

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of

THE APPLICATION OF MAYFIELD SERVICE )  
CORPORATION, A KENTUCKY CORPORATION, )  
FOR AN ORDER PURSUANT TO CHAPTER 278 )  
OF THE KENTUCKY REVISED STATUTES FOR )  
A CERTIFICATE OF PUBLIC CONVENIENCE )  
AND NECESSITY AUTHORIZING AND PER- )  
MITTING SAID APPLICANT TO CONSTRUCT )  
A WASTE WATER COLLECTION AND SEWAGE )  
TREATMENT SYSTEM TO SERVE THE )  
RESIDENTS OF THOMAS COUNTRY ESTATES )  
SUBDIVISION IN GRAVES COUNTY, )  
KENTUCKY, AND FOR A RATE APPROVAL )  
FOR THE SERVICE )

CASE NO. 7555

O R D E R

Preface

On August 15, 1979, Mayfield Service Corporation, hereinafter referred to as the Applicant, filed with this Commission its duly verified petition seeking a Certificate of Public Convenience and Necessity authorizing and permitting the construction and operation of a proposed waste water collection and sewage treatment system to serve the residents of Thomas Country Estates Subdivision in Graves County, Kentucky, and approval of a proposed sewage service rate.

The matter was set for hearing at the Commission's offices in Frankfort, Kentucky, on December 10, 1979, at 1:30 p.m., Eastern Standard Time. All parties of interest were notified and no protests were entered.

At the hearing, several deficiencies were disclosed with respect to the projected operating expenses submitted in this matter. The Commission advised the Applicant that revisions would be necessary before any action could be taken. On February 19, 1980, the Applicant filed with this Commission its duly verified amended petition synonymous to the original petition. The matter was set for hearing at the Commission's offices in Frankfort, Kentucky, on April 24, 1980, at 1:30 p.m., Eastern Standard Time. All parties of interest were notified and no protests were entered. At the April 24th

hearing, certain requests for additional information were made by the Commission staff. This information has been filed, and the entire matter is now considered to be fully submitted for final determination by this Commission.

A copy of a letter from the Division of Water Quality of the Kentucky Department for Natural Resources and Environmental Protection, tentatively approving the plans and specifications, is on file with this Commission.

#### Projected Revenues and Expenses

The Applicant submitted a level of operating expenses projected on the basis of providing service to all lots proposed for development. The Commission is of the opinion that the projected level of operating expenses generally are proper and have been accepted with the following exceptions:

1. Operating expense for electricity was projected by the Applicant to be \$1,200. During the hearing, the Applicant was requested to furnish calculations of the anticipated electricity usage. This information was furnished showing that the projected level of expense would be \$2,400. This amount has been accepted.

2. Operating expense for the normal operation and maintenance of the system was projected to be \$7,200. This amount consists of three components: (1) Operation (\$5,200), Chemicals (\$200), and Maintenance (\$1,800). In the opinion of the Commission, the amounts for Operation and Maintenance were determined to be excessive and unreasonable for a system of this size. The projected amounts found reasonable are (1) Operation (\$2,600), Chemicals (\$200), and Maintenance (\$1,000) for a total operation and maintenance expense of \$3,800.

3. Supervision expense was projected to be \$1,500 by the Applicant. For systems of this size, the Commission generally considers \$1,200 to be reasonable.

Based on the foregoing discussion, the projected level of annual operating expenses found reasonable was \$13,863, a net reduction of \$2,500 from the level projected by the Applicant.

The Commission has used the "Operating Ratio Method"<sup>1</sup> in determining revenue requirements of the Applicant. Based on an operating ratio of .88, revenues of \$15,753 would be necessary to meet the projected operating conditions of providing service to all lots proposed for development.

#### Summary

The Commission, after consideration of the petition and all evidence of record, and being advised, is of the opinion and finds:

1. That the public convenience and necessity requires construction of the proposed sewage system project in the area set forth by the petition and exhibits filed in the record in this matter and said certificate should be granted.

2. That the construction project proposed by the Applicant consists of a sewage collection system of approximately 8,266 linear feet of eight-inch gravity sewer line, plus 1,300 linear feet of four-inch force main; two sewage lift stations; a 50,000 GPD package treatment plant; and 100 service connections, all at a total project cost of \$200,000 according to the Engineer's estimate including construction contingencies, administrative, legal and engineering costs.

3. That any construction deviations from the proposed plans and specifications, herein approved, which could adversely affect service to any customer, should be subject to the prior approval of this Commission.

4. That the total cost of acquisition and installation of the original system will be included in the sales price of the residential lots. Operation and maintenance of the system will be subsidized by the petitioner until sufficient customers exist to satisfy this requirement and that no public financing will be required.

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<sup>1</sup>Operating ratio is defined as the ratio of operating expenses to operating revenues.

5. That the rate prescribed and set forth in Appendix "A," attached hereto and made a part hereof, should produce gross annual revenues of approximately \$15,753 from 100 customers and is the fair, just, and reasonable rate to be charged for sewage services rendered by Mayfield Service Corporation in the Thomas Country Estates Subdivision of Graves County, Kentucky.

6. That the revenues of \$15,753 are necessary and will permit the Applicant to meet its reasonable projected operating expenses and to accumulate a reasonable surplus of equity growth. The projected revenues and expenses are summarized in Appendix "B," attached hereto and made a part hereof.

7. That the rate proposed by the Applicant is unfair, unjust, and unreasonable in that it would produce revenues in excess of those found reasonable herein and should be denied.

8. That the Applicant has filed with this Commission a valid third-party beneficiary agreement.

9. That the agreement between Applicant and the Engineer should require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

10. That the Applicant should provide this Commission with 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 sixty (60) days of the date that construction is substantially completed. Further, that the documents filed should clearly separate the costs for major components of the system as follows: (1) the collection system with a breakdown for lift stations; (2) the primary and secondary treatment plant; and (3) the tertiary treatment plant facilities.

11. That within sixty (60) days of the date of substantial completion of this construction, the Applicant should require the Engineer to furnish this Commission with a copy of the "As-Built Plans" and certificate that the construction has been

satisfactorily completed in accordance with the contract plans and specifications.

Orders In This Matter

The Commission, on the basis of the findings hereinbefore set forth, and the evidence of record in this matter:

HEREBY ORDERS that the Mayfield Service Corporation be and it is hereby granted a Certificate of Public Convenience and Necessity to construct a sewage collection and treatment system in the area set forth in the petition and in accordance with the plans and specifications filed in this record.

IT IS FURTHER ORDERED that any construction deviations from the plans and specifications, herein approved, which could adversely affect the service to any customer shall be subject to the prior approval of the Commission.

IT IS FURTHER ORDERED that the rate set forth in Appendix "A," be and hereby is fixed as the fair, just, and reasonable rate to charge for sewage service rendered by the Mayfield Service Corporation on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by the Applicant be and is hereby denied.

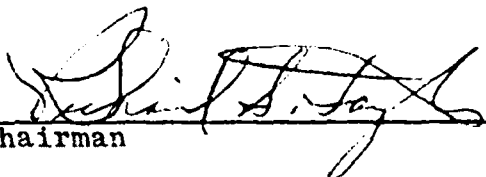
IT IS FURTHER ORDERED that the agreement between the Applicant and the Engineer shall require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

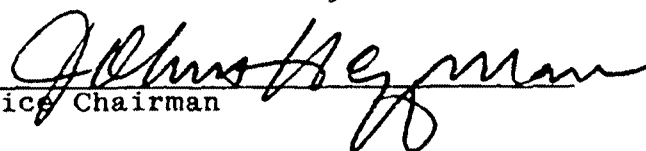
IT IS FURTHER ORDERED that the Applicant shall provide this Commission with duly verified documentation of the total cost of the project, as described briefly herein, within sixty (60) days of the date that construction is substantially completed.

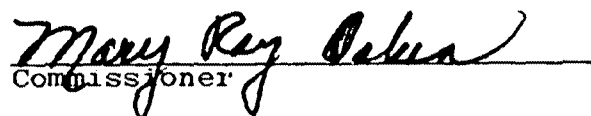
IT IS FURTHER ORDERED that the Applicant shall require the Engineer, within sixty (60) days of the date of substantial completion of this construction, to furnish this Commission with a copy of the "As-Built Plans" and certification that the construction has been satisfactorily completed and was done in accordance with the contract plans and specifications.

Done at Frankfort, Kentucky, this the 2nd day of July, 1980.

UTILITY REGULATORY COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION  
IN CASE NUMBER 7555, DATED JULY 2, 1980.

The following rate is herein prescribed for sewage services rendered to all customers served by Mayfield Service Corporation in Thomas Country Estates Subdivision in Graves County, Kentucky.

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Single-Family Residential	\$13.25 per Residence

# APPENDIX "B"

## APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION IN CASE NUMBER 7555, DATED JULY 2, 1980.

This is a summary of projected revenues and expenses of the Mayfield Service Corporation based on providing service to all 100 residences proposed for development as shown by the evidence submitted in this matter.

	Projected <u>Pro Forma</u>	Reasonable <u>Pro Forma</u>
<u>Operating Revenues:</u>	\$ 19,200	\$ 15,753
<u>Operating Expenses:</u>		
Water	\$ 100	\$ 100
Electricity	1,200	2,400
Operation and Maintenance	7,200	3,800
Taxes	260	260
EPA Tests	600	600
Collection Expenses	3,000	3,000
Insurance	1,003	1,003
Legal and Professional	1,000	1,000
Supervision	1,500	1,200
Miscellaneous	<u>500</u>	<u>500</u>
Total Operating Expenses	\$ 16,363	\$ 13,863
Net Income	<u>\$ 2,837</u>	<u>\$ 1,890</u>