

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WAVERLY)
SANITATION, INC. FOR A RATE)
ADJUSTMENT PURSUANT TO THE) CASE NO. 93-002
ALTERNATIVE RATE FILING PROCEDURE)
FOR SMALL UTILITIES)

O R D E R

Waverly Sanitation, Inc. ("Waverly Sanitation") is a small sewer utility which serves approximately 94 persons in Jefferson County, Kentucky. The utility has 21 customers - 20 four-plex apartment buildings and a 14 unit row house.

On January 4, 1993, Waverly Sanitation applied for a rate adjustment. It proposed new rates for sewer service which would generate additional annual revenues of \$3,367, or 20 percent above last-year revenues. The utility last applied for a rate adjustment in 1983.

After reviewing Waverly Sanitation's financial records, Commission Staff recommended that the utility be allowed to increase its normalized operating revenues by \$11,114, or 69.32 percent. On July 15, 1993, the Commission accepted this recommendation and ordered Waverly Sanitation to charge Commission Staff's recommended rates.

John Hegedus, a customer, subsequently intervened and requested rehearing. His request was granted and a formal evidentiary hearing was held on September 9, 1993. Hegedus alleges

five errors in the Commission's Order of July 15, 1993. Each alleged error is addressed below.

Sludge Hauling. During the test period (calendar year 1991), Waverly Sanitation incurred sludge hauling expense of \$580. Two loads of sludge were hauled from its sewage treatment plant at a cost of \$290 per load. In 1992 Waverly Sanitation hauled four loads of sludge at a cost of \$322.75 per load. To reflect the increase in number of loads and hauling rates which occurred in 1992, the Commission adjusted Waverly Sanitation's sludge hauling expense by \$711 to \$1,291.

Hegedus contends that the volume of sludge hauled did not increase and that the adjustment was unwarranted. He, however, failed to produce any evidence on the level of sludge produced by the plant or its sludge hauling practices. Moreover, he did not contest the accuracy of Waverly Sanitation's records or the appropriateness of its sludge hauling practices. Finally, given his lack of training, knowledge, and experience on the operation of sewage treatment plants, little weight can be afforded to Hegedus' opinion on the subject. The Commission finds no evidence to support any revision.

Road Maintenance. Waverly Sanitation's sewage treatment plant is accessible solely through a privately-owned road which Waverly Sanitation annually gravels and grades. In its Order of July 15, 1993, the Commission increased Waverly Sanitation's expense of \$400 to reflect this road maintenance.

Hegedus objects to the adjustment because Waverly Sanitation does not own the road and, therefore, has no obligation to maintain it. Accessibility to its sewage treatment plant, however, is a legitimate concern. Without proper road maintenance, Waverly Sanitation may be unable to gain access to its sewage treatment plant. Accordingly, the Commission finds that the expense was reasonable.

Interest Expense. When determining Waverly Sanitation's revenue requirement, the Commission considered interest on a promissory note issued to E-Z Construction Company for certain major repairs on the utility's sewage treatment plant. Contending that the repair work was not necessary and seriously damaged the sewage treatment plant, Hegedus objects to the inclusion of interest payments on this note.

The Commission finds no evidence in the record to support Hegedus' contention. Hegedus offers no evidence on the nature of the repair work nor why such work was improper or unnecessary. His admitted lack of experience and training with sewage treatment plant operation and maintenance further undercut his contention.

Poor Maintenance. Hegedus contends that Waverly Sanitation's sewage treatment plant is poorly maintained and frequently cited by various governmental agencies for poor maintenance and operation. This record, he further contends, mandates rejection of the rate increase.

The record, however, does not support Hegedus' contention. Recent Commission inspections indicate no major deficiencies.

While the Natural Resources and Environmental Protection Cabinet and the Louisville-Jefferson County Health Department have previously cited the utility for poor operating practices, the cited deficiencies were promptly corrected. No enforcement actions against the utility were pending as of September 9, 1993.

Assuming arguendo that the record supported Hegedus' contention, the Commission is prohibited from considering service-related issues when establishing utility rates. South Central Bell Tele. Co. v. Utility Regulatory Comm'n, Ky., 637 S.W.2d 649 (1982). Hegedus' objection, therefore, does not provide a sufficient basis for amending the July 15, 1993 Order.

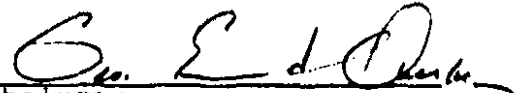
Management Fee. In its July 15, 1993 Order, the Commission adjusted Waverly Sanitation's level of test-year expense to provide for a \$2,400 owner/manager fee to compensate the utility owner for her labor and services. Objecting to the adjustment, Hegedus contends that any compensation should come solely from the utility's profits. The Commission disagrees. Waverly Sanitation is entitled to recover reasonable management expenses. It should not be subject to a penalty merely because its sole stockholder provides those services rather than employing others to perform them.

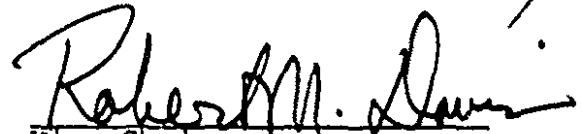
Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that its Order of July 15, 1993 should be affirmed.

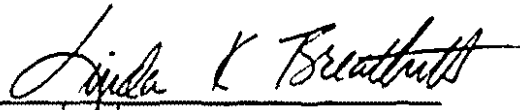
IT IS THEREFORE ORDERED that the Commission's Order of July 15, 1993 is affirmed.

Done at Frankfort, Kentucky, this 1st day of December, 1993.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director