

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SCHMIDT, INC.,)
D/B/A PLEASANT VIEW SUBDIVISION, FOR)
A RATE ADJUSTMENT PURSUANT TO THE) CASE NO. 10050
ALTERNATIVE RATE FILING PROCEDURE)

O R D E R

On October 7, 1987, Schmidt, Inc., ("Schmidt") filed an application with the Commission seeking to increase its rate from \$12 per month to \$20 per month pursuant to the Alternative Rate Filing Procedure for Small Utilities. The proposed rate would generate an additional \$9,600 in revenues on an annual basis.

The Commission received letters protesting Schmidt's proposed increase from 68 of Schmidt's customers. Mr. Monte Nesmith, who agreed to act as spokesman for the customers, was granted limited intervention. The Attorney General of the Commonwealth of Kentucky, through his Utility and Rate Intervention Division, also intervened in this proceeding.

On November 17-18, 1987, the Commission Staff conducted a field review of Schmidt's test period financial records. On January 12, 1988, the Staff issued a report containing its recommendations for a \$5,705 increase in revenues. On February 10, 1988, Schmidt filed a response to the Staff report in which it explained its disagreement with some of the report's findings and recommendations.

A public hearing in this matter was held at the Commission's offices in Frankfort, Kentucky, on March 2, 1988. Subsequent to the hearing, the Commission requested additional information of Schmidt, all of which has been filed.

Schmidt's major objection to the Staff's report involved maintenance expenses, both routine and non-routine. In its report, Staff recommended no allowance for routine maintenance because Schmidt had provided no support for its proposed adjustment. In its response to the Staff report, Schmidt revised its requested allowance for routine maintenance services. By letter dated February 17, 1988, Staff requested Schmidt to provide a detailed description of services performed on a typical day and the amount of time required for such services. As a result of Schmidt's response filed February 23, 1988, the Commission is of the opinion that the revised proposal of \$3,380 annually for routine maintenance services be accepted for rate-making purposes as it is a reasonable amount and has been adequately supported.

Subsequent to the hearing, Staff requested Schmidt, by letter dated March 4, 1988, to provide a breakdown of maintenance expenses for 1987 and to indicate how much of the amounts paid to Tom Baskett in 1986 were for routine maintenance services.

In its response filed March 11, 1988, Schmidt's breakdown of 1987 maintenance expenses showed that Mr. Baskett was paid \$1,716 for providing services of a non-routine nature and in 1986 he had been paid \$3,565 for all maintenance services he performed. Schmidt stated it did not know what portion of the latter expense had been for routine maintenance services. According to the

application, Susan Schmidt performed the routine maintenance services during the test year. However, Mr. Baskett did perform some of that work. According to Schmidt's response to Staff's information request of February 17, 1988, filed February 23, 1988, Michael Schmidt, a licensed operator, was responsible for all routine maintenance service in 1987. Therefore, the Commission is no longer concerned that Susan Schmidt is not a licensed operator as she is no longer responsible for providing routine maintenance services.

The Commission is of the opinion that the amount paid to Mr. Baskett in 1987 for non-routine maintenance work is more representative of normal operations and since Mr. Baskett has and is continuing to provide maintenance services of a non-routine nature, the Commission has included an allowance of \$1,716 rather than \$3,565 paid during the test year, for these services. The two adjustments made herein, an increase of \$3,380 for routine maintenance expense and a decrease of \$1,849 for non-routine maintenance expense, result in an overall increase to maintenance expense of \$1,531.

Using the 88 percent after-tax operating ratio applied to the adjusted test-year operating expense of \$19,277¹ results in a total revenue requirement of \$22,465. The Commission, therefore,

¹ Adjusted test-year operating expense per staff report	\$17,746
Add: Increase approved herein	<u>1,531</u>
	<u>\$19,277</u>

finds that an annual increase of \$7,488 over reported test-year flat rate revenues of \$14,977 should be allowed.

RATE DESIGN

In its application Schmidt proposed an increase of 66.7 percent above its present flat rate. In its report the Staff recommended an increase of approximately 43.7 percent. The Commission is of the opinion that the rate granted in this case should reflect the revenue requirement allowed in this Order and an increase of approximately 56.3 percent. Therefore, the rate in Appendix A is fair, just and reasonable, and should produce revenues sufficient to cover Schmidt's operating expenses.

FINDINGS AND ORDERS

1. The rate in Appendix A is the fair, just and reasonable rate to be charged by Schmidt in that it should produce annual revenues of \$22,465.

2. Within 30 days of the date of this Order, Schmidt should file with this Commission its revised tariff setting out the rate approved herein.

3. The Commission affirms that portion of the Staff's report issued in this proceeding not specifically revised herein.


IT IS THEREFORE ORDERED that:

1. The rate in Appendix A is the fair, just and reasonable rate to be charged by Schmidt for service rendered on and after the date of this Order.

2. Within 30 days of the date of this Order, Schmidt shall file with this Commission its revised tariff setting out the rate approved herein.

Done at Frankfort, Kentucky, this 8th day of April, 1988.

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. 10050 DATED April 8, 1988

The following rate is prescribed for the customers in the area served by Schmidt, Inc., d/b/a Pleasant View Subdivision. 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.

Flat Rate

\$18.75