

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF J. SOLOMON)
& SON, INC., FOR AN ORDER ISSUING)
A CERTIFICATE OF PUBLIC CONVENIENCE) CASE NO. 8953
AND NECESSITY AND ALSO AN ORDER)
APPROVING THE SCHEDULE OF RATES TO)
BE EXACTED FOR SEWER SERVICE)

O R D E R

J. Solomon & Son, Inc., ("Solomon") filed an application on December 27, 1983, for a certificate of public convenience and necessity authorizing the construction of a 21,000 gallon per day sewage treatment plant and collection system and approval of proposed initial rates to serve Oak-Glen Estates Subdivision in McCracken County, Kentucky.

A hearing was held on March 21, 1984, 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.

A copy of a letter from the Natural Resources and Environmental Protection Cabinet approving Solomon'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

Solomon projected operating expenses of \$3,900 on the basis of providing service to 12 residential customers. The capital costs associated with the sewer are not included in these expenses since the developers of Solomon stated they will recover these costs in the sales price of the lots. The Commission is of the opinion that the projected operating expenses generally are proper and they have, therefore, been accepted.

REVENUE REQUIREMENTS

Based on the initial number of customers to be served by Solomon, the rates proposed will not provide sufficient revenues to meet operating expenses and provide for adequate equity growth. The owners of Solomon have agreed to subsidize operations until the number of customers served by them is adequate to cover the fixed and variable costs. The Commission is therefore of the opinion that the rates proposed by Solomon 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 Solomon consists of a sewage collection system and a 21,000 gallon per day sewage treatment plant to provide sewage service for a proposed subdivision consisting of 50 single-family residential units and 9 duplex units.

3. The total cost of the construction project is estimated to be \$83,000 which will be recouped by Solomon at such time as all 59 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 Solomon's operating expenses and provide for sufficient capital growth.

5. The rates proposed by Solomon 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. Solomon 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 Solomon of such undertaking, and further, on full written disclosure by Solomon to its customers that rates may not reflect all the costs of operation of the treatment system. The disclosure should be made before such customers have committed themselves to purchase property to be served by the system, and should 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. The rate in Appendix A will allow the utility to break even at a capacity of approximately 25 customers based on Solomon's projected expenses. Solomon does not project that it will serve this number of customers until sometime during the calendar year 1985 and will not show a profit until calendar year 1986. The Commission therefore is of the opinion that this rate is fair, just and reasonable.

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

10. Solomon 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. Solomon 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 Solomon 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 Solomon 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 Solomon for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Solomon be and it hereby is directed to abide by the conditions in Finding No. 7. Further, Solomon shall notify any 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,

Solomon 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 Solomon shall file its tariff sheets setting forth the rate approved herein within 20 days of the date of this Order.

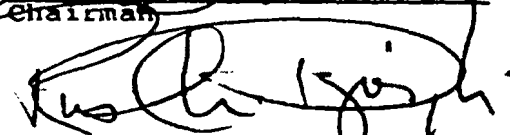
IT IS FURTHER ORDERED that Solomon shall file with the Commission duly verified documentation which shows the total costs of the construction herein certificated including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that Solomon 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 26th day of April, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:


Commissioner

Acting Secretary _____

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8953 DATED 4/26/84

The following rate is prescribed for sewage disposal
service to customers of Oak-Glen Estates Subdivision, located
in McCracken County, Kentucky:

Rate Monthly

Single-Family Residential \$13.50

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8953 DATED 4/26/84

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