

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR RATE ADJUSTMENT)
BEFORE THE PUBLIC SERVICE COMMISSION)
OF KENTUCKY FOR SMALL UTILITIES) CASE NO. 9572
PURSUANT TO 807 KAR 5:076 OF JOANN)
ESTATES UTILITIES, INC.)

O R D E R

On May 5, 1986, Joann Estates Utilities, Inc., ("Joann Estates") filed its application seeking to increase its rates for sewer service pursuant to 807 KAR 5:067, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates represent an average increase of 47 percent in the residential rates currently being charged and would generate additional revenues of \$6,192. Based on the findings herein, the Commission has allowed an increase of \$2,330 in annual revenues which represents an average increase of 17.6 percent in residential rates currently being charged.

A hearing was not requested in this matter and in accordance with the provisions of the ARF no hearing was conducted. The decision of the Commission is based on information contained in the application, annual reports, and other documents on file in the offices of the Commission.

PLANT VALUATION

Joann Estates reported gross utility plant at December 31, 1985, of \$122,152. Research of prior Orders for this utility

revealed authorized construction totaling \$426,366. Joann Estates should review and therefore adjust its records to appropriately reflect the actual balance for plant in service.

Furthermore, Joann Estates showed no balance for contributions in aid of construction at the end of 1985. Research of prior Orders for this utility revealed that all investment in utility plant was to be recouped through the sale of lots by the developer, B.G. Waid. According to the Uniform System of Accounts ("USoA"), this account shall include donations made to the utility. Accordingly, contributions in aid of construction should be adjusted by Joann Estates to properly reflect the balance in this account.

REVENUES AND EXPENSES

Joann Estates chose the 12-month test period ending December 31, 1985, which the Commission accepts for rate-making purposes, showing a net operating income of \$2,261. Joann Estates proposed several adjustments to test period operations, which have been accepted by the Commission, with the following exceptions:

Loan and Note Repayments

Joann Estates proposes to amortize certain loans made to the utility. The first was for \$5,713, which Joann Estates proposed to amortize over 3 years, made by B.G. Waid, the owner and developer, and dated December 31, 1983. The second was for cumulative expenses from 1981-1985 paid by parties other than the utility. Joann Estates has stated that this was not an actual loan, but should have been. This totaled \$11,671, and Joann Estates has proposed amortization over 5 years. The third,

\$4,500, was stated to have been erroneously reported as tap-on fees by Joann Estates. Joann Estates has stated this was a loan from Mr. Waid and has proposed amortization over 3 years.

There are several considerations to be made for proposals of this type. First, Joann Estates has stated that all three loans were made to cover normal operation and maintenance expenses. Joann Estates failed to request rate relief as it should have when it became apparent that the rates were deficient. Instead, it chose other means to pay the expenses and delay recovery. Furthermore, the Commission does not allow prior period expenses to be borne by present and future ratepayers. To do so would constitute retroactive rate-making and would not be consistent with previous decisions by the Commission in this regard.

The Commission will allow the \$1,810 as normal operating and maintenance expense for 1985 which was paid by other parties; however, the Commission strongly advises Joann Estates to seek rate relief when it becomes necessary. When a utility begins to pay its expenses from another's account, it may not be construed to be an arms-length transaction and may be denied by the Commission.

The Commission has therefore denied the amortization of these loans and accordingly reduced amortization expense by \$5,738.

Billing and Collection

Joann Estates has changed its method of billing and collection which is now provided by Paducah Water Works. The charge is based on 10 percent of the bill or \$1.00, whichever is greater. As a result, once the rate exceeds \$10.00 an increase in

the rate will produce an increase in billing and collection service fees. The Commission considers this relationship undesirable and advises Joann Estates to reevaluate its agreement with Paducah Water Works and negotiate a more appropriate, possibly fixed, rate for these services.

Therefore, the test period income statement of Joann Estates has been adjusted by the Commission as follows:

	<u>Joann Estates Test-Period Pro Forma</u>	<u>Inc. <Dec.> Commission Adjustment</u>	<u>Commission Adjusted</u>
Operating Revenue	\$13,157	-0-	\$13,157
Operating Expense	19,466	<\$5,738>	13,728
Operating Income <Loss>	<u><\$ 6,309></u>	<u>\$5,738</u>	<u>\$ <571></u>

REVENUE REQUIREMENT

The Commission is of the opinion that the operating ratio is a fair, just, and reasonable method for determining revenue requirements in this case and finds that an operating ratio of 88 percent will allow Joann Estates to pay its operating expenses and provide a reasonable return to its owners. The Commission therefore finds that Joann Estates is entitled to an increase in revenues of \$2,330 annually to produce gross revenues of \$15,688.

SUMMARY

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

1. Joann Estates should follow the USoA as prescribed by the Commission for Class C and D Sewer Utilities.

2. The rates proposed by Joann Estates would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

3. The rate in Appendix A is the fair, just and reasonable rate to charge for sewer services rendered to Joann Estates' customers.

IT IS THEREFORE ORDERED that:

1. Joann Estates shall follow the USoA as prescribed by the Commission for Class C and D Sewer Utilities.

2. The rates proposed by Joan Estates be and they hereby are denied upon application of KRS 278.030.

3. The rates in Appendix A be and they hereby are approved for sewer service rendered by Joann Estates on and after the date of this Order.


4. Within 30 days of the date of this Order, Joann Estates shall file its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 22nd day of August, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9572 DATED AUGUST 22, 1986.

The following rates and charges are prescribed for the customers in the area served by Joann Estates, Inc. 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.

Rates: Monthly

Single Family Residential	\$10.00
Multi-Family (per dwelling unit)	7.50