

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AMENDED APPLICATION OF BUTEN BROTHERS, INC. )  
AND BOONE COUNTY WATER AND SEWER DISTRICT )  
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND )  
NECESSITY FOR THE CONSTRUCTION OF A SEWAGE )  
TREATMENT PLANT IN BOONE COUNTY, KENTUCKY; ) CASE NO.  
AN ORDER AUTHORIZING THE APPLICANT TO INCUR ) 9082  
INDEBTEDNESS FOR THE CONSTRUCTION OF THE )  
SEWAGE TREATMENT PLANT; AN ORDER ESTABLISHING )  
AN INITIAL RATE FOR THE SERVICE TO BE PRO- )  
VIDED BY THE SEWAGE TREATMENT PLANT; AND, )  
AN ORDER APPROVING THE SALE OF THE PLANT )

O R D E R

Buten Brothers, Inc., ("Buten Brothers") and Boone County Water and Sewer District ("Boone County") filed an application on June 15, 1984, for a certificate of public convenience and necessity authorizing the construction of a 35,000-gallon per day sewage treatment plant and collection system, for approval of a financing plan for this construction, for approval of initial rates and for approval of the transfer of the proposed sewage treatment system from Buten Brothers to Boone County prior to operation. A purchase agreement was signed June 13, 1984, subject to approval by the Commission, wherein Boone County agreed to purchase the complete sewage system of Buten Brothers, which is proposed to serve the Eagles Landing Subdivision after completion of Phase I construction.

A copy of the Preliminary Approval from the Natural Resources and Environmental Protection Cabinet for the proposed project is on file with this Commission.

Buten Brothers and Boone County filed an amended application on July 11, 1984, which requested the same relief as the original application and included an addendum to the purchase agreement signed July 10, 1984. The amended application also requested a deviation from the Commission's requirement for a third-party beneficiary agreement.

Buten Brothers and Boone County filed a second amended application on August 9, 1984, which requested the same relief as the first amended application and proposed financing the project with a loan of \$90,000 from Robert Edward Buten at the same terms as the Home State Bank and with contributions of up to \$117,000 by Buten Brothers.

Buten Brothers and Boone County filed a third amended application on August 31, 1984, which requested the same relief as the second amended application and stated the terms of the proposed \$90,000 loan to be 18 months at an interest rate of Prime + 1 1/2 percent for Phase I construction.

A hearing was held on September 4, 1984, in the offices of the Public Service Commission in Frankfort, Kentucky. Certain requests for additional information were made at the hearing. This information has been filed.

Buten Brothers and Boone County filed a fourth amended application on October 1, 1984, which requested the same relief as the

third amended application and furnished the information requested at the public hearing held September 4, 1984.

#### TEST PERIOD

This is a proposed rather than an operating utility and, accordingly, test-year information does not exist. Estimated pro forma expenses have been utilized for the determination of revenue requirements.

#### VALUATION METHOD

The Commission has used the operating ratio method for most sewer utilities under its jurisdiction for the past several years and finds that the results have been reasonable and fair to both utilities and ratepayers. Therefore, the Commission will use the operating ratio method calculated as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Gross Revenues}}$$

#### PROJECTED REVENUES AND EXPENSES

Buten Brothers projected operating expenses of \$3,135 when the system is serving 41 customers. The capital costs associated with the construction have not been included in this projection since the cost of the system is to be recouped through the sale of lots. The Commission is of the opinion that the projected operating expenses are generally proper and, therefore, accepts them.

#### REVENUE REQUIREMENTS

The rates proposed by Buten Brothers will generate revenues of \$7,082 annually when 41 paying customers are established. Since initial operations will not provide sufficient revenue to

meet operating expenses and provide for equity growth, Buten Brothers will make monthly payments of \$261.25 to Boone County to finance the operating deficit. Such payments are to continue until the system attains the projected break-even point of 19 customers.

The Commission has determined the revenue requirement to be \$6,765<sup>1</sup> as this amount should provide sufficient revenue to meet operating expenses and provide for equity growth.

