

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF PEAKS MILL WATER DISTRICT)
TO INCREASE CERTAIN NONRECURRING) CASE NO. 2009-00365
CHARGES)

ORDER

On September 9, 2009, Peaks Mill Water District ("Peaks Mill") applied for authority to revise its rules and regulations and to establish or increase certain non-recurring charges. It proposed to increase its meter connection fees for 5/8 x 3/4-inch meters to \$1,350 and its 1-inch meter connection fee to \$1,550. The filing was found to be deficient and, on October 14, 2009, Peaks Mill filed additional information that cured these deficiencies. The application was considered filed as of that date.

Commission Staff issued three information requests, and Peaks Mill responded to the third information request on August 6, 2010. Following an informal conference on May 26, 2010, Peaks Mill filed an amended tariff sheet and cost justification sheets on June 16, 2010. The amended tariff sheet proposed to increase Peaks Mill's meter connection fees for 5/8 x 3/4-inch meters to \$975 and its 1-inch meter connection fee to \$1,175.¹ The amended tariff sheet also included a rock clause that would allow the utility to recover additional costs from the customer when excessive rock was encountered when connecting the utility's system to the customer's service line.

¹ The cost justification sheets submitted by Peaks Mill calculated costs to be \$981.30 for 5/8 x 3/4-inch meter connections and \$1174.08 for 1-inch meter connections.

KRS 278.030 enables utilities to charge fair, just, and reasonable rates for service. A water utility is entitled to charge a tap fee² for installing service to its customers.³ This tap fee may include costs for a service tap, meter, meter vault, and installation thereof.

Commission regulations also define the limits of a tap fee. "A utility may make special nonrecurring charges to recover customer-specific costs incurred which would otherwise result in monetary loss to the utility or increased rates to other customers to whom no benefits accrue from the service provided or action taken."⁴ These nonrecurring charges "shall yield only enough revenue to pay the expenses incurred in rendering the service."⁵

Recognizing that the costs associated with tap fees can vary depending on whether the utility must bore under a road to provide service, the Commission has allowed utilities to average the cost of labor and equipment for long- and short-side connections in order to determine a fair, just, and reasonable charge. In its amended cost justification sheet, Peaks Mill claimed an average labor expense of \$228.00, an average equipment expense of \$175.00, and a site cleanup expense of \$48.60.⁶ These estimated costs total \$451.60.

² Tap fees are also commonly known as connection fees, tapping fees, or hook-on fees.

³ KRS 278.0152(1).

⁴ 807 KAR 5:006, Section 8(1).

⁵ Id. at Section 8(2).

⁶ The site cleanup costs appear to represent one hour of labor at \$28.60 and one hour of equipment at \$20.00.

Peaks Mill uses Gatewood Water Services ("Gatewood"), an independent contractor, to install new service connections. It has stated that it pays Gatewood \$210.00 for short-side connections and \$440.00 for long-side connections.⁷ These costs average \$325.00. Based on its contract, Peaks Mill must pay the costs of all parts and supplies to make the connection.⁸ Accordingly, Gatewood provides the labor and equipment as a part of its fees. Because nonrecurring charges may only yield enough revenue to pay the expenses incurred, the Commission finds that the proposed nonrecurring charge should be reduced by \$126.60, which is the difference between the cost justification proposal of \$451.60 and the average of the actual costs paid by Peaks Mill for those services.

In its calculations, Peaks Mill used the cost of a saddle for an 8-inch main, which is \$55.85. In 2008 and 2009, Peaks Mill set 15 5/8 x 3/4-inch and 1-inch meters. The cost of a saddle differs depending on its size. An invoice provided by Peaks Mill shows that a 6-inch saddle costs \$49.77, a 4-inch saddle costs \$37.76, and a 3-inch saddle costs \$29.88. The average of the four saddle costs is \$43.32. Accordingly, the Commission finds that the proposed nonrecurring charge should be reduced by \$12.53, which is the difference between the cost of the 8-inch saddle and the average of all four saddles.

⁷ Peaks Mill also states that it pays Gatewood an additional amount if rock is encountered or extra length is necessary.

⁸ The most recent filed contract between Peaks Mill and Gatewood is dated January 1, 2010. Although Peaks Mill has stated that the costs have increased, there is no indication that the other terms are different.

The Commission, having reviewed the record and being sufficiently advised, finds that:

1. Peaks Mill's proposed charges for meter connection fees for 5/8 x 3/4-inch and 1-inch meters are not equal to the expenses incurred to provide the associated services.

2. Peaks Mill's proposed charges should be reduced. The average meter connection expense cost justification totals filed on June 16, 2010 for 5/8 x 3/4-inch and 1-inch meters should be reduced by a total of \$139.13.

3. The proposed policy to allow the utility to recover additional costs from the customer when excessive rock is encountered is fair, just, and reasonable and should be approved.

4. The charges set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. Peaks Mill's proposed increase in connection fees is denied.

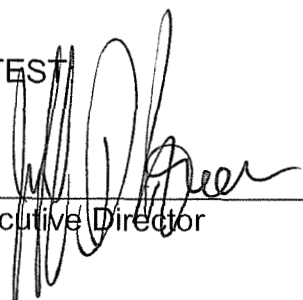
2. The charges set forth in the Appendix to this Order are approved for services that Peaks Mill renders on and after the date of this Order.

3. Within 20 days of the date of this Order, Peaks Mill shall file a revised tariff reflecting the nonrecurring charges approved herein.

By the Commission

ENTERED *M*
OCT 27 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2009-00365 DATED OCT 27 2010

The following charges are prescribed for customers in the area that Peaks Mill Water District serves. All other rates and charges not specifically set forth below remain the same as those in effect under authority of the Commission prior to the date of this Order.

METER CONNECTION FEES:

5/8 x 3/4-inch meter	\$844.00
1-inch meter	\$1,035.00

An additional charge shall be made for meter connections that require more than 50 feet of service line. The charge shall be applied per linear trench foot and shall not exceed the actual cost of excavation and service pipe.

An additional charge shall be made for meter connections where rock is encountered, such rock condition being defined as limestone or other hard, stratified material in a continuous volume of at least one cubic yard or more which cannot be removed using ordinary excavation equipment. The charge shall be applied per linear trench foot and shall not exceed the actual cost of excavation.

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