

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

| | | |
|--------------------------------|---|---------------|
| CONSTRUCTION PERMIT FOR 44,000 |) | |
| G.P.D. WASTE WATER SYSTEM FOR |) | CASE NO. 8472 |
| RIDGELEA INVESTMENTS, INC. |) | |

O R D E R

Ridgelea Investments, Inc., ("Ridgelea") filed an application on February 26, 1982, for a certificate of public convenience and necessity authorizing the construction of a new waste water treatment plant and collection system and approval of proposed initial rates.

A hearing was held on May 20, 1982, in the offices of the Public Service Commission in Frankfort, Kentucky. At the hearing certain requests for additional information were made. This information has been filed and the entire matter is now submitted for final determination by this Commission.

A copy of a letter from the Sanitary Engineering Division of the Kentucky Department for Natural Resources and Environmental Protection approving Ridgelea's plans and specifications for the proposed project is on file with this Commission.

TEST PERIOD

This is a proposed rather than an operating utility, and test-year information does not exist. Estimated pro forma expenses were utilized for the determination of revenue requirements.

PROJECTED REVENUES AND EXPENSES

Ridgelea projected operating expenses on the basis of providing service to 17 residential customers. The Commission is of the opinion that the projected operating expenses generally are proper and they have, therefore, been accepted with the following exceptions:

Depreciation Expense

Ridgelea proposed to include in its anticipated operating expenses a reserve fund for the replacement of major equipment items with anticipated useful lives of 10 years or less. The Commission is of the opinion that this is in fact a depreciation expense. Ridgelea will recoup the entire cost of the sewage system through the sale of lots. It is the Commission's policy that depreciation expense be computed on the basis of original cost of the plant less contributions in aid of construction, as a utility should not be permitted cost recovery on that portion of the plant that is provided to it free of cost. Therefore, Ridgelea's depreciation expense of \$1,104 has been eliminated for rate-making purposes in this proceeding.

Sludge Hauling Expense

Ridgelea proposed to include in its pro forma operating expenses \$1,800 for sludge hauling. As Ridgelea is a new sewage system, the Commission has determined that sludge hauling will not be necessary immediately and has thus disallowed the expense for rate-making purposes.

Therefore, Ridgelea's estimated operations can be stated as follows:

| | <u>Ridgelea Adjusted</u> | <u>Adjustments</u> | <u>Commission Adjusted</u> |
|-------------------------|------------------------------|--------------------|--------------------------------|
| Operating Revenues | \$ 7,026 | \$ 0 | \$ 7,026 |
| Operating Expenses | <u>14,890</u> | <u>(2,904)</u> | <u>11,986</u> |
| Operating Income/(Loss) | \$ (7,864) | \$ 2,904 | \$ (4,960) |

FINDINGS AND ORDERS

Based on the evidence of record, the Commission finds that:

1. Public convenience and necessity require that the construction proposed in the application be performed, and that a certificate of convenience and necessity be granted.
2. The construction project proposed by Ridgelea consists of a waste water collection system and 44,000 Gallons Per Day ("G.P.D.") sewage treatment plant with secondary treatment by the extended aeration process and tertiary facilities, at an estimated total project cost of \$76,147 to provide sewage service for a proposed subdivision consisting of 110 single-family residential units.
3. The estimated total cost of \$76,147 will be recouped by Ridgelea at such time as all 110 lots of the proposed development have been sold.
4. The proposed initial rate is inadequate at this time to produce the revenue required to meet Ridgelea's operating expenses and provide for sufficient capital growth.

5. A utility formed by real estate developers should not request initial rates which are insufficient to meet its anticipated operating requirements. It has been the Commission's experience that rates which are inadequate result in higher operating expenses because of the utility's continuing need to request increased rates. Inadequate rates are unfair to the purchasers of the developed lots who expect to pay low sewage fees for a period of time longer than these rates are usually in effect.

6. Ridgelea represented to the Commission that it will subsidize any deficits caused by an excess of expenses over income until the subdivision has become self supporting. The granting of a certificate of convenience and necessity and approval of the rates herein are expressly conditioned on the performance by Ridgelea of such undertaking, and further, on full written disclosure by Ridgelea to its customers that rates may not reflect all the costs of operation of the treatment system. The disclosure shall be made before such customers have committed themselves to purchase property to be served by the system, and shall be in substantially the following form:

The current rate for sewage disposal services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, your rate may increase substantially.

