

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HILLVIEW SEWER PLANT )  
#3, INC. FOR AN ADJUSTMENT OF RATES ) CASE NO.  
PURSUANT TO THE ALTERNATIVE RATE ) 99-067  
FILING PROCEDURE FOR SMALL UTILITIES )

O R D E R

On February 25, 1999, Hillview Sewer Plant #3 ( Hillview #3 ) filed its application for Commission approval of a proposed increase in sewer rates. Hillview #3 proposed a revenue requirement of \$157,281, an increase of \$100,581, or 177 percent, over normalized test year revenues of \$56,700.

On May 11, 1999, the Attorney General's Office of Rate Intervention ( Attorney General ) filed a motion to intervene in this proceeding. The motion was granted by the Commission on May 19, 1999. Intervention was also requested by and granted to James Harper and Kenneth Potts. In addition, numerous letters of protest were filed by customers of Hillview #3.

In April 1999, Commission Staff began a limited review of Hillview #3's financial records and issued a Staff Report on November 8, 1999. The Staff Report recommended that Hillview #3 be authorized an annual revenue requirement of \$84,393, which represents an increase of \$27,694, or 49 percent, over normalized test year revenues.

By Order dated November 8, 1999, the parties were advised to file comments on the Staff Report or to request a hearing or an informal conference within 10 days of the date of the Order or the case would stand submitted to the Commission for a decision.

Hillview #3 filed its response to the Staff Report on November 18, 1999, and requested an informal conference. The comments filed by Hillview #3 included invoices to support property and liability insurance expense in the amount of \$742.44 and rate case expenses totaling \$5,000.

The Commission is of the opinion that Hillview #3 should be allowed to recover these expenses through rates. Accordingly, insurance has been increased by \$481, to a level of \$742. Amortization expense has been increased by \$1,667 to allow for the amortization of rate case expense over a period of three years. As a result, Hillview #3's revenue requirement and required increase would be revised as follows:

	<u>Operations Per Staff Report</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted Operations</u>
Operating Expenses	\$ 74,267	\$ 2,148	\$ 76,415
Operating Ratio	<u>.88</u>		<u>.88</u>
Revenue Requirement	\$ 84,394		\$ 86,835
Less: Normalized Test-Year Revenue	<u>56,700</u>		<u>56,700</u>
Required increase	<u>\$ 27,694</u>		<u>\$ 30,135</u>

The informal conference was held on November 30, 1999. Representatives from Hillview #3, the Attorney General's Office, and Commission Staff were in attendance. Hillview #3 stated that the comments and documents filed with regard to insurance and professional fees were self-explanatory and did not require discussion. Both Staff and the Attorney General concurred. Hillview #3 expressed its concerns with Staff's recommendation to disallow interest on long-term debt in determining its revenue requirement. After much discussion Hillview #3 proposed that it be allowed to recover the interest expense related to the fixed assets, totaling \$9,287, that were not fully

depreciated on the date that the plant was purchased by Mr. Wethington. Hillview #3 also requested to recover the interest expense related to accounts receivable, in the amount of \$7,902, that were purchased at the time of sale. The Attorney General requested that Hillview #3 file a proposal outlining the interest expense requested, the impact on the customers, and support for the request. During the informal conference all parties agreed that a formal hearing would not be necessary in this proceeding. A memorandum summarizing the events of the informal conference was issued on December 2, 1999. All parties were advised that comments on the informal conference memorandum should be made within 5 days of receipt of the letter. No comments were filed.

On December 2, 1999, Hillview #3 provided additional information to support its position that the aforementioned interest expense should be allowed in its revenue requirement. The Commission issued an Order on December 6, 1999 that cancelled the hearing and stated that comments on Hillview #3's proposal would be due December 13, 1999. The Attorney General filed comments on December 10, 1999, requesting that the Commission reject the proposal made by Hillview #3 and adopt the Staff Report.

The Commission has reviewed the information provided by Hillview #3 and has determined that the additional interest requested cannot be isolated for rate-making purposes and should not be included in the calculation of Hillview #3's revenue requirement. The purchase of fixed assets that were not fully depreciated and outstanding accounts receivable were included as a part of the purchase of the entire sewer system. As was stated in the Staff Report, the indebtedness incurred to

purchase the sewer system was not necessary for or consistent with the proper performance of utility service; it merely facilitated a change in utility ownership.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The recommendations and findings contained in the Staff Report, except as noted in Finding Number 2 of this Order, are supported by the evidence of record, are reasonable, and are hereby adopted as the findings of the Commission and are incorporated by reference as if fully set out herein.

2. The revenue requirement recommended in the Staff Report of \$84,394 should be increased by \$2,441 ( $\$2,148 \div .88$ ) to include recovery of additional insurance expense and amortization of rate case expense.

3. The proposal made by Hillview #3 to include interest expense on long-term debt related to assets not fully depreciated and accounts receivable as of the date of the purchase of the plant should be denied.

4. The rates in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates for Hillview #3's current operations and will produce gross annual revenues of \$86,835.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Hillview #3 in its application are denied.
2. The rates in Appendix A of this Order are approved for service rendered by Hillview #3 on and after the date of this Order.

3. Hillview #3's proposal to include interest expense on long-term debt related to assets not fully depreciated and accounts receivable as of the date of the purchase of the plant is hereby denied.

4. Within 30 days of the date of this Order, Hillview #3 shall file with the Commission its revised tariff setting out the rates approved herein.

Done at Frankfort, Kentucky, this 22<sup>nd</sup> day of December, 1999.

By the Commission

ATTEST:

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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC  
SERVICE COMMISSION IN CASE NO. 99-067 DATED DECEMBER 22, 1999

The following rates and charges are prescribed for the customers in the area served by Hillview Sewer Plant #3, 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.

Sewer Rates

Single Family Residential

\$ 17.23 per month