

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED TARIFF OF BOONE COUNTY WATER) CASE NO.
AND SEWER DISTRICT FOR SEWER CAPACITY FEE) 91-374

O R D E R

Boone County Water and Sewer District ("Boone District") has submitted a proposed tariff for the assessment of a "sewer capacity fee" for new connections to its Southeast Collector Line. At issue is whether the proposed fee is an equitable and reasonable method to finance the costs of the Southeast Collector Line. Finding in the affirmative, the Commission approves the proposed tariff.

Boone District is a combined water and sewer district. In addition to providing water service, it operates several small sewer package treatment plants and two sewage collection lines. These collection lines transport untreated sewage to the sewage treatment facilities of Sanitation District No. 1 of Campbell and Kenton Counties ("Sanitation District No. 1").

The Southeast Collector Line was conceived in early 1987 when the Kentucky Transportation Cabinet requested Boone District's assistance to provide sanitary sewer service to two planned rest areas along Interstate 75. After its review indicated the potential for development of a regional sewage transportation system, Boone District planned and constructed a sewage collection

line from the south fork of Gunpowder Creek to Sanitation District No. 1's lines.

The Southeast Collector Line was completed and placed into service in December 1988. Its total estimated cost, including short-term financing, is approximately \$1.628 million.¹ To cover this cost, Boone District issued \$900,000 in bond anticipation notes and received \$400,000 in contributions in aid of construction from the Kentucky Transportation Cabinet and several wastewater package treatment plant owners.²

To ensure adequate treatment capacity for sewer flows from this and other collector lines, Boone District reserved 2 million gallons per day treatment capacity at Sanitation District's Dry Creek Treatment Facility. Under the provisions of a contract which was executed in 1990,³ Boone District agreed to pay \$780,000 to reserve this capacity for 30 years. This sum is to be paid over a 7 year period. Approximately \$468,000 of this amount is for capacity to serve Southeast Collector Line customers.

The Southeast Collector Line consists of three major pumping stations with force mains and three gravity trunk lines. All

¹ Boone District's Response to the Commission's Order of February 24, 1992, Exhibit 1 at 3.

² Id. at 2.

³ See Boone County Water and Sewer District, Case No. 90-216. (Ky. PSC November 1, 1990) Under an earlier agreement with Sanitation District No. 1, dated August 18, 1987, Boone District agreed to limit sewage flows from the Southeast Collector Line to 1.2 million gallons daily. Boone District's Response to the Commission's Order of December 2, 1991, Item 4.

sewage flows are transported to Sanitation District No. 1's Dry Creek Plant for treatment. Boone District operates and maintains the force mains, trunk lines and pump stations. Subdivision developers construct internal subdivision lines which are connected to these trunk lines. Boone District charges a monthly operations and maintenance charge of \$1.68 per 1,000 gallons to Southeast Collector Line customers. This fee covers the cost of operating the Southeast Collector Line, but does not include any depreciation expense associated with the line.⁴ Sanitation District No. 1 charges each Southeast Collector Line customer a quarterly charge for treating his sewage.

To finance the cost of the Southeast Collector Line and its capacity reservation, Boone District proposes to assess a one time "sewer capacity fee" of \$1,000 for each new residential unit connecting to the line. This fee is intended to cover the customer's share of the Southeast Collector Line's capital costs. It is based upon a residential unit's usage of 400 gallons of sewage daily.⁵ For industrial and large commercial customers, this fee would be equal to the customers actual daily usage multiplied by \$2.50. The proposed fee would be restricted to payment of the Southeast Collector Line's capital costs.⁶

⁴ Prefiled Testimony of Paul Kroger, Questions 30-33.

⁵ Environmental Protection Agency estimates that a residential unit produces 400 gallons of wastewater daily.

⁶ Boone District's Response to the Commission's Order of December 2, 1991, Item 17.

Boone District began assessing its "sewer capacity fee" when the Southeast Collector Line was placed into service in December 1988. Because the fee was never approved by the Commission nor set forth in Boone District's filed rate schedules, the Commission ordered a refund of \$116,000 of these improperly collected fees.⁷ Since October 24, 1991, Boone District has been properly collecting this fee but subject to refund.⁸

Although termed a "sewer capacity fee", the proposed fee is essentially a contribution in aid of construction.⁹ Therefore, it should be referred to as a contribution in aid of construction charge in Boone District's filed rate schedule. The fee's major component is designed to finance the cost of constructing the collection line. It is not based upon demand placed upon the

⁷ Americoal Corporation v. Boone County Water and Sewer District, Case No. 90-108 (Ky. PSC. April 24, 1992).

⁸ Boone District, Case No. 91-374 (Ky. PSC October 22, 1991).

