

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF M.O.S.T., INC.        )  
TO TRANSFER THE LAND AND PHYSICAL        )  
ASSETS OF THE HEATHER HILLS SEWAGE        ) CASE NO. 9698  
TREATMENT SYSTEM IN OLDHAM COUNTY,        )  
KENTUCKY, TO HEATHER HILL SEWAGE        )  
TREATMENT PLANT, INC.                    )

O R D E R

On September 29, 1986, M.O.S.T., Inc., ("MOST") filed an application for authority to transfer the land and physical assets of the Heather Hills Sewage Treatment System ("System") to Heather Hill Sewage Treatment Plant, Inc. ("Heather Hill"). Therein were filed Heather Hill's articles of incorporation, a contract of sale setting a purchase price of \$3,000 and the adoption notice wherein Heather Hill agrees to adopt the tariffs of MOST as its own.

On October 7, and November 11, 1986, the Commission issued Orders requiring additional information from MOST and Heather Hill. The information has been submitted and, along with the original application, constitutes the record on which the Commission's decision in this matter is based.

FINDINGS

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

1. Heather Hill is ready, willing and able to acquire the land and physical assets of the System and provide adequate and reliable service to the customers formerly served by MOST.

2. The owners of MOST are ready and willing to sell inasmuch as they wish to divest themselves of the ownership and operation of the System.

3. The quality of service to the present customers of MOST will not suffer in that Heather Hill will employ F & W Operations, which has knowledge and experience in the operation and maintenance of sewage treatment facilities, to operate the system.

4. The agreed-upon purchase price is \$3,000 which was determined through negotiations between MOST and Heather Hill.

5. Heather Hill has filed with the Commission its articles of incorporation and its notice of adoption of MOST's current tariffs.

6. Heather Hill should maintain its books of account in accordance with the Uniform System of Accounts for Sewer Utilities ("USoA") prescribed by this Commission. Accounting for an acquisition includes:

- a. Recording the utility plant acquired at its original cost, estimated if not known, to the person first devoting it to public service in the appropriate utility plant in service accounts.
- b. Crediting the accumulated provision for depreciation and amortization applicable to the original cost of the properties acquired to the appropriate account for accumulated depreciation and/or amortization.
- c. Transferring the cost of any non-utility property to Account No. 121 - Non-utility Property.

- d. Crediting contributions in aid of construction, estimated if not known, to Account No. 271 - Contributions in Aid of Construction.
- e. Including in Account No. 108 - Utility Plant Acquisition Adjustment, any difference between the purchase price and the original cost of the utility plant less the amounts credited to accumulated depreciation and amortization reserves or contributions in aid of construction.
- f. The offsetting account for each of these entries is Account No. 106 - Utility Plant Purchased or Sold.

7. In this instance the proper journal entries to record this transaction in accordance with Utility Plant Instruction No. 4 of the USoA are as follows:

	<u>Debit</u>	<u>Credit</u>
Plant Purchased or Sold <sup>1</sup>	\$ 3,000	
Common Stock		\$ 3,000
Utility Plant in Service	347,355	
Plant Purchased or Sold		347,355
Plant Purchased or Sold	26,471	
Accumulated Depreciation		26,471
Plant Purchased or Sold	138,600	
Contributions		138,600
Plant Purchased or Sold	179,284	
Plant Acquisition Adjustment		179,284

8. For accounting purposes, the assets being transferred have been "under-depreciated" since the system began operations in

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<sup>1</sup> For explanation of these amounts, see Appendix A attached to this Order.

1973. For accounting purposes only, Heather Hill shall depreciate the remaining utility plant of \$320,884 (\$347,355 original plant less \$26,471 accumulated depreciation) using a straight-line method over a remaining life of 15 years.

9. The credit balance of \$179,284 in Account No. 108 - Utility Plant Acquisition Adjustments should also be amortized over the remaining life of 15 years by a credit to Account No. 406, Amortization of Utility Plant Acquisition Adjustments.

10. For rate-making purposes, the Commission will allow a recovery only of the investment made by Heather Hill. The depreciation and amortization addressed in Findings Nos. 8 and 9 shall not be reflected for rate-making purposes.

11. Heather Hill should adopt as its own the tariffs MOST has on file with the Commission and shall file its tariff sheets within 30 days of the date of this Order.

12. Heather Hill, or Heather Hill and MOST, should file a 1986 Annual Report with the Commission reflecting 12 months operation of the sewage treatment system along with the balance sheet changes prescribed herein.

IT IS THEREFORE ORDERED that:

1. The transfer of the System from MOST to Heather Hill be and it hereby is approved.

2. The transfer shall be recorded on the books of Heather Hill in accordance with Findings Nos. 6 and 7 herein.

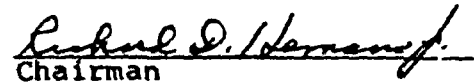
3. In future rate cases the recovery of investment in the System shall be limited as set out in Finding No. 10.

4. Within 30 days of the date of this Order Heather Hill shall file with the Commission its tariff sheets reflecting the rates, rules and regulations in effect for MOST immediately preceding the transfer.

5. Upon receipt of the appropriate reporting forms, Heather Hill shall complete and file with the Commission its annual report of the operations of the System for the 12 months ended December 31, 1986.

Done at Frankfort, Kentucky, this 23rd day of December, 1986.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Executive Director

APPENDIX A

TO AN ORDER OF THE COMMISSION IN  
CASE NO. 9698 DATED 12/23/86

The amount included in the journal entries required of Heather Hills Sewage Treatment Plant, Inc., were derived as follows:

1. \$3,000 for common stock - from the response to Item No. 4 of the Commission's Order of October 7, 1986.
2. \$347,355 utility plant in service - \$345,000: the original cost from the response to a hearing request in Case No. 8512. \$2,355 added by MOST to the sewage treatment system in 1984.
3. \$26,471 for accumulated depreciation - the sum of \$19,988 reflected in the response referenced in Item No. 2 above as accumulated depreciation at June 30, 1982, and \$6,483 accumulated depreciation reported by MOST at December 31, 1985 (the Commission recognizes there may be need to adjust this amount to reflect depreciation accrued since December 31, 1985).
4. \$138,600 for contributions in aid of construction - from the response referenced in Item No. 2 above which shows \$1,800 contributed by each of 77 customers.
5. \$179,284 for utility plant acquisition adjustment - the remaining balance from the four preceding entries. (This could change pending adjustment to Entry No. 4).

The resulting balance sheet would be as follows:

Assets and Other Debits

Utility Plant in Service	\$ 168,071 <sup>1</sup>
Less: Accumulated Depreciation	<u>26,471</u>
Net Utility Plant	<u>\$ 141,600</u>
 Total Assets and Other Debits	 <u>\$ 141,600</u>

Liabilities and Other Credits

Common Capital Stock	\$ 3,000
Contributions in Aid of Construction	<u>138,600</u>
Total Liabilities and Other Credits	<u>\$ 141,600</u>

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<sup>1</sup> Plant in Service of \$347,355 netted against Plant Acquisition Adjustment credit balance of \$179,284.