

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION OF FANCY FARM )  
WATER DISTRICT FOR AN ORDER )  
PURSUANT TO CHAPTER 278 OF )  
THE KENTUCKY REVISED STATUTES )  
GRANTING A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND ) CASE NO. 7739  
NECESSITY, AUTHORIZING AND )  
PERMITTING THE APPLICANT TO )  
CONSTRUCT A SEWAGE COLLECTION )  
TREATMENT SYSTEM FOR THE FANCY )  
FARM COMMUNITY, GRAVES COUNTY, KENTUCKY )  
AND FOR AN ORDER TO AMEND ITS )  
TARIFF RATES AND OTHER FEES FOR )  
THE DISTRICT. )

O R D E R

Preface

On June 26, 1980, this Commission issued an Interim Order to Fancy Farm Water District, hereinafter referred to as the Applicant, granting a Certificate of Public Convenience and Necessity to construct a sewage collection and treatment system, authorizing the Applicant to borrow up to , but not to exceed, \$251,000 from FmHA at five (5) percent interest, and requiring the Applicant to file information necessary for the establishment of initial rates.

On August 4, 1980, the Applicant filed with this Commission its duly verified application to establish fees necessary in order to meet the obligations of the proposed sewage system. The matter was set for hearing at the Commission's offices in Frankfort, Kentucky, on September 10, 1980. All parties of interest were notified and no protests were entered. At the hearing certain requests for additional information were made by the Commission Staff. This information was filed and the entire matter is now considered to be submitted for final determination by this Commission.

This Order primarily addresses the establishment of initial rates. However, due to accepted bid(s) being \$132,711 higher than estimated costs as shown in the Interim Order, amendments to the Interim Order are made herein.

### Test Period

Construction on the sewage project proposed by the Applicant has not been completed at this time. Thus operations thereof have not been initiated and therefore test period information is not available for determination of sewage service rates. Estimated operating expenses were, therefore, utilized in the determination of revenue requirements and rates.

### Commentary

The Commission, being aware that Fancy Farm Water District is a combination water and sewage utility, wishes to apprise the Applicant that for the purpose of establishing and maintaining its records, each division of the utility shall be separate and distinct and that each utility shall comply with the appropriate instructions<sup>(1)</sup> as set forth in the Uniform System of Accounts. Further, Section 9<sup>(2)</sup> of the bond authorizing resolution for the "Sewer System Revenues Bonds, Series of 1980" provides instructions for the operation of system; flow of funds; and accumulation of revenues. Thus, appropriate records should be kept in order to give distinct and identifiable support for all transactions.

The Applicant submitted information projected on the basis of providing service to 200 customers, including a school. However, an industrial customer, Brown-Thompson, within the service area of the sewage system was omitted as no commitment has been reached with said customer. The Commission has determined the initial rates based on the 200 customers proposed by the Applicant, but wishes to apprise the Applicant that the inclusion of this industrial customer in the rate structure could have a dramatic effect on the revenues and expenses of the systems and further that the Commission should be made aware of the fact if said customer does agree to connect with the system.

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(1) Uniform System of Accounts for Sewer Utilities, page 9 and the Uniform System of Accounts for Water Utilities, page 12.

(2) Bond Authorizing Resolution, page 30.

### Summary

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

1. That a Certificate of Public Convenience and Necessity to construct a sewage collection and treatment system was issued on June 26, 1980.
2. That the total project cost should be amended to \$1,367,711 as this was the accepted bid(s) of the Applicant.
3. That the financing of this project by means shown in the Interim Order should be amended to show an EPA grant of \$927,133.
4. That the rates and charges as prescribed and set forth in Appendix "A", attached hereto and made a part hereof, should produce gross annual revenues of approximately \$38,075 from 200 customers, including the service to the school, but excluding service to Brown-Thompson, and are the fair, just, and reasonable rates and charges to be charged for sewage service rendered by Fancy Farm Water District to customers located in Graves County, Kentucky.
5. That the revenues proposed by the Applicant were overstated in that they were erroneously determined using incorrect data for average bill (ie. the bill for 2,500 gallons should be \$11.00).
6. That the Commission, after consideration of the Applicant's projected revenues and expenses, concludes that the revenues, expenses and adjustments can be summarized as shown in Appendix "B", attached hereto and made a part hereof. On a basis of said summary, the Commission further concludes that annual revenues in the amount of \$38,075 are necessary and will permit the Applicant to meet its reasonable expenses for sewage services rendered, service its debt, and to accumulate a reasonable surplus for compliance with its bond ordinance and resolution.
7. That the Applicant should file with this Commission a duly verified document or documents which show 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.

8. That the Applicant should file with this Commission a duly verified document or documents which show the final amounts received in loans, grants and Applicant's contributions within sixty (60) days of final receipt of all such amounts.

#### Orders In This Matter

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERES that the project cost shall be amended to \$1,367,711 in the Interim Order.

IT IS FURTHER ORDERED that the financing of this project shall be amended to show an EPA grant of \$927,133.

IT IS FURTHER ORDERED that the rates and charges set forth in Appendix "A" be and are hereby fixed as the fair, just and reasonable rates and charges to become effective for sewage service rendered by Fancy Farm Water District on and after the date of this Order.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission a duly verified document or documents which show 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.

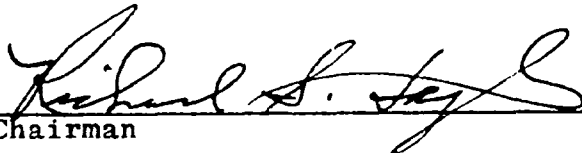
IT IS FURTHER ORDERED that the Applicant shall file with this Commission a duly verified document or documents which show the final amounts received in loans, grants and Applicant's contributions within sixty (60) days of final receipt of all such amounts.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission, within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates and charges approved herein. Further that copies of all the Applicant's rules and regulations for providing sewage service to customers located in Fancy Farm Water District, Graves County, Kentucky, shall be filed with said tariff sheets.

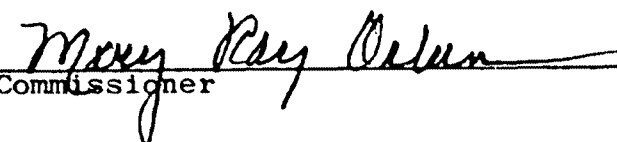
IT IS FURTHER ORDERED that all other provisions of the Interim Order, dated June 26, 1980, not specifically changed herein, shall remain in full force and effect.

Done at Frankfort, Kentucky, this 26th day of September, 1980.

UTILITY REGULATORY COMMISSION

  
Chairman

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Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7739 DATED SEPTEMBER 26,  
1980.

The following rates are prescribed for all customers served  
by Fancy Farm Water District, Sewer Division. All other rates  
and charges not specifically mentioned herein shall remain the  
same as those in effect prior to the date of this Order.

Rates: Monthly

Residential

First	2,000 gallons	\$9.00 (Minimum Bill)
Next	3,000 gallons	4.00 per 1,000 gallons
Next	5,000 gallons	3.50 per 1,000 gallons
Over	10,000 gallons	2.50 per 1,000 gallons

Commercial

1-Inch Meter

First	3,000 gallons	\$10.00 (Minimum Bill)
Over	3,000 gallons	2.00 per 1,000 gallons

1½-Inch Meter

First	5,000 gallons	\$15.00 (Minimum Bill)
Over	5,000 gallons	2.00 per 1,000 gallons

2-Inch Meter

First	10,000 gallons	\$25.00 (Minimum Bill)
Over	10,000 gallons	2.00 per 1,000 gallons

2½-Inch Meter

First	15,000 gallons	\$35.00 (Minimum Bill)
Over	15,000 gallons	2.00 per 1,000 gallons

Connection Fee	\$300.00
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APPENDIX "B"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7739 DATED SEPTEMBER 26,  
1980.

In accordance with Finding No. 6, the following is the Commission's summary of the estimated annual revenues for the Applicant's 140,000 GPD three cell aerated lagoon sewage treatment plant when serving 200 customers in the Fancy Farm Community Graves County, Kentucky.

	<u>Projected Proforma</u>	<u>Reasonable Proforma</u>
Operating Revenues:	\$ <u>41,945</u>	\$ <u>38,075</u> <sup>(1)</sup>
Operating Expenses:		
Wages-Salaries	\$ 9,360	\$ 6,600 <sup>(2)</sup>
Taxes	200	200
Accounting and Auditing Fees	1,200	600 <sup>(3)</sup>
Legal Fees	500	0 <sup>(4)</sup>
Utilities	7,560	5,580 <sup>(5)</sup>
Gasoline, Fuel, Oil	600	350 <sup>(6)</sup>
Insurance	400	400
Repairs and Maintenance	600	600 <sup>(3)</sup>
Chemicals	700	600 <sup>(3)</sup>
Office Supplies and Printing	840	720 <sup>(3)</sup>
Misc. Materials and Supplies	300	300
Rent	0	0
Purchase of Water	180	180
Misc. Expenses	300	0 <sup>(7)</sup>
Total Operating Expenses	\$ <u>22,740</u>	\$ <u>16,130</u>
Operating Income	\$19,205	\$21,945
Interest on Long-Term Debt	\$ <u>12,550</u>	\$ <u>12,550</u>
Net Income	\$ <u>6,655</u>	. \$ <u>9,395</u> <sup>(8)</sup>

- (1) Revenue requirements were determined to be one and one-half times the Applicant's debt service requirements plus reasonable operating expenses, excluding depreciation expense.
- (2) Wages-Salaries were reduced based on the sewage system proportionate share of total water and sewage customers.
- (3) These expense items were reduced to a more reasonable level of costs in comparison to other sewage systems of similar size and capacity.
- (4) This expense was disallowed as legal fees for the establishment of rates should be capitalized.
- (5) Utility expense found reasonable was \$450 per month for electric service and \$15 ( $\frac{1}{2}$  of total) per month for telephone service and were reduced on the basis of explanation # 3.
- (6) The portion of this expense relative to a standby generator has been disallowed.
- (7) This expense was disallowed as it duplicates expenses shown elsewhere.
- (8) Net Income shown in this statement is prior to allowable depreciation expense.