⁹ The American Water Works Association defines contribution in aid of construction as: Any amount of money, services, or property received by a water utility from any person or governmental agency that is provided at no cost to the utility. It represents an addition or transfer to the capital [sic] of the utility, and is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. It includes amounts transferred from advances for construction representing any unrefunded balances of expired refund contracts or discounts resulting from termination of refund contracts. Contributions received from governmental agencies and others for relocation of water mains or other plant facilities are also included.

American Water Works Association, Water Rates and Related Charges 38 (AWWA Manual M26 1986).

collection line or Sanitation District No. 1's treatment system. Only \$468,000 of the nearly \$3,000,000 to be collected is remotely related to system capacity. This amount represents the portion of the fee which Sanitation District No. 1 charges to Boone District to reserve capacity at its sewage treatment facilities. It, however, is not based upon a customer's actual maximum sewage flows, but average flows. Normally capacity charges are based on a customer's maximum demand.

Boone District argues that the proposed fee is a widely used method of capital financing, well accepted by most regulatory commissions, and allows recovery of the cost of the project from the customers directly benefiting from it.

Commentators are in general agreement on this point. One leading authority on water rate design states:

When new investment to serve growth does not financially or indirectly benefit existing customers (reduce operating costs, restore or enhance system reliability, etc.), it could be considered unfair to apply rate increases to these customers as a result of this growth. One financing method that may be considered in handling system growth is a front-end capital payment (customer contribution), either in conjunction with or in the absence of local utility bond financing or other capital means. A front-end capital payment can be used to create fairness and some degree of efficiency in resource allocation.

American Water Works Association, Water Rates and Related Charges 13 (AWWA Manual M26 1986).

While the Commission agrees that the proposed fee is not an unreasonable method of paying capital costs, it is concerned that

the fee will be capable of achieving its goal. Boone District calculates that 126 customers must be added to the Southeast Collector Line annually for the next 20 years to successfully recover all capital costs.¹⁰ As of December 31, 1991, which completed the first three year of the line's operation, only 157 customers were connected, leaving a shortfall of 93 customers or \$93,000.¹¹ Boone District concedes that other methods of financing may need to be used in conjunction with the proposed fee.¹²

The Commission is equally concerned about additional liabilities which Boone District has assumed to construct its regional wastewater system. Recently, it obligated itself to construct additional facilities at an estimated cost of \$8.5 million. Boone District has yet to formulate and present to the Commission a plan of financing for these additional liabilities.

The Commission encourages Boone District to develop a comprehensive plan for financing the development of its regional wastewater system. Serious consideration should be given to the establishment of system wide rates which spread operation and

¹⁰ Boone District's Response to the Commission's Order of February 24, 1992, Item 1(b).

¹¹ Prefiled Testimony of Paul Kroger, Question 36.

¹² Boone District's Response to the Commission's Order of April 27, 1992, Item 7.

capital costs across Boone District's entire customer base. Less conventional methods of financing, including government contributions and KRS Chapter 74 assessments, should also be given serious thought. Above all, Boone District should not ignore the regulatory review process which enables constructive input by this Commission and other governmental agencies.¹³

Notwithstanding these concerns, the Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that the proposed contribution in aid of construction fee is reasonable and should be approved for service rendered by Boone District on and after October 24, 1991.

The Commission further finds that the conditions of service contained in the proposed tariff are reasonable and should be approved.¹⁴

IT IS THEREFORE ORDERED that:

1. The proposed contribution in aid of construction fee is approved for service rendered on and after October 24, 1991.

2. Proceeds from the contribution in aid of construction fee shall be used only to pay the Southeast Collector Line's capital costs.

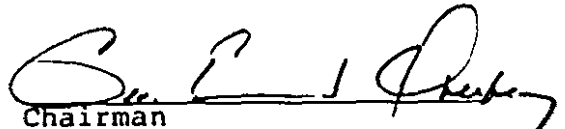
¹³ This review process includes applying for a Certificate of Public Convenience and Necessity prior to commencing the construction of any new facility. See KRS 278.020(1).

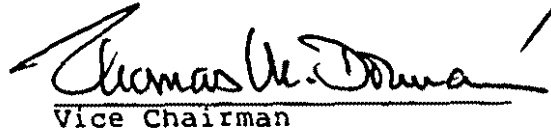
¹⁴ The Commission has addressed the issues raised by the conditions of service in an earlier case. Boone County Water and Sewer District, Case No. 91-428 (Ky. P.S.C. April 6, 1992).

3. Within 20 days of the date of this Order, Boone District shall file with the Commission a signed tariff sheet setting forth the contribution in aid of construction fee and related conditions of service approved herein.

Done at Frankfort, Kentucky, this 3rd day of August, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director, Acting