

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PARADISE VALLEY SEWAGE PLANT, INC.,)
FOR AN ORDER PURSUANT TO CHAPTER 278)
OF THE KENTUCKY REVISED STATUTES)
AUTHORIZING AND PERMITTING AN)
ADJUSTMENT IN RATES FOR THE EXISTING) CASE NO. 10108
SEWAGE TREATMENT PLANT SERVING)
PARADISE VALLEY SUBDIVISION AND)
PARADISE ACRES, JOHNSON COUNTY,)
KENTUCKY)

O R D E R

On December 14, 1987, Paradise Valley Sewage Plant, Inc., ("Paradise") filed an application with the Commission seeking to increase its rate from \$8.50 to \$38.60 per month pursuant to the Alternative Rate Filing ("ARF") Procedure for Small Utilities. The proposed rate would generate approximately \$5,779 annually in additional revenues.

The Commission received letters protesting Paradise's proposed increase from several of Paradise's 16 customers, 4 of whom were granted limited intervention. The Attorney General ("AG") of the Commonwealth of Kentucky, through his Utility and Rate Intervention Division, also intervened in this proceeding.

On February 2, 1988, the Commission Staff ("Staff") conducted a field review of Paradise's test period financial records. On March 1, 1988, Staff issued a report containing its recommendations for a \$3,609 increase in revenues. On March 22,

1988, Paradise filed a response in which it accepted the findings and recommendations of the Staff Report.

A public hearing in this matter was held at the Commission's offices in Frankfort, Kentucky, on June 14, 1988. All requested information has been filed.

On June 21, 1988, the AG filed a memorandum which proposed a monthly rate of \$19.45 for Paradise. In the memorandum, the AG explained his disagreement with some of the Staff's recommendations. This Order will address only those recommended expense amounts with which the AG has taken exception.

Besides disagreeing with some of the Staff's recommendations on expenses, the AG asserts in the memorandum that under 807 KAR 5:076, the ARF procedure is inappropriate for Paradise based upon language under the "Necessity and Function" paragraph of that regulation. However, under Chapter 13A, Kentucky Revised Statutes, the "Necessity and Function" paragraph is a statement justifying the need for promulgating an administrative regulation and is not an operative part of the regulation itself. Since the ARF procedure was intended to simplify filing and reduce costs associated with rate cases, the Commission is of the opinion that a 16 customer utility must in all fairness be allowed to take advantage of this process.

The AG disagrees with Staff's recommended allowance of a \$500 annual management fee for Mr. Bocook, recommending in the alternative no allowance at all. As Mr. Bocook has assumed all burdens associated with regulatory compliance, including placing himself within the Commission's jurisdiction for the purposes of

KRS 278.990, the Commission is of the opinion that Mr. Bocook is entitled to a management fee. The Commission has allowed annual management fees of up to \$1,800 in numerous cases and, although Paradise Valley has a small number of customers, is of the opinion that an annual fee of \$500 is reasonable in this instance.

The AG disagrees with Staff's recommended allowance of \$500 annually for sludge hauling expense. In response to the AG's information request of May 17, 1988, Paradise submitted copies of invoices for sludge hauling. While the 1987 cost per load was \$125 compared to \$80 per load during the first 4 months of 1988, 6 loads were hauled during those 4 months. At that rate, 18 loads would be hauled annually at a total cost of \$1,440. The AG recommends allowing \$375 annually (five loads at \$75 per load) for sludge hauling expense. The Commission is of the opinion that \$500 is a reasonable allowance for sludge hauling expense.

The AG disagrees with Staff's recommended allowance of \$600 annually for routine maintenance services based upon a contention that Paradise's certified operator is not providing service sufficient to justify a \$50 per month fee. The AG recommends an allowance of \$25 per month. If Paradise's customers feel that service is inadequate or deficient, they should consider utilizing the Commission's formal complaint procedures consistent with KRS 278.260 and 807 KAR 5:001, Section 12. The Commission is of the opinion that an annual fee of \$600 for provision of routine maintenance services is a reasonable amount for rate-making purposes.

The AG disagrees with customer accounts expense of \$240 recommended in the Staff Report. As a result of Mr. Bocook's testimony at the hearing of June 14, 1988 regarding customer invoicing and his admission that no time is spent monthly preparing invoices, the Commission is of the opinion that the allowance of \$120 annually for this purpose included in the Staff Report should be excluded. Although Paradise annually issues coupon booklets containing invoices for an entire year to each of its customers, posting of customer payments must still be done. Therefore, customer accounts expense of \$120 has been included for rate-making purposes.

The AG disagrees with Staff's recommended allowance of \$300 annually for office supplies and other expenses. An annual allowance of \$300 amounts to a weekly allowance of \$5.77. The AG recommends an allowance of \$65 annually or \$1.25 weekly. Charges to this account include the cost of the aforementioned coupon booklets as well as stationary and postage. Furthermore, an employee of Mr. Bocook's engineering firm makes bank deposits, pays bills of the utility, and answers telephone calls regarding utility business. The Commission is of the opinion that an annual office supplies and other expenses allowance of \$300 is reasonable for rate-making purposes.

The adjustment made to customer accounts expense herein results in a reduction of \$120 to the test-year adjusted operating expense, including other interest expense, found reasonable in the Staff Report. Using the 88 percent after-tax operating ratio applied to the adjusted test-year operating expense of \$4,378

results in a total revenue requirement of \$5,102. The Commission accepts Staff's finding that an annual increase of \$3,470 over normalized test-year flat rate revenues of \$1,632 should be allowed.

FINDINGS AND ORDERS

1. The rate in Appendix A is the fair, just, and reasonable rate to be charged by Paradise in that it should produce annual revenues of \$5,102.

2. Within 30 days of the date of this Order, Paradise 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:

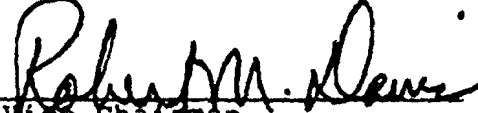
1. The rate in Appendix A is the fair, just, and reasonable rate to be charged by Paradise for service rendered on and after the date of this Order.

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

Done at Frankfort, Kentucky, this 22nd day of July, 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. 10108 DATED 7/22/88

The following rates and charges are prescribed for the customers in the area served by Paradise Valley Sewage Plant, 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.

Monthly Rate

All customers

\$26.60