

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE CONSTRUCTION OF SEWAGE SYSTEM)
FOR CROSS-CREEK SUBDIVISION,) CASE NO. 8807
JOHNSON COUNTY, KENTUCKY)

O R D E R

Cross Creek Development Company ("Cross Creek") filed an application on April 8, 1983, for a certificate of public convenience and necessity authorizing the construction of a 20,000 gallon per day sewage treatment plant and collection system and approval of proposed initial rates.

A hearing was held on June 9, 1983, 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. On July 13, 1983, the Commission ordered Cross Creek to file a valid third part beneficiary agreement pursuant to 807 KAR 5:071. The third party agreement was filed November 1, 1983.

A copy of a letter from the Natural Resources and Environmental Protection Cabinet approving Cross Creek'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, accordingly, test-year information does not exist. Estimated pro forma expenses have been utilized for the determination of revenue requirements.

PROJECTED REVENUES AND EXPENSES

Cross Creek projected operating expenses of \$16,092 on the basis of providing service to 50 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:

Maintenance Expense

Cross Creek proposed to include the amortization of its investment in pump, sewage plant and generator in its maintenance expenses. The Commission is of the opinion that this amortization is actually depreciation expense. Cross Creek's investment in plant is included in the cost of the lots. The Commission is of the opinion that to allow Cross Creek to recover its investment in plant both from the sale of lots and from its rates on depreciation constitutes double recovery and has, therefore, reduced Cross Creek's operating expenses by the amount of its de facto depreciation expense of \$1,820.

Street Lighting

Cross Creek has proposed to include \$2,432 in its operating expenses for the provision of street lighting. The Commission is of the opinion that this is not a proper expense to be incurred in the provision of sewage service and has reduced Cross Creek's

proposed operating expenses by this amount. Therefore, the anticipated operating expenses of Cross Creek have been reduced to \$11,840.

REVENUE REQUIREMENTS

Based on the current number of customers being served by Cross Creek, the rates proposed will not provide sufficient revenues to meet operating expenses and provide for adequate equity growth. The Commission is of the opinion that the rates proposed by Cross Creek are promotional in nature and that subsidization by the developers will be required until such time as the number of customers served enable it to become self-supporting.

FINDINGS AND ORDERS

Based on the evidence of record, the Commission is of the opinion and finds that:

1. Public convenience and necessity require that the construction proposed in the application be performed and that a certificate of public convenience and necessity be granted.
2. The construction project proposed by Cross Creek consists of a sewage collection system and a 20,000 gallon per day sewage treatment plant to provide sewage service for a proposed subdivision consisting of 50 single-family residential units.
3. The total cost of the construction project is estimated to be \$55,000 which will be recouped by Cross Creek at such time as all 50 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 Cross Creek's operating expenses and provide for sufficient capital growth.

5. The rates proposed by Cross Creek are promotional in nature.

6. 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. Moreover inadequate initial 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.

7. Cross Creek represented to the Commission that it will subsidize any shortfall of operating revenue until the subdivision can become self-supporting. The granting of a certificate of public convenience and necessity and approval of the rates herein are expressly conditioned on the performance by Cross Creek of such undertaking, and further, on full written disclosure by Cross Creek 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 this development does not continue as anticipated, your rate may increase substantially in the near future.

8. The Commission is of the opinion that the initial customers should not pay for excess plant capacity and that the initial rate should be based on the total plant capacity. The rate in Appendix A is based on plant capacity of 50 customers and is the fair, just and reasonable rate to be charged by Cross Creek.

9. Cross Creek has filed with the Public Service Commission a valid third-party beneficiary agreement as a part of its application.

10. Cross Creek should furnish duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

11. Cross Creek should furnish to the Commission a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

IT IS THEREFORE ORDERED that Cross Creek 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.

IT IS FURTHER ORDERED that Cross Creek be and it hereby is granted a certificate of public convenience and necessity to operate this sewer 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 Cross Creek for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Cross Creek be and it hereby is directed to abide by the conditions in Finding No. 6. Further, Cross Creek shall notify the existing property owners 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, Cross Creek 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.

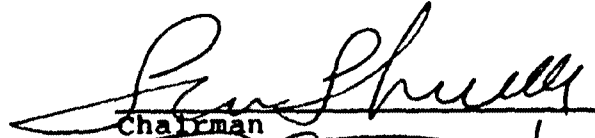
IT IS FURTHER ORDERED that Cross Creek shall file its tariff sheets setting forth the rate approved herein within 20 days of the date of this Order.

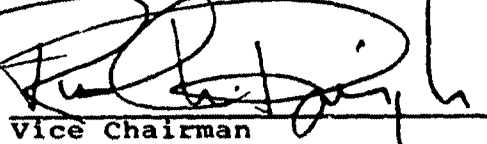
IT IS FURTHER ORDERED that Cross Creek shall file with the Commission duly verified documentation which shows the total costs of the construction herein certificated including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that Cross Creek shall furnish this Commission with "as-built" drawings and a signed statement that the construction has been satisfactorily completed and has been done in accordance with the contract plans and specifications within 60 days of the date of substantial completion of the proposed construction.

Done at Frankfort, Kentucky, this 6th day of Janaury, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

**APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8807 DATED JANUARY 6,
1984.**

**The following rate is prescribed for the customers in
the area served by Cross Creek Development Company located in
Johnson County, Kentucky.**

RATE: Monthly

Single Family Residential \$19.73

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8807 DATED JANUARY 6,
1984.

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 this development does not continue as anticipated, my rate may increase substantially in the near future.

Customer's Signature

Address

Date