

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF FOUNTAIN RUN WATER)
DISTRICT NO. 1, A WATER DISTRICT)
ORGANIZED PURSUANT TO CHAPTER 74 OF THE)
KENTUCKY REVISED STATUTES, OF MONROE)
COUNTY, KENTUCKY, FOR (1) A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER) CASE NO. 9095
DISTRICT TO CONSTRUCT A NEW SEWAGE)
COLLECTION AND DISPOSAL SYSTEM;)
(2) APPROVAL OF THE PROPOSED PLAN OF)
FINANCING OF SAID PROJECT; AND)
(3) APPROVAL OF THE SEWER RATES PROPOSED)
TO BE CHARGED BY THE DISTRICT TO ITS)
SEWER CUSTOMERS)

O R D E R

Fountain Run Water District ("Fountain Run") by application filed July 9, 1984, and amended during the proceedings in this matter, is seeking the establishment of initial sewage service rates, authorization to construct a \$1,941,800 sewage collection and disposal system and approval of its financing for the proposed project. Fountain Run's project financing includes a grant of \$1,518,000 from the Environmental Protection Agency ("EPA"), a grant of \$309,000 from the Farmers Home Administration ("FmHA") and a loan of \$114,000 from the FmHA at an annual interest rate of 5 percent.

Fountain Run will issue waterworks and sewer revenue bonds as security for the FmHA loans. The repayment period for the loan will be 40 years. The proposed improvements will provide sewage service to about 121 customers.

On April 11, 1985, the Commission issued an Interim Order addressing and approving the construction and financing portion of the application. This Order will address the issues of revenue requirements and rate design for the Fountain Run Sewer Division. On May 7, 1985, a Public Hearing was held at the Commission's offices in Frankfort, Kentucky, to allow the Commission to hear evidence on the issues of this proceeding. There were no intervenors.

On September 26, 1984, the Commission issued an Order requesting that Fountain Run file a statement showing anticipated annual operating expenses for the proposed sewer division. In response to this request, Fountain Run filed a statement on October 22, 1984, showing total projected operating expenses of \$11,635.

The Commission is of the opinion that the estimated expenses are generally fair and reasonable; however, for the purposes of determining revenue requirements, the Commission has made the following modifications to reflect the most current information available in the record:

Debt Repayment

Fountain Run projected debt service for the first year of \$5,850.¹ However, the Commission is of the opinion that for the purposes of determining revenue requirements herein, it is appropriate to use the average debt service for the first 3 years

¹ Response, Commission's Order dated October 22, 1984, item 1.

of operations as reflected in the Schedule of Principal and Interest Requirements filed by Fountain Run.² This results in an annual debt service requirement of \$6,840.

Depreciation Expense

Fountain Run omitted a provision for depreciation expense from its statement of anticipated operating expenses. At the Commission's request, Fountain Run filed a depreciation schedule which reflected annual depreciation of \$48,525.³ For the purposes of determining revenue requirements, the Commission has allowed 5.9 percent of this amount, \$2,863, which is equal to the ratio of loan funds to grant funds and therefore represents the depreciation on non-contributed property.

It is the Commission's finding that in this instance it is appropriate to compute allowable depreciation expense for rate-making purposes on non-contributed plant only. Such treatment insures that ratepayers pay only for the plant in which the utility has made an investment and not the plant which the utility has acquired through contributions.

REVENUE REQUIREMENTS

Fountain Run proposed rates to produce gross annual operating revenues of \$18,655. This revenue requirement is based on a proposed debt service coverage ("DSC") of 1.2X. The Commission finds that a 1.2X DSC is a fair, just and reasonable method for determining revenue requirements in this instance

² Response, additional information requested at Hearing.

³ Ibid.

because it will result in gross annual operating revenue sufficient to allow Fountain Run Sewer Division to pay its operating expenses and provide a reasonable surplus for equity growth. Therefore, the Commission accepts Fountain Run's proposed use of a 1.2X DSC for the purposes of determining revenue requirements herein. Using a DSC of 1.2X, plus operating expenses, the Commission finds Fountain Run Sewer Division's revenue requirement to be as follows:

Operating Expenses	\$11,635
Allowable Depreciation	2,863
Debt Service	6,840
20% DSC	<u>1,368</u>
Revenue Requirement	\$22,706

The revenues requested by Fountain Run will generate \$4,051 less than the amount found reasonable by the Commission. However, the Commission is of the opinion and finds that the rates requested by Fountain Fun will produce gross annual revenue sufficient to pay the Sewer Division's operating expenses, service its debt and provide a reasonable surplus for equity growth and should, therefore, be approved.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

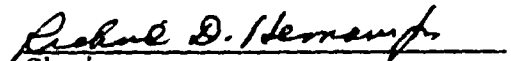
(1) The rates proposed by Fountain Run are fair, just and reasonable rates for Fountain Run's Sewer Division and will produce gross annual revenue sufficient to pay its operating expenses, service its debts and provide a reasonable surplus for equity growth.

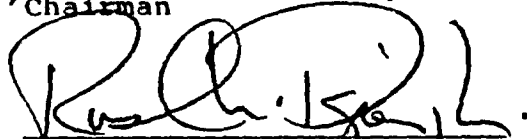
IT IS THEREFORE ORDERED that the rates proposed by Fountain Run be and they hereby are approved for service rendered by Fountain Run on and after the date of this Order.


IT IS FURTHER ORDERED that within 30 days from the date of this Order Fountain Run shall file with this Commission its tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 19th day of June, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9095 DATED JUNE 19, 1985

The following rates and charges are prescribed for the customers in the area served by Fountain Run Water District No. 1. 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

Sewer rates shall be based insofar as possible on the number of gallons of water discharged in each month into the sewer system of the District, as measured by the respective water meters of sewer customers who are also water customers, as follows:

	Number of Gallons <u>Of Metered Water</u>	Monthly Sewer Charge <u>Per 1,000 of Water</u>
First	1,000 gallons	\$ 7.50 (Minimum Monthly Sewer Bill)
	All over 1,000 gallons	2.00

For all sewer customers of the District who are not also water customers of the District, the monthly charge shall be \$9.50.