7. Ridgelea has filed with the Public Service Commission a third-party beneficiary agreement as a part of its application.

8. The proposed third-party beneficiary agreement should be modified as indicated in Appendix C to explicitly and clearly recognize the Commission's powers and rights as a beneficiary of the agreement.

9. The certificate of public convenience and necessity should be granted upon the condition that the third-party beneficiary agreement is modified, executed and resubmitted as described in the preceding findings.

10. Within 60 days of the date of substantial completion of construction, Ridgelea should provide the Commission with duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.).

11. Within 60 days of the date of substantial completion of construction, Ridgelea should furnish the Commission with a copy of the as-built plans and a certification that construction has been satisfactorily completed in accordance with the contract plans and specifications.

12. Ridgelea should file with the Commission all contracts subject to the Commission's approval.

IT IS THEREFORE ORDERED that Ridgelea be and it hereby is granted a certificate of public convenience and necessity to proceed with the construction of the sewage treatment and collection system described in the application and record upon the express condition that the revised third-party beneficiary agreement be filed with the Commission within 30 days.

IT IS FURTHER ORDERED that Ridgelea's proposed third-party beneficiary agreement shall be resubmitted after being modified in accordance with Appendix C.

IT IS FURTHER ORDERED that Ridgelea be and it hereby is granted a certificate of convenience and necessity to operate this sewage system.

IT IS FURTHER ORDERED that the rate in Appendix A is hereby fixed as the fair, just and reasonable rate to be charged by Ridgelea for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Ridgelea be and it hereby is directed to abide by the conditions in Finding No. 6. Further Ridgelea shall notify the existing customers within 30 days of the date of this Order and shall furnish to the Commission written acknowledgement of notice as contained in Appendix B to this Order within 40 days of the date of this Order. Further, Ridgelea shall furnish to the Commission on a quarterly basis, as required, written acknowledgement of notice from each prospective customer as contained in Appendix B to this Order.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Ridgelea shall file its tariff sheets setting forth the rate approved herein.

IT IS FURTHER ORDERED that to insure that all affected parties have the opportunity to express an opinion with respect to the rate approved herein, Ridgelea shall, within 10 days of the date of this Order, mail to each customer a notice setting

forth the approved rate. This notice shall also contain the following language:

After analyzing the information in the application, the Commission has determined that the approved rate is required to enable Ridgelea to meet its operating expenses and to continue to provide adequate service.

Any customer who desires to make a statement concerning the approved rate in this matter may do so by mailing the statement to the Public Service Commission, P. O. Box 615, Frankfort, Kentucky 40602, 60 days after receipt of the notice. A copy of the information should also be provided to the Attorney General's Consumer Protection Division, 209 St. Clair Street, Frankfort, Kentucky 40601.

IT IS FURTHER ORDERED that within 60 days of the date of substantial completion of construction, Ridgelea shall provide the Commission with duly verified documentation of the total cost of this project including cost of construction and all other capitalized costs (engineering, legal, administrative, etc.).

IT IS FURTHER ORDERED that within 60 days of the date of substantial completion of construction, Ridgelea shall furnish the Commission with a copy of the as-built plans and a certification that construction has been satisfactorily completed in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that Ridgelea shall file with the Commission all contracts for services subject to the Commission's approval.

Done at Frankfort, Kentucky, this 11th day of August, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katharine Landall
Vice Chairman

Ken Carver
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8472 DATED AUGUST 11, 1982

The following rate is prescribed for sewage disposal service to customers of Ridgelea Investment, Inc., located in Grantland Estate subdivision in Grant County, Kentucky:

RATE

MONTHLY CHARGE

Single-Family Residential

\$ 34.44

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8472 DATED AUGUST 11, 1982

I have read and fully understand the following:

The current rate for sewage disposal services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, my sewer rate may increase substantially.

Customer's Signature

Address

Date

APPENDIX C

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8472
DATED AUGUST 11, 1982

The proposed third party beneficiary agreement shall be amended as follows:

1. Add after the fifth WHEREAS paragraph:

WHEREAS, the Public Service Commission of Kentucky requires sewage utilities to file a copy of a valid third party beneficiary agreement with it so as to guarantee the continued operation of the sewage treatment facilities pursuant to 807 KAR 5:071.

2. Add the underlined language to Section 1(a) and (b):

Section 1. (a) This agreement is made not only with the Representative in its capacity as the governing body of Grant County, but also for the benefit of the present and future owners or occupants of all and each of the properties, buildings, residences, and other improvements which are now or may hereafter be served by the sewage system of the Company as well as the holders of any mortgage or mortgages covering any such buildings, residences, and other properties, and improvements and the Public Service Commission of Kentucky which is vested with exclusive jurisdiction over the rates and service of sewage utilities within the Commonwealth pursuant to KRS 278.440.

CORRECTION



***PRECEDING IMAGE HAS BEEN
REFILMED
TO ASSURE LEGIBILITY OR TO
CORRECT A POSSIBLE ERROR***

APPENDIX C

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8472
DATED AUGUST 11, 1982

The proposed third party beneficiary agreement shall be amended as follows:

1. Add after the fifth WHEREAS paragraph:

WHEREAS, the Public Service Commission of Kentucky requires sewage utilities to file a copy of a valid third party beneficiary agreement with it so as to guarantee the continued operation of the sewage treatment facilities pursuant to 807 KAR 5:071.

2. Add the underlined language to Section 1(a) and (b):

Section 1. (a) This agreement is made not only with the Representative in its capacity as the governing body of Grant County, but also for the benefit of the present and future owners or occupants of all and each of the properties, buildings, residences, and other improvements which are now or may hereafter be served by the sewage system of the Company as well as the holders of any mortgage or mortgages covering any such buildings, residences, and other properties, and improvements and the Public Service Commission of Kentucky which is vested with exclusive jurisdiction over the rates and service of sewage utilities within the Commonwealth pursuant to KRS 278.440.

4. Add the underlined language to Section 10(b):

(b) This Agreement shall also be binding upon and shall inure to the benefit of the Representative, its successors and assigns, as set forth in Section 1 hereof, and upon all present and future owners or occupants of all and each of the properties, buildings, residences, and other improvements which are now or may hereafter be served by the sewage system of the Company as well as the holders of any mortgage or mortgages covering any such properties, buildings, residences and other improvements, as well as the successors and assigns of all such present and future owners and occupants and holders of mortgages and the Public Service Commission of Kentucky.

5. Add the underlined language to Section 12:

This Agreement shall remain in full force and effect and for the benefit of all parties mentioned herein until either (a) the sewage system described herein is taken over by a governmental authority or by a qualified utility company for operation and maintenance approved by the Public Service Commission of Kentucky; or (b) other adequate sewage collection and treatment service is provided by a governmental authority through means other than the sewage system owned by the Company. Upon the happening of either of the aforesaid events, this Agreement shall automatically terminate; and at the request of the Company, the Company and the Representative shall execute an instrument cancelling this Agreement.

(b) Any person, firm, association, corporation or governmental agency, including but not limited to Representative, which is (1) served by the sewage system of the Company, or (2) holding any mortgage on any property connected to the said sewage system, or (3) charged by law to regulate sewage utilities or if more than one system is necessary to provide sewer service to the property, either or any of said systems hereinafter jointly and collectively referred to as the system is hereby granted the right and privilege and is hereby authorized in its own name and on its own behalf or on behalf of others for whose benefit this Agreement is made, to institute and prosecute any suit at law or in equity in any court having jurisdiction of the parties and the subject matter, to interpret and enforce this Agreement or any of its terms and provisions, including but not limited to, suits for specific performance, mandamus, receivership or injunction.

3. Add the underlined language to Section 5:

Section 5. The Company covenants and agrees that in the event it should fail to operate and maintain the sewage system in the manner and under the conditions specified herein; and if such default shall continue for a period of thirty (30) days, then after three (3) days written notice is delivered to the Company by any consumer, mortgagee, or by the Public Service Commission of Kentucky or any person for whose benefit this Agreement is made, or if the sewage plant is shut down or sewage services are suspended for three (3) consecutive days, then and...

6. Add the underlined language to the "Additional Requirements" Paragraph 4 and delete the bracketed material:

4. No mortgage, pledge or encumbrance, or sale, or any other disposal of the "properties and facilities" shall be made by the Company, without the written consent of the Representative; however, the Representative agrees that the "property and facilities" may be sold without such consent in the event that the Public Service [Public Energy and Utility Regulatory] Commission agrees to allow a sale upon a finding that the purchaser in such sale will continue with the proper operation and maintenance of the Sewage System.