

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE WEBSTER COUNTY )  
FISCAL COURT FOR A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY ) CASE NO. 94-044  
TO CONSTRUCT A SEWER COLLECTION )  
SYSTEM )

O R D E R

Webster County Fiscal Court ("Webster"), by application filed April 7, 1994, seeks a Certificate of Public Convenience and Necessity for the construction of a sewage collection system, approval of its plan of financing for this project, and establishment of initial rates. The proposal consists of the construction of a sewage collection system for the City of Dixon. Project funding includes a \$1,534,592 loan from the Kentucky Infrastructure Authority ("KIA"), a \$742,500 Community Development Block Grant ("CDBG") and \$83,700 in connection fees. The loan will be for a 20-year period at an interest rate of 1.7 percent per annum.

Drawings for the proposed improvements prepared by Howard K. Bell, Consulting Engineers, Inc. of Lexington, Kentucky ("Engineer"), have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Projected Revenue

In its application, Webster based its projected operating revenues upon the water usage of 329 residential and 38 non-

residential customers. The projected estimated annual water consumption in the proposed service area is 18,250,000 gallons. Based on these conditions, the proposed rates will produce projected operating revenue of \$191,220.

Operating Expenses

Webster has projected annual operating expenses of \$100,750, including annual replacement costs of \$6,000. As the utility is not yet operational, 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 Webster.

Revenue Requirements Determination

This utility is being treated as a not-for-profit utility. Therefore, the Commission finds that use of debt service coverage ("DSC") to determine revenue requirements is appropriate. Using KIA's required DSC ratio of 1.1x, the Commission has determined a revenue requirement for Webster of \$204,091.<sup>1</sup>

In its application, Webster proposed an annual revenue requirement of \$191,220. However, that proposal included debt service requirements which were based upon a KIA loan amount of \$1,270,000. In response to the Commission's Order of May 13, 1994, Webster amended its application to increase the amount of the loan

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<sup>1</sup> Annual Operating Expense	\$100,750
<u>Add:</u>	
Annual Principal and Interest Requirement	91,156
KIA Administrative Fee	3,069
10 Percent Coverage (Annual P&I of \$91,156 x .1)	9,116
Total Revenue Requirement	<u>\$204,091</u>

to \$1,534,592. The Commission has used this amount to determine an annual revenue requirement.

Webster could have justified an annual revenue requirement of \$257,111 if it had requested inclusion of annual depreciation expense of \$59,020<sup>2</sup> rather than annual replacement costs of \$6,000. However, in order to keep its proposed sewer service rates lower, Webster chose not to include such a level of depreciation expense.

The Commission cautions Webster that its projected financial operations are based entirely upon estimates. The Commission has granted annual revenues of \$204,091. However, Webster should closely monitor its financial position and take appropriate measures as it deems necessary.

#### Rate Design

Webster has proposed a rate design based on water consumption. Each customer in the proposed service area is provided water by the City of Dixon, Kentucky, and the monthly water consumption derived from the water meter readings will be used to determine the customers' bills. Billing will be conducted by the City of Dixon. The Commission finds that the proposed rate design is appropriate and should be approved.

In its application, Webster based its calculations on an annual water consumption of 18,250,000 gallons. However, according to additional information provided by Webster, annual water

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<sup>2</sup> Total project cost+	\$2,360,792+
Appropriate depreciation period =	40 years =
Annual depreciation expense for	
rate-making purposes	<u>\$ 59,020</u>

consumption should be considered to be 22,247,004 gallons.<sup>3</sup> Therefore, the rate per 1,000 gallons should be calculated as follows:

Revenue Requirement	\$204,091 +
Annual Water Consumption	22,247,004
Rate Per 1,000 Gallons	= \$9.1739

The Commission has lowered the proposed rates to produce revenues sufficient to cover Webster's operating expenses.

SUMMARY

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

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

2. The proposed construction consists of approximately 20.8 miles of 8-, 6-, 2- and 1.5-inch gravity and force main sewage collection lines, seven pumping stations and miscellaneous appurtenances.

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

4. Webster should obtain approval from the Commission prior to any additional construction not expressly authorized by this Order.

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<sup>3</sup>	12 x 329 x 4,500	=	17,766,000
	12 x 37 x 2,000	=	888,000
	12 x 1 x 299,417	=	3,593,004
			<u>22,247,004</u> gallons

5. Webster should furnish 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. 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. Webster's contract with its Engineer should require 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. Webster should furnish a copy of the "as-built" drawings and a statement signed by the Engineer 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. The financing plan proposed by Webster is for lawful objects within its corporate purposes, is necessary and appropriate for the consistent and proper performance of its service to the public and will not impair its ability to perform these services. The financing plan is reasonably necessary and appropriate for such purposes and should, therefore, be approved.

9. Webster shall monitor the adequacies of the sewage collection system after construction. If the service, operation or maintenance is inadequate or falls outside the requirements of 807 KAR 5:071, Webster shall take immediate action to bring the system into compliance with Commission regulations.

10. Webster's proposed rates are too high.

11. The rates in Appendix A, which is attached hereto and incorporated herein, are the fair, just, and reasonable rates for service provided by Webster.

12. Within 30 days from the date of this Order, Webster 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. Webster be and it hereby is granted a Certificate of Public Convenience and Necessity to perform the construction as proposed in its application.

2. Webster's plan to finance construction with KIA and CDBG funds is hereby approved.

3. Webster's proposed rates are denied.

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

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


6. Webster shall comply with requirements contained in Findings 3 through 7 and Finding 9.

Done at Frankfort, Kentucky, this 10th day of June, 1994.

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. 94-044 DATED JUNE 10, 1994

The following rates and charges are prescribed for the customers in the area served by Webster County Sanitation District. 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.

Schedule of Rates

All Usage	\$9.18 per 1,000 gallons
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There will be a minimum bill of \$9.18 per customer each month which entitles the customer to 1,000 gallons of use.