

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF JOANN ESTATES)
UTILITIES, INC., MCCRACKEN COUNTY,)
KENTUCKY, FOR AN ORDER ISSUING A)
CERTIFICATE OF PUBLIC CONVENIENCE) CASE NO. 9533
AND NECESSITY AND ALSO AN ORDER)
APPROVING THE SCHEDULE OF RATES TO)
BE EXACTED FOR SEWER SERVICE)

O R D E R

Joann Estates Utilities, Inc., ("Joann Utilities") by application filed March 21, 1986, is seeking a certificate of public convenience and necessity for construction of a \$140,540 sewage collection and treatment system project, approval of proposed rates for sewage collection and disposal services and approval of the method of financing.

The construction proposed by Joann Utilities will provide sewage utility services for the Timberland Subdivision now under development in McCracken County near the City of Paducah, Kentucky. The subdivision developer, Billy Gene Waid, will finance the cost of utility construction from private funds. He plans to recoup his costs through the sale of subdivision lots.

The construction plans and specifications prepared by Farris, Hatcher, Tremper and Associates, Inc., Consulting Engineers of Paducah, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

A hearing was held in the offices of the Public Service Commission in Frankfort, Kentucky, on July 23, 1986. No intervenors appeared at the hearing and no objections to the proposed construction were received.

Phase I and Phase II Construction

The Phase I facilities, for which approval to construct is sought herein, will provide sewage service for the 68 single-family residential lots proposed for Phase I subdivision development. An application for approval to construct Phase II sewage facilities for 130 additional lots is to be made at a future date that will be dependent upon the progressive sale of Phase I lots. The applicant is reminded that the future filing date should precede the future construction start date for Phase II sewage facilities by 5 months and 20 days.

REVENUE REQUIREMENTS

Joann Utilities has based its projected expenses for the proposed service area to be one-half of the 1985 costs of its existing operations. Joann Utilities concurrently had Case No. 9572 on file with the Commission for an increase in rates for its existing customers; therefore, the evidence of record in that case has been incorporated into this filing and used for the determination of revenue requirements. In Case No. 9572, the final Order set forth rates for the existing operations of Joann Utilities and in light of the approach taken by Joann Utilities for the projected expenses in this case, the Commission has determined that the same rates should apply to the proposed service area.

The Commission is aware that expenses may not increase proportionately for the additional customers, but to what extent they will actually increase is not known at this time; therefore, estimates are sometimes used. Accordingly, the Commission has used the approach presented by Joann Utilities, based on 68 customers to determine projected revenue requirement to be approximately \$8,270.

RATE DESIGN

The two sewage treatment plants currently operated by Joann Utilities are separate and distinct, serving two well-defined areas, the Joann Estates/Springbrook Manor Subdivisions and the Wilmington-Chiles Subdivision. These plants are currently serving 127 customers.¹ The Orders granting certificates of public convenience and necessity for these plants (Case Nos. 6769 dated May 23, 1977, 7603 dated July 2, 1980, and 8305 dated December 18, 1981) show that the plants have capacities of 25,000 gallons per day ("GPD") to serve a maximum of 71 customers and 20,000 GPD to serve 50 customers in the respective areas. The proposed 25,000 GPD treatment plant for Timberland Subdivision will also be a completely separate plant. Joann Utilities anticipates 68 customers in Phase I of this development and 130 customers in Phase II.

¹ Transcript of Evidence ("T.E."), July 23, 1986, page 27.

Revenues and expenses have not been separately maintained for the two existing plants and all customers are currently charged the same rate. Joann Utilities proposes to continue the practice for Timberland subdivision; however, in addition, it has requested approval of a surcharge for customers served by this plant in the amount of \$3.00 per month per customer for 4 years. In support of the surcharge, Joann Utilities stated in its May 5, 1986, response that

...historically, during the first few years of a subdivision development the expenses are far greater than the income. It would be unfair to the existing customers to charge the same rate to the new development (Timberland) because the customers in the two existing areas would be subsidizing the new development during the first few years until the new development had enough customers to pay for itself.

Projected expenses for Timberland were based on one-half the combined cost of operating the two existing plants.

Due to differences in the age, size, number of customers served, and unique maintenance of repair, the cost of operation per plant would vary. For example, Joann Utilities has contracted with Paducah Water Works for billing services at a cost of \$1.00 per customer or 10 percent of the amount billed, whichever is greater.² Based on the maximum of 71 customers to be served by the Joann Estates/Springbrook Manor plant, 50 to be served by the

² T.E., pages 45-46.

Wilmington-Chiles plant, 18 anticipated to be served in the first year by the Timberland plant, and the proposed monthly rate of \$12.50, the annual billing costs would be approximately \$1,065, \$750, and \$270, respectively.³ Thus, even though the expense incurred by Joann Utilities would be the same per customer, allocation of the expense in equal amounts to each plant would result in unequal costs to Joann Utilities' customers.

In his testimony, Kenneth Hatcher, Engineer,⁴ testified that Joann Utilities had never made a profit; thus, it would be impossible to determine whether the existing plants would subsidize Timberland without the surcharge, the Timberland surcharge would, in fact, provide a subsidy to the existing plants, or whether there would be any subsidy. Further, a surcharge, as proposed, places a burden on initial customers to pay for excess plant capacity constructed to serve future customers and from which the initial customers would receive no benefit. The Commission is of the opinion, therefore, that the surcharge has not been justified and should be denied.

As discussed above, the existing and proposed sewage treatment plants are physically independent and serve geographically separate areas. Likewise, they differ in age, size and number of customers to be served by each. Joann Utilities' current practice of combining records without maintaining adequate detailed

³ \$12.50 X 71(12) X 10% = \$1,065
 \$12.50 X 50(12) X 10% = 750
 \$12.50 X 18(12) X 10% = 270

⁴ T.E., pages 10-11.

support for all plants is unsatisfactory and does not provide an adequate base upon which to determine the reasonableness of the rates to be charged to each plant's customers independently. Joann Utilities should establish and maintain separate records for each of its sewage treatment plants in a manner that would allow the Commission, for rate-making purposes, to determine cost of service for each system separately. This requirement does not preclude Joann Utilities from filing an annual report on a combined basis.

FINDINGS AND ORDERS

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

1. Public convenience and necessity require that the construction proposed in the application and record be performed and that a certificate of public convenience and necessity be granted.
2. The approved construction includes a 25,000 GPD sewage treatment plant with polishing lagoon and chlorine contact chamber, about 6,930 feet of sewer pipe (5,900 feet of 8-inch PVC main and 1,030 feet of 6-inch laterals), 20 manholes, a lift station and other appurtenances. The final construction cost estimate prepared by the Engineers totaled \$140,540.
3. Construction of sewage facilities for the Timberland Subdivision will be paid for by capital donations from Billy Gene Waid, the subdivision developer. Joann Utilities will issue stock certificates to Mr. Waid in return for the donated capital. The Articles of Incorporation for Joann Utilities authorize 2,000

shares of stock having no par value. Shares of this stock have been issued to Mr. Waid for prior construction of sewage facilities in McCracken County. Mr. Waid now holds 925 shares.

4. Any deviations from the construction herein approved which could adversely affect service to any customer should be done only with the prior approval of this Commission.

5. The monthly rate and the surcharge thereto proposed by Joann Utilities should be denied.

6. The Appendix A rates should be approved for the sewage collection and disposal services to be provided by Joann Utilities for the Timberland Subdivision.

7. Joann Utilities should furnish duly verified documentation of the total costs of this construction including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

8. Joann Utilities' contract with its Engineer should require full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering to insure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

9. Joann Utilities should require the Engineer to furnish 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.

10. The \$140,540 financing plan proposed by Joann Utilities is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its services to the public and will not impair its ability to perform these services, is reasonably necessary and appropriate for such purposes and should, therefore, be approved.

IT IS THEREFORE ORDERED that:

1. Joann Utilities be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction as set forth in the plans and specifications of record herein.

2. Joann Utilities' plan of financing consisting of \$140,540 contributions in aid of construction by Billy Gene Waid, the developer of Timberland Subdivision, be and it hereby is approved.

3. The rate and surcharge proposed by Joann Utilities be and they hereby are denied.

4. The rates in Appendix A be and they hereby are approved.

5. Joann Utilities shall establish and maintain separate records for each of the sewage plants that would allow the Commission, for rate-making purposes, to determine a cost of service for each system separately.

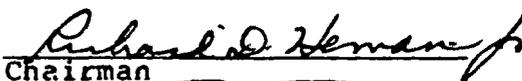
6. Joann Utilities shall comply with all matters set out in Finding 4 and Findings 7 through 10 as if the same were individually so ordered.

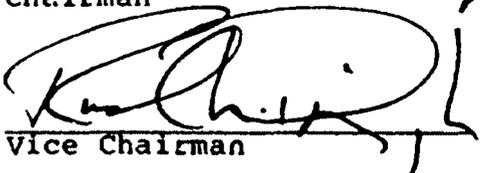
7. Within 30 days of the date of this Order, Joann Utilities shall file its tariffs with the Commission in accordance with Commission Regulations 807 KAR 5:011 and the schedule of rates approved herein.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 17th day of October, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9533 DATED 10/17/86

The following rate is prescribed for the customers receiving sewage service from Joann Estates Utilities, Inc., in the Timberland Subdivision. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

<u>CUSTOMER CLASS</u>	<u>MONTHLY RATES</u>
Single Family Residential	\$10.00