

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SANITATION)
DISTRICT NO. II OF McCRACKEN)
COUNTY, KENTUCKY FOR A SEWER) CASE NO. 9252
RATE INCREASE AND ORDER ALLOWING)
THE PUBLISHING OF A NEW TARIFF)
FOR AN INCREASE IN SEWER RATES)

O R D E R

On January 2, 1985, Sanitation District No. II of McCracken County ("McCracken County") filed an application with the Commission for approval to increase its sewer rates. On July 23, 1985, the Commission issued an Order that included an increase in rates found fair, just and reasonable. On August 30, 1985, the Commission issued an Order amending Appendix A of the original Order. McCracken County filed on August 19, 1985, a petition requesting the Commission to reconsider two issues regarding interest income and rate design. Although this petition was not timely filed, the Commission has given further consideration to these two issues herein.

INTEREST INCOME

McCracken County stated in its petition filed on August 19, 1985, that the interest income is a part of the debt service and bond reserve and, according to the bond ordinance, cannot be used and, therefore, should not be considered a part of gross revenues for rate-making purposes. The Commission generally agrees with

McCracken County's interpretation of the restrictions on the uses of these funds. However, the issue before the Commission is not a matter of whether the bond ordinance restricts the utilization of certain cash funds, but rather how the debt service coverage of McCracken County is to be calculated under the bond ordinance. There is a distinct difference between the restriction of the use of cash funds and the sources of income which may be recognized by McCracken County in meeting the debt service coverage requirements as provided in its bond ordinance. McCracken County and the Commission should be concerned that the earnings requirements of McCracken County's lenders are being recognized and achieved in the rate-making process. Moreover, both parties should be concerned that the earnings requirements of the lenders are not exceeded in the rate-making process in order to provide service to the ratepayers at the lowest possible rates.

In accordance with the bond ordinance, the basis for the debt service coverage is the net annual income of McCracken County. No evidence has been presented which reflects that the net annual income for purposes of determining the debt service coverage ratio is any different than the net income reported in McCracken County's financial statements. Since the financial statements of McCracken County for the test year contained \$12,039 of interest income which contributed to the reported net income, the Commission has used this interest income in determining the revenue requirements of McCracken County. Therefore, the Commission will not change its previous decision.

RATE DESIGN

McCracken County was also concerned with the rates and the rate design approved by the Commission in its Order dated July 23, 1985. McCracken County requested in its petition that the Commission reconsider its decision to have a flat rate design and allow a declining block rate structure, as proposed in its application.

The Commission is of the opinion that the flat rate design approved in the Commission's Order dated July 23, 1985, is fair, just and reasonable for the reasons stated therein and shall remain in effect. Therefore, McCracken County's petition for rehearing on rate design is denied.

SUMMARY

The Commission, based upon the evidence of record and being advised, is of the opinion and finds that:

1. McCracken County has failed to present sufficient evidence to support its argument that interest income on the reserve funds should be excluded in the calculation of revenue requirements or that the rate design should be modified.

2. McCracken County's petition of August 19, 1985, for reconsideration should be denied.

IT IS THEREFORE ORDERED that the Commission's Orders entered July 23, 1985, and August 30, 1985, are affirmed in all respects.

Done at Frankfort, Kentucky, this 18th day of September, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Hemans
Chairman

Richard D. Hemans
Vice Chairman

James H. Williams
Commissioner

ATTEST:

Secretary