

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A REQUEST TO THE KENTUCKY PUBLIC)
SERVICE COMMISSION FOR A CERTIFICATE)
OF CONVENIENCE AND NECESSITY AND THE) CASE NO. 9982
ESTABLISHMENT OF SEWER RATE FOR)
OLDHAM WOODS SANITATION, INC.)

O R D E R

Oldham Woods Sanitation, Inc. ("Oldham Woods"), filed an application on July 30, 1987 for a certificate of public convenience and necessity authorizing the construction of a 100,000-gallon per day sewage treatment plant and collection system, and for approval of initial rates.

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

TEST PERIOD

Since this is a proposed rather than an operating utility, actual test-year information does not exist. Oldham Woods provided estimated future operating expenses which have been used in the determination of revenue requirements.

PROJECTED REVENUES AND EXPENSES

Oldham Woods projected annual operating expenses of \$19,920 during the initial filling of the lagoons. The capital costs associated with the sanitation treatment system are not included in the projected operating expenses since Oldham Woods' developers

will recover these costs in the sales price of the lots. The Commission is of the opinion that the projected operating expenses seem reasonable and they have, therefore, been accepted.

REVENUE REQUIREMENTS

Based on the initial 69 customers to be served by Oldham Woods, the \$20 per month rate proposed in the original application will not provide sufficient revenues to meet Oldham Woods' estimated operating expenses, anticipated first-year interest expense from long-term debt of \$44,761, and provide for adequate equity growth. The Commission is of the opinion that Oldham Woods' proposed rate is promotional in nature and that subsidization by the developers may be required until such time as the number of customers served enable it to become self-supporting. However, given that the determination of revenue requirements is based on estimated future expenses, the Commission is of the opinion that the proposed rate should be accepted.

RATE DESIGN

Oldham Woods proposed a single step rate schedule. This is found to be reasonable in that all customers are anticipated to be in the residential classification and that usage will be uniform.

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. The construction project proposed by Oldham Woods consists of a sewage collection system and a 100,000-gallon per day sewage treatment plant to provide sewage service for 250 single-family residential units.

3. In lieu of a third party beneficiary agreement, Oldham Woods has provided the Commission with information that a construction bond which will be filed with Oldham County Planning and Zoning Commission at the time of the recording of the final plant, and a maintenance bond, which will be effective when the plant becomes operational, are part of an interim plan to provide financial assurance for the safe, continued operation of the plant. The Commission believes these bonds are a satisfactory arrangement until Oldham Woods can furnish an acceptable third party beneficiary agreement. Oldham Woods should file that agreement within 90 days or file a status report with the Commission explaining its efforts to obtain such an agreement.

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 the Commission.

5. The total cost of the sanitation treatment system is estimated to be \$358,089. This amount should be recovered by Oldham Woods through the sales of the 250 lots of the proposed development.

6. The proposed initial rate is promotional in nature as it is inadequate at this time to produce the revenue required to meet

Oldham Woods' operating expenses, including interest expense, and to also provide for sufficient capital growth.

7. Since the revenue requirements determination is based upon estimated operating conditions which can vary from the actual operating expenses to be incurred, the proposed rate should be accepted due to the nature of projecting future expenses.

8. It has been the Commission's experience that rates which are inadequate result in higher operating expenses because of the utility's continuing need to request increased rates. These rates are unfair to the purchaser of the developed lots who expect to pay low sewage fees for a period of time longer than the initial rates are usually in effect.

9. The granting of a certificate of convenience and necessity should be expressly conditioned on full, written disclosure by Oldham Woods to the first 250 customers that the initial rate may not reflect all the costs of operation of the treatment system. The disclosure should be made before such customers have committed themselves to purchase property to be served by the system, and should be in substantially the following form:

The current rate for sewer treatment services may not be sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, your sewer rate may increase substantially.

10. Oldham Woods 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 the Commission.

11. Oldham Woods 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:

1. Oldham Woods be and hereby is 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.

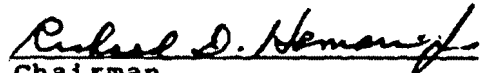
2. Oldham Woods shall obtain a written acknowledgement of notice from each customer as contained in Appendix B to this Order.

3. The rate in Appendix A is the fair, just, and reasonable rate to be charged by Oldham Woods for sewer service rendered on and after the date of this Order.

4. Oldham Woods shall comply with all matters set out in Findings 2, 3, 4, 10, and 11 as if the same were individually so ordered.

Done at Frankfort, Kentucky, this 2nd day of September, 1988.

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. 9982 DATED 9/2/88

The following rate is prescribed for the customers in the
area served by Oldham Woods.

Customer Category

Single Family Residential - per month \$20.00

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9982 DATED 9/2/88

I have read and fully understand the following:

The current rate for sewer treatment services may not be sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, your sewer rate may increase substantially.

Customer's Signature

Address

Date