

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION FOR RATE ADJUSTMENT)
OF ERI-GEK TREATMENT PLANT PURSUANT)
TO THE ALTERNATIVE RATE FILING) CASE NO. 9647
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On July 22, 1986, ERI-GEK Sewer Treatment Plant ("ERI-GEK") filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation permits utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method 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 minimizes rate case expenses to the utility and, therefore, results in lower rates to the ratepayers.

The only intervenor in this matter was Halfmoon Apartments. There were no information requests issued or hearings held.

ERI-GEK requested rates which would produce an annual increase of \$1,593 on a test year basis. In this Order, the Commission has disallowed the requested increase.

TEST PERIOD

ERI-GEK has proposed and the Commission has accepted the 12-month period ending December 31, 1985, as the test period in this matter.

REVENUE AND EXPENSES

ERI-GEK reported a net operating gain of \$7,186 for the test period. ERI-GEK proposed numerous pro forma adjustments to test period operating revenues and expenses which resulted in a net operating income of \$5,203 exclusive of the proposed revenue increase of \$1,593. The Commission has accepted ERI-GEK's pro forma revenues and expenses with the following exceptions:

Revenue Normalization

ERI-GEK reported test period operating revenues in the amount of \$55,037. The Commission annualized the bi-monthly billing analysis filed by ERI-GEK to arrive at normalized operating revenues of \$55,890. The Commission has, therefore, adjusted test period operating revenues by \$853.

Owner/Manager-Management Fee

ERI-GEK proposed a pro forma adjustment of \$600 to test period owner/manager-management fee expense for an adjusted level of \$2,400. The Commission has found in prior cases that \$150 per month is the fair, just and reasonable compensation for the manager's fee of utilities of this size and is comparable to the salaries being paid to managers of similarly-sized utilities under its jurisdiction. Therefore, the Commission has disallowed the proposed adjustment of \$600 to the owner/manager-management fee.

Interest Expense

ERI-GEK proposed a pro forma interest expense level of \$3,566 to be included in its test period operating expenses. It is the practice of this Commission not to include interest expense in operating expenses, but to include it in the computation of net

income as a below-the-line expense. Thus, test period operating expenses have been reduced by interest expense in the amount of \$3,566.

Other Adjustments

ERI-GEK has proposed numerous other pro forma adjustments containing both increases and decreases to test period operating expenses. Under normal rate-making procedures the Commission would review each adjustment independently to ascertain its reasonableness. However, in this instance this review was not completed since the net effect of ERI-GEK's remaining pro forma adjustments was only \$1,810.¹ Therefore, the inclusion of ERI-GEK's proposed adjustments has little effect upon the Commission's final revenue requirement calculation. Although ERI-GEK's remaining pro forma adjustments have not been changed the Commission advises ERI-GEK that this does not mean it has granted approval or acceptance of ERI-GEK's proposed adjustments if presented under different circumstances.

1	Operating Expenses:	<u>Adjustments</u>
	Sludge hauling	\$ 1,544
	Fuel and power	1,446
	Chemicals	579
	Testing	610
	Maintenance	508
	Agency collection fee	31
	Outside services employed	50
	Depreciation	(120)
	Amortization of rate case costs	(1,600)
	Property taxes	48
	Property taxes on real estate used as collateral for sewer plant loans	71
	PSC assessment	7
	Permits-Dept. of Health	(1,400)
	Discounts taken	36
	Total Effect of Adjustments	<u>\$ 1,810</u>

Therefore, ERI-GEK's test period operations have been adjusted as follows:

	<u>ERI-GEK Adjusted Operations</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$55,037	853	\$55,890
Operating Expenses	<u>49,834</u>	<u><4,166></u>	<u>45,668</u>
Operating Income	\$ 5,203	\$5,019	\$10,222
Interest Expense	<u>-0-</u>	<u>3,566</u>	<u>3,566</u>
Net Income <Loss>	<u>\$ 5,203</u>	<u>\$1,453</u>	<u>\$ 6,656</u>

REVENUE REQUIREMENTS

The Commission has used the operating ratio method as the basis in determining sewer rates in the past and has found it to be a fair, just and reasonable method to both the utility and its customers. Prior to the calculation of ERI-GEK's operating ratio operating revenues have been reduced by interest expense.² The Commission's adjusted operations provide ERI-GEK an operating ratio of 87.3³ percent. The Commission is of the opinion that a ratio of 87.3 percent is a fair, just and reasonable operating ratio in that it will enable ERI-GEK to pay its operating expenses and provide an adequate debt service coverage with a reasonable return to its owners. Therefore, the Commission finds that ERI-GEK is not entitled to the revenue increase requested.

² \$55,890 - \$3,566 = \$52,324

³ \$45,668 ÷ \$52,324 = 87.3%

FINDINGS AND ORDERS

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

1. The rates proposed by ERI-GEK will produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

2. The rates of ERI-GEK in effect under authority of the Commission prior to this date should continue in effect.

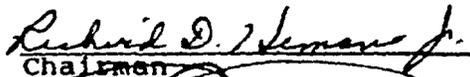
IT IS THEREFORE ORDERED that:

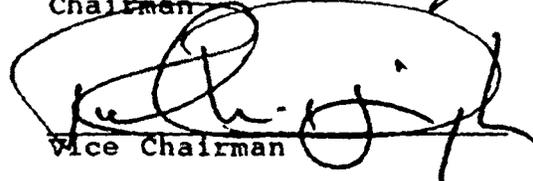
1. The rates requested by ERI-GEK be and they hereby are denied.

2. The rates of ERI-GEK in effect under authority of the Commission prior to this date shall continue in effect.

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

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director