

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

TARIFF FILING OF KINGSWOOD)
DEVELOPMENT, INC. TO ESTABLISH) CASE NO. 97-257
RATE FOR PROVIDING SEWER)
SERVICE)

ORDER

On May 6, 1997, Kingswood Development, Inc. ("Kingswood") filed its proposed monthly rate of \$38.84 for sewer service provided by its wastewater treatment facility to the residents of the Kingswood Subdivision of Bullitt County, Kentucky. The proposed rate was to become effective on October 1, 1997. The Commission suspended the proposed rate for a period of five months to determine its reasonableness. By this Order, the Commission approves the proposed rate.

TEST PERIOD

Kingswood has yet to begin operations and currently has no customers. Accordingly, the Commission is unable to establish rates based upon a historical test period of operations. The Commission has instead used estimated pro forma expenses to determine Kingswood's revenue requirement.

PROJECTED REVENUES AND EXPENSES

Kingswood projects operating revenues and expenses of \$38,844 and \$38,840, respectively, based upon a projected customer base of 100 residential customers. The Commission finds that Kingswood's projected operating expenses are generally reasonable and has accepted them with the following exceptions:

PSC Assessment. Kingswood proposes to include a PSC assessment of \$60 in its pro forma expenses. Based upon projected revenues of \$38,444, Kingswood's assessment is only \$50. See KRS 278.130. The Commission has therefore reduced Kingswood's proposed pro forma expense by \$10.

Depreciation/Amortization. Kingswood proposes pro forma levels of depreciation and amortization expenses of \$7,166 and \$3,060, respectively. Based upon its calculation of amortization expense, it appears that Kingswood intends to amortize construction overhead costs over 5 years. As the Uniform System of Accounts for Sewer Utilities ("Sewer USoA") classifies overhead costs as a cost of construction to be recorded in the appropriate utility plant account and depreciated rather than amortized, the Commission has allocated overhead construction costs between Kingswood's 20 and 10 year assets.

Summary. After consideration of the aforementioned adjustments, projected revenues and expenses are as follows:

| | <u>Proposed Operations</u> | <u>Commission Adjustments</u> | <u>Adjusted Operations</u> |
|----------------------|--------------------------------|-----------------------------------|--------------------------------|
| Operating Revenues | \$ 38,844 | \$ -0- | \$ 38,844 |
| Operating Expenses | <u>38,840</u> | <u>(2,816)</u> | <u>36,024</u> |
| Net Operating Income | <u>\$ 4</u> | <u>\$ 2,816</u> | <u>\$ 2,820</u> |

REVENUE REQUIREMENT

The Commission has historically used an operating ratio approach to determine revenue requirements for small, privately-owned utilities. This approach is used because no basis for rate-of-return determination exists or the cost of the utility has fully or largely

been recovered through the receipt of contributions. The Commission finds that this method should be used to determine Kingswood's revenue requirements.

Kingswood's requested operating revenue of \$38,844 provides for an operating ratio of only 92.6 percent.¹ Normally the Commission establishes sewer utility rates using an operating ratio of 88 percent, which if used in this case would result in higher rates. Since Kingswood has yet to begin operations, it is difficult to estimate or project operating revenues and expenses. The Commission is concerned that the requested rate may not provide Kingswood with an adequate surplus necessary for equity growth. While approving the requested rate, the Commission cautions Kingswood to closely monitor