public convenience and necessity. On November 19, 1986, Mountain filed for rehearing on the following issues: 1) Pratt Judgment; 2) the two bank loans; 3) transportation expense; 4) insurance expense; 5) franchise tax expense; 6) customer deposits; 7) reference to imprudent management; and 8) uses of the margin above operating costs and interest payments.

Following are the Commission's findings regarding Mountain's petition for rehearing:

### Pratt Judgment

Mountain requested in its petition that an Order be issued reversing the finding in Case No. 8425<sup>1</sup> and the finding in the Final Order of this proceeding that the stockholders are in any way liable to the company for the repayment of the Pratt Judgment. In addition, Mountain requested that the interest income resulting from the Pratt Judgment payments be eliminated for rate-making purposes because it was arbitrarily calculated by the Commission.

The Commission will allow rehearing on the Pratt Judgment issues to afford Mountain the opportunity to present evidence as to why the customers must bear the expenses associated with the Pratt Judgment.

### Bank Loans and Imprudent Management

Mountain requested rehearing on the Commission's treatment of the bank loans and rehearing on the statement regarding "imprudent management" in the Final Order. The Commission will grant rehearing to allow Mountain the opportunity to provide additional evidence on these issues.

### Transportation Expense

In its petition, Mountain contended that the capitalization of \$711 of repair expenses to company vehicles is inappropriate as the company leases the vehicles. In addition, Mountain claimed

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<sup>1</sup> Case No. 8425, Application of Mountain Utilities, Inc., for a Rate Increase and Authority to Borrow Certain Amounts to Apply on Its Current Indebtedness, Final Order entered July 6, 1982.

that the Commission erred by not allowing the resulting \$237 depreciation expense.

The Commission continues to be of the opinion that these repairs are not annual expenses and should, therefore, be capitalized and depreciated over 3 years to reflect normal operating conditions for rate-making purposes. The Commission had allowed the \$237 depreciation expense in its total depreciation expense adjustment of \$1,186 in the Final Order.

The Commission, therefore, denies rehearing on this issue.

#### Insurance Expense and Franchise Tax

In its petition Mountain requested that the proposed insurance expense adjustment be included in the determination of revenue requirements.

The Commission stated in the Final Order that Mountain's proposed adjustments were generally proper and acceptable for rate-making purposes, with some modifications. The proposed insurance expense adjustment and the proposed franchise tax adjustment were accepted as proposed and included in the revenue requirements determination and thus not discussed in the Final Order.

The Commission, therefore, denies rehearing on these issues.

#### Customer Deposits

Mountain requested in its petition that ordering paragraph nos. 7, 8 and 9 be eliminated from the Final Order. Paragraph no. 7 orders Mountain to recalculate customer deposits pursuant to 807 KAR 5:006, Section 7(1). The Commission is of the opinion that this paragraph should be amended to order Mountain to notify its

customers that residential deposits retained for more than 18 months will be recalculated based on actual usage upon the customer's request.

Paragraph 8 orders Mountain to immediately begin paying interest annually on customer deposits as required by KRS 278.460. It is the Commission's opinion that this paragraph should be amended to order Mountain to immediately begin to pay or credit interest annually on customer deposits.

Paragraph 9 orders Mountain to file information with the Commission relating to how Mountain proposes to refund to its customers the interest on their deposits that have not been paid. In order to clarify the intent of the paragraph, the Commission will amend the paragraph to order Mountain to identify and locate all customers that have received deposit refunds and remit to those customers the applicable interest accrued on the funds for the period the deposits were held.

In addition, the Commission is of the opinion that Mountain must notify its customers that deposits plus accrued interest will be refunded upon request after termination of service.

#### Uses of the Margin Above Operating Costs and Interest Payments

The Commission cautioned Mountain in the Final Order that the margin above operating costs and interest payments is not intended to be used for the purposes of payment of extraordinary dividends nor for additional increases in salaries to stockholders employed in company operations. Mountain stated in its petition that it is discriminatory and unreasonable for the Commission to limit increases in salaries to employed stockholders as long as the

raise is not excessive or abusive. It is the Commission's opinion that the employed stockholders are adequately compensated and given the financial condition of Mountain, no increases in the salaries of the owners of the company are warranted.

The Commission, therefore denies rehearing on this issue.

#### SUMMARY

The Commission, after consideration of the petition for rehearing, the record in Case No. 9546, and being otherwise advised, is of the opinion and finds that:

1. Mountain should be granted rehearing on the issues of the Pratt Judgment, the bank loans, and the reference to "imprudent management."

2. Rehearing should be denied on the issues of transportation expense, insurance expense, franchise tax expense and the uses of the margin above operating costs and interest payments.

3. Ordering paragraph no. 7 in the Final Order in this proceeding should be amended to order Mountain to notify its customers that residential deposits retained for more than 18 months will be recalculated based on actual usage upon the customer's request.

4. Ordering paragraph no. 8 in the Final Order in this proceeding should be amended to order Mountain to immediately begin to pay or credit interest annually on customer deposits.

5. Ordering paragraph no. 9 in the Final Order in this proceeding should be amended to order Mountain to identify and locate all customers that have received deposit refunds and remit

to those customers the applicable interest accrued on the funds for the period the deposits were held.

6. Mountain should notify its customers that deposits plus accrued interest will be refunded upon request after termination of service. Within 10 days of the date of notification, Mountain should file with the Commission a copy of the notification, the date the notifications were made, and the number of notifications.

IT IS THEREFORE ORDERED that:

1. Mountain is hereby granted rehearing on the issues of the Pratt Judgment, the bank loans, and the reference to "imprudent management."

2. Rehearing is hereby denied on the issues of transportation expense, insurance expense, franchise tax expense and the uses of the margin above operating costs and interest payments.

3. Ordering paragraphs nos. 7, 8 and 9 in the Final Order are hereby amended as follows:

7. Mountain shall notify its customers that residential deposits retained for more than 18 months will be recalculated based on actual usage upon the customer's request.

8. Mountain shall immediately begin to pay or credit interest annually on customer deposits.

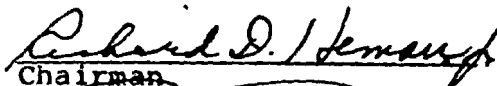
9. Within 30 days of the date of this Order, Mountain shall identify and locate all customers that have received deposit refunds and remit to those customers the applicable interest accrued on the funds for the period the deposits were held.

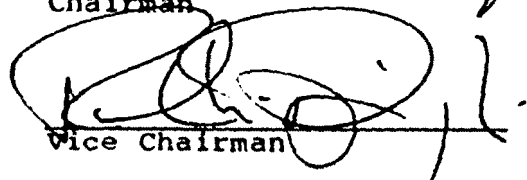
4. Within 30 days of the date of this Order, Mountain shall notify its customers that deposits plus accrued interest

will be refunded upon request after termination of service. Within 10 days of the date of notification, Mountain shall file with the Commission a copy of the notification and the date of the notification.

Done at Frankfort, Kentucky, this 9th day of December, 1986.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director