#### RATE DESIGN

Buten Brothers proposed a flat minimum rate of \$13.75 per month for 5,000 gallons and a rate of \$2.75 per 1,000 gallons for all water used over 5,000 gallons. Each household could request a separate meter for calculating water usage in regard to lawn waterings and other uses where a large amount of water may be used that is not discharged into the sewer. This is inconsistent with standard Commission rate design practice for sewer utilities. The Commission is of the opinion that a flat rate per month is the most equitable method of billing sewer rates. The customer who happens to use a large amount of water would not have the expense of having a separate meter installed. By the implementation of a flat rate, a customer would have the benefit of knowing the amount of his sewer bill each month and could plan his budget accordingly. Buten Brothers (or Boone County) would benefit in that the revenue collected each month would be more

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<sup>1</sup> 41 customers X \$13.75 flat rate X 12 months = \$6,765.

stable, allowing them to better allocate their expenses. Therefore, the Commission is of the opinion that the flat rate shown in Appendix A is the fair, just and reasonable rate to be charged.

#### FINDINGS AND ORDERS

Based on the evidence of record, the Commission is of the opinion and finds that:

1. Public convenience and necessity require that the construction proposed in the application be performed and that a certificate of public convenience and necessity be granted.

2. Buten Brothers desires to sell the proposed sewage treatment system to Boone County and Boone County desires to purchase the system from Buten Brothers. This sale and purchase is to be finalized prior to operation of the proposed system.

3. The construction project proposed by Buten Brothers consists of a sewage collection system and a 35,000-gallon per day sewage treatment plant to provide sewage service for a proposed subdivision consisting of 82 single-family residential units.

4. Any deviations from the construction drawings and specifications herein approved which could adversely affect service to any customer should be subject to the prior approval of this Commission.

5. The total cost of the construction project is estimated to be \$200,156, which will be recouped by Buten Brothers at such time as all lots of the proposed development have been sold.

6. Those facilities funded by Buten Brothers should be accounted for by Boone County as contributed property and should

be afforded rate-making treatment as such by the Commission in future cases.

7. Boone County is ready, willing and able to provide sewage service. Therefore, the transfer request is in the public interest.

8. The transfer should be accounted for in accordance with the utility plant instructions and other requirements of the Uniform System of Accounts for Sewer Utilities prescribed by the Commission.

9. The rates proposed by Buten Brothers are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

10. Buten Brothers' proposed method of billing is inconsistent with standard Commission rate design practice and should be denied.

11. The rates in Appendix A are the fair, just and reasonable rates to charge for sewage service rendered by Boone County in that they will permit Boone County to meet the operating expenses of Eagles Landing Subdivision and provide a reasonable return to its owners.

12. A valid third-party beneficiary agreement is normally required from sewage utilities to insure the continuity of sewage service pursuant to 807 KAR 5:071. Since the ownership of the proposed sewage treatment system is to be transferred to Boone County prior to operation and Boone County is a utility formed under KRS Chapter 74 and under the jurisdiction of this Commission, a third-party beneficiary agreement should not be required

in this case. Sufficient evidence of financial integrity as will insure the continued operation of sewage service has been provided by virtue of the past history and current operations of Boone County.

13. Buten Brothers and Boone County should furnish duly verified documentation of the total cost of this project including the cost of construction and other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by this Commission.

14. Buten Brothers and Boone County should furnish to the Commission a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

IT IS THEREFORE ORDERED that Buten Brothers and Boone County are hereby granted a certificate of public convenience and necessity to proceed with the construction of the sewage treatment and collection system set forth in the drawings and specifications herein approved.

IT IS FURTHER ORDERED that the acquisition and transfer of the sewage treatment system by and to Boone County prior to operation be and it hereby is approved.

IT IS FURTHER ORDERED that Buten Brothers and Boone County shall comply with all matters set out in FINDINGS 2, 4, 6, 8, 13, and 14 as if the same were individually so ordered.

IT IS FURTHER ORDERED that Buten Brothers shall not be required to provide a third-party beneficiary agreement, since adequate evidence of financial integrity guaranteeing the continuity of sewage service has been provided by Boone County.

IT IS FURTHER ORDERED that the rates proposed by Buten Brothers be and they hereby are denied.

IT IS FURTHER ORDERED that the method of billing proposed by Buten Brothers be and it hereby is denied.


IT IS FURTHER ORDERED that the rate in Appendix A is the fair, just and reasonable rate for Eagles Landing Sewer Treatment Plant to charge for sewage service and is hereby approved for service rendered on and after the date of this Order.

Done at Frankfort, Kentucky, this 8th day of November, 1984.

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. 9082 DATED November 8, 1984.

The following rate is prescribed for the customers in  
the area served by Buten Bros., Inc./Boone County Water and  
Sewer District, located in Eagles Landing Subdivision, in  
Boone County, Kentucky:

RATE: Monthly

Single Family Residential

\$13.75