

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF ROYAL SUMMIT ESTATES,	)	
OF DAVIESS COUNTY, KENTUCKY, FOR (1) A	)	
CERTIFICATE OF PUBLIC CONVENIENCE AND	)	
NECESSITY, AUTHORIZING AND PERMITTING SAID	)	CASE NO.
COMPANY TO CONSTRUCT SEWAGE TREATMENT	)	92-466
FACILITIES, COLLECTION SEWERS, SERVICE WYES,	)	
LIFT STATION(S), ETC., AND (2) APPROVAL OF	)	
THE SEWER RATES PROPOSED TO BE CHARGED BY	)	
THE COMPANY TO CUSTOMERS OF THE COMPANY	)	

O R D E R

Royal Summit Estates ("Royal Summit") has applied for a Certificate of Public Convenience and Necessity to construct a \$442,584 sewage system project. The proposed construction consists of a 30,000-gallon per day ("GPD") wastewater treatment plant, 14,280 linear feet of 6-inch pipeline, a lift station, and related appurtenances. Royal Summit expects to recover the project costs through the sale of subdivision lots. The proposed construction is expected to serve 30 residential customers, a golf course and a country club.

Drawings for the proposed construction were prepared by SMR Engineering and Environmental Services of Central City, Kentucky and Bryant Engineering, Inc. of Owensboro, Kentucky ("Engineers"), and have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

### Projected Revenue

In its application, Royal Summit projected operating revenues of \$14,160 based on a customer base of 80 residential customers. Royal Summit subsequently amended its projections and the utility now expects only 30 residential customers upon completion of Phase I of the construction. Royal Summit also projects the golf course and country club to have usage of 13,500 GPD or 405,000 gallons per month ("GPM"). Using this level of usage, the proposed rate design results in annualized projected revenues of \$11,284.<sup>1</sup>

### Operating Expenses

In Exhibit 5 of the application Royal Summit projected its annual operating expenses to be \$15,982. Since the utility has not yet been placed into operation, the related expenses are not known and measurable and are based solely on estimates. The Commission finds these projected expenses are reasonable and should be used to establish initial rates for Royal Summit.

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<sup>1</sup> 30 residential lots x 12 mos. =	360 residential equivalent units
Commercial customer: 405,000 gallons + 12,000 gallons = 33.75	
33.75 residential equivalent units x 12 mos. =	405 residential equivalent units
Total	<u>765 residential equivalent units</u>
Revenue requirement + total residential units = proposed rate for residential equivalents	
360 units x \$14.75 =	\$ 5,310
405 units x \$14.75 =	<u>5,974</u>
Projected Total Operating Revenues	\$11,284

### Revenue Requirements Determination

The approach generally used by this Commission to determine revenue requirements for small, privately-owned utilities is the operating ratio. The Commission is of the opinion that an 88 percent operating ratio would allow Royal Summit sufficient revenues to cover its operating expenses. Based on an operating ratio of 88 percent, the Commission has determined a revenue requirement for Royal Summit of \$18,161.<sup>2</sup> Therefore, Royal Summit has been granted rates sufficient to provide annual operating revenues of \$18,161, an increase of 22 percent over the normalized revenues determined by this Commission of \$11,284.

### Rate Design

Royal Summit calculates initial projected flows of 30,000 GPD or less. The projected demand of the golf course and country club is estimated to be 13,500 GPD. The residential lots sold in Phase I of the subdivision development will cause estimated flows of 12,000 GPD. An additional 4,500 GPD is included as an allowance for infiltration.

The proposed rate schedule consists of a flat monthly rate for residential customers with the same rate being applied to multi-family dwellings per unit, and a 2-step declining block schedule for commercial customers. Under the proposed rate design, commercial customers would pay a minimum monthly bill which would allow usage up to 7,500 GPM, with all usage in excess of 7,500 gallons billed at a flat rate per gallon. However, because the

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<sup>2</sup>  $\$15,982 + .88 = \$18,161.$

single residential customer usage is estimated at 400 GPD or 12,000 GPM, the fair and reasonable residential equivalent unit should be based on 12,000 GPM.

Based on the projected usage flows, the Commission approves a rate design where the commercial rate is based on a residential equivalent unit of 12,000 GPM.

#### Tap-On-Fee

Royal Summit proposed a \$900 connection fee for any residential unit outside the Royal Summit Estates Subdivision. The fee is intended to recover a portion of the estimated wastewater treatment plant cost per gallon of treatment plant capacity. A review of the utility's cost estimates indicates that the proposed tap fee is not equal to the expense of the service. The Commission finds that a connection fee of \$1,832<sup>3</sup> per residential unit outside the Royal Summit Estates is needed to reflect accurately the cost of capacity.

#### Summary

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that:

1. Public convenience and necessity require that the construction proposed be performed and that a Certificate of Public Convenience and Necessity be granted.

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<sup>3</sup> 400 GPD x \$4.58 (treatment plant cost per gallons) = \$1,832.

2. The proposed construction consists of a 30,000 GPD wastewater treatment plant, 14,280 linear feet of 6-inch pipeline, lift stations, and related appurtenances.

3. Any deviation from the construction approved should be undertaken only with the prior approval of the Commission.

4. Royal Summit should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

5. Royal Summit should furnish duly verified documentation of the total costs of this project including the cost of construction and all 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 Sewage Utilities prescribed by the Commission.

6. Royal Summit's contract with its Engineers should require the provision of construction inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering to ensure 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.

7. Royal Summit should require the Engineers 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.

8. Royal Summit represented to the Commission that it will subsidize any shortfall of operating revenue until the subdivision can become self-supporting. The granting of a Certificate of Public Convenience and Necessity and approval of the rates herein are expressly conditioned on the performance by Royal Summit of such undertaking, and further, on full written disclosure by Royal Summit to its customers that rates may not reflect all the costs of operation of the treatment system. The disclosure shall be made before such customers have committed themselves to purchase property to be served by the system, and shall be in substantially the following form:

The current rate for sewage disposal services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If this development does not continue as anticipated, your rate may increase substantially in the near future.

9. The rates in Appendix A, which is attached hereto and incorporated herein, are the fair, just, and reasonable rates for service provided by Royal Summit and will produce annual revenues of \$18,169.

10. Original Sheet No. 4 of Royal Summit's proposed tariff, should be amended to require a customer receive at least 5 days written notice of termination of service. Original Sheet No. 3, of Royal Summit's tariff should be amended to read: "No connection fees will be charged for service within the Royal Summit Estates Subdivision."

11. Within 30 days from the date of this Order, Royal Summit should file with this Commission tariff sheets setting out the rules, rates, and regulations approved herein with the effective date being the date of this Order.

IT IS THEREFORE ORDERED that:

1. Royal Summit is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction as set forth in the plans of record herein.

2. Royal Summit shall comply with all matters set out in Findings 3 through 7 and Finding 10 as if the same were individually so ordered.

3. Royal Summit be and it hereby is directed to abide by the conditions in Finding 8. Further, Royal Summit shall notify any existing property owners within 20 days of the date of this Order and shall furnish to the Commission written acknowledgement of notice as contained in Appendix B to this Order within 30 days of the date of this Order. Further, Royal Summit shall furnish to the Commission on a quarterly basis, as required, written acknowledgement of notice from each prospective customer as contained in Appendix B to this Order.

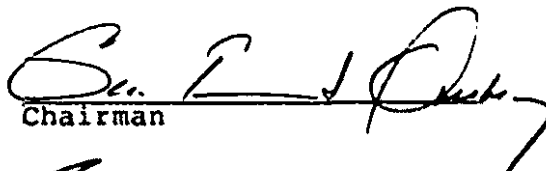
4. The rates proposed by Royal Summit are hereby denied.

5. The rates and charges in Appendix A are approved for services rendered by Royal Summit on and after the date of this Order.

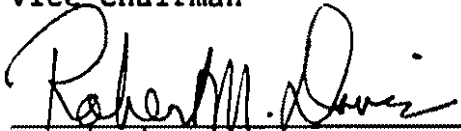
6. Within 30 days from the date of this Order, Royal Summit shall file with this Commission tariff sheets setting out the rates, rules and regulations approved herein.

Done at Frankfort, Kentucky, this 8th day of March, 1993.

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. 92-466 DATED MARCH 8, 1993

The following rates and charges are prescribed for the customers in the area served by Royal Summit Estates.

<u>Customer Category</u>	<u>Monthly Rate</u>
Single Family Residential	\$ 23.75/mo.
Multi-Family (Per Dwelling Unit)	\$ 23.75/mo.
Commercial Sewer Service:	\$ 23.75 per residential equivalent*
Connection Fee (Charged per residential unit outside the Royal Summit Estates Subdivision)	\$1,832

\* The number of residential equivalents and/or fractional parts thereof shall be determined by dividing the customer's average monthly water consumption in gallons by 12,000 gallons. The minimum bill for this type of service shall be \$23.75.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 92-466 DATED MARCH 8, 1993

I have read and fully understand the following:

The current rate for sewage disposal services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If this development does not continue as anticipated, my rate may increase substantially in the near future.

\_\_\_\_\_  
Customer's Signature

\_\_\_\_\_  
Address

\_\_\_\_\_  
Date