

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF TUCKER STATION )  
DISPOSAL SYSTEM, INC., FOR AN )  
ORDER PURSUANT TO CHAPTER 278 OF )  
THE KENTUCKY REVISED STATUTES FOR )  
A CERTIFICATE OF CONVENIENCE AND )  
NECESSITY AND FOR AN ORDER APPROV- ) CASE NO. 8088  
ING UNIFORM RATES FOR A WASTE )  
WATER TREATMENT SYSTEM TO SERVE THE )  
RESIDENTS OF DOUGLASS HILLS, SECTION )  
14 SUBDIVISION, JEFFERSON COUNTY, )  
KENTUCKY )

O R D E R

On December 3, 1980, Tucker Station Disposal System, Inc., (hereinafter sometimes referred to as the Applicant) filed with this Commission an application seeking a Certificate of Public Convenience and Necessity authorizing the construction of a waste water treatment plant and collection system and approval of proposed rates for providing sewage disposal services.

The matter was initially set for hearing on April 7, 1981, but was later rescheduled upon motion of the Applicant for March 10, 1981. The hearing was held in the Commission's office in Frankfort, Kentucky. All parties of interest were duly notified, and no protests were entered.

At the hearing Applicant filed several revised exhibits, and certain requests for additional information were made. This information has been filed, and the entire matter is now considered to be fully submitted for final determination.

A copy of a preliminary approval issued by the Kentucky Department of Natural Resources and Environmental Protection is on file with this Commission.

#### Test Period

This is a proposed rather than an operating utility, and test year information does not exist. Estimated pro forma expenses were utilized for the determination of revenue requirements and the rates that should produce the required revenues.

#### Rate Determination

While the Commission has traditionally considered the original cost of the utility plant, the net investment, the cost of reproduction, and the capital structure in determining fair, just, and reasonable rates, its experience in the establishment or adjustment of rates for sewer utilities has indicated that these valuation methods are not always appropriate. Sewer utilities are unique to the extent that the cost of facilities has usually been included in the cost of the individual lot. The owner and/or operator of the utility is, in many instances, the developer of the real estate, and title may have changed hands prior to the effective date of Commission jurisdiction (January 1, 1975). Further, the Commission has found that the books, records and accounts of these operations are, for the most part, incomplete so as to make impossible the fixing of rates on the above methods of valuation. Therefore, the Commission is of the opinion that for the purpose of establishing or fixing rates of sewer utilities, the operating ratio method should be utilized, although it is recognized that there may be instances where this method or procedure would not be valid.

Findings in This Matter

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

1. Public Convenience and Necessity requires the construction of the proposed sewage treatment plant and collection system by the Tucker Station Disposal System, Inc., for the Douglass Hills, Section 14 Subdivision, located in Jefferson County, Kentucky.

2. The construction project proposed by the Applicant consists of a sewage collection system and a 60,000 GPD sewage treatment plant with secondary treatment by the extended aeration process and tertiary facilities at an estimated total project cost of \$834,941 to provide sewer service for this proposed subdivision development of 149 single-family residential units.

3. From the record and exhibits filed in this matter the estimated total cost of \$834,941 for the sewage collection and treatment system will be recouped by the Applicant at such time as all 149 lots of the proposed development have been sold.

4. Applicant's proposed Engineering and Legal Fees of \$2,000 and \$2,400, respectively, are costs of organizing the utility and should properly be amortized over a five year period instead of a three year period as proposed.

5. The proper method to determine revenue requirements in this instance is the operating ratio method.

6. The rate prescribed and set forth in Appendix A attached hereto and made a part hereof should produce gross annual revenues of approximately \$33,800, including all federal, state, and local taxes, from 149 customers and is the fair, just,

and reasonable rate to be charged for sewage services rendered by Applicant.

7. An operating ratio of approximately 0.88 will result from the estimated revenues produced by the fully developed subdivision and should provide a reasonable return margin<sup>(1)</sup> in this instance.

8. The revenues of \$33,800 are necessary and will permit the Applicant to meet its reasonable projected operating expenses and to accumulate a reasonable return for equity growth.

9. The projected revenues and expenses are summarized in Appendix B attached hereto and made a part hereof.

10. The rates prescribed by the Applicant are unfair, unjust, and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

11. The Applicant has filed with this Commission a valid "Third Party Beneficiary Agreement" as a part of its application.

12. The Applicant should provide the Commission with duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administration, etc.) within sixty (60) days of the date that construction is substantially completed.

13. 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 a certification that construction has been satisfactorily completed in accordance with the contract plans and specifications.

(1) Return Margin is the amount remaining for the payment of a return on the investment of the security holders.

14. The Applicant should file with this Commission all contracts concerning services provided or contracted which are subject to the Commission's approval.

Orders In This Matter

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case, HEREBY ORDERS that the Tucker Station Disposal System, Inc., be and is hereby granted a Certificate of Public Convenience and Necessity to construct a sewage treatment plant and collection system to be located in Douglass Hills, Section 14 Subdivision, in Jefferson County, Kentucky.

IT IS FURTHER ORDERED that the rates set forth in Appendix A attached hereto and made a part hereof are hereby fixed as the fair, just, and reasonable rates of the Tucker Station Disposal System, Inc., to become effective for service rendered in the area defined in the application on and after the date of this Order.

IT IS FURTHER ORDERED that the rates sought by the Applicant be and the same are hereby denied.

IT IS FURTHER ORDERED that the Tucker Station Disposal System, Inc., shall file with this Commission, within thirty (30) days of completion of the proposed construction, its Tariff Sheets setting forth the rates approved herein and all rules and regulations of the utility.

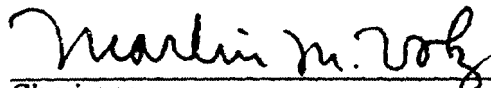
IT IS FURTHER ORDERED the Applicant shall provide this Commission with duly verified documentation of the total cost of this project including cost of construction and all other capitalized costs (engineering, legal, administration, etc.) within sixty (60) days of the date that construction is substantially completed.

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

IT IS FURTHER ORDERED the Applicant shall file with this Commission all contracts concerning services provided or contracted which are subject to the Commission's approval.

Done at Frankfort, Kentucky, this 30th day of April, 1981.

PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8088 DATED APRIL 30, 1981.

The following rates are prescribed for sewage disposal services rendered to customers of the Tucker Station Disposal System which is located in Douglass Hills Section 14 Subdivision in Jefferson County Kentucky.

<u>Type of Service Rendered</u>	<u>Monthly Charge</u>
Single-Family Residence	\$18.95

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8088, DATED APRIL 30, 1981.

This is a summary of projected revenues and expenses of the Tucker Station Disposal System, Inc., based on providing service to all 149 residences proposed for development as shown by the evidence submitted in this matter.

	<u>Projected Pro forma</u>	<u>Reasonable Pro forma</u>
<u>Operating Revenues</u>	\$ 34,590	\$ 33,821
<u>Operating Expenses:</u>		
Utilities	\$ 8,032	\$ 8,032
Operation and Maintenance	7,310	7,310
Professional Services	3,717	2,250
Taxes	3,185	2,000
Administrative and General	8,195	9,075
Total operating expenses	<u>\$30,439</u>	<u>\$28,667</u>
Net Income	\$ 4,151	\$ 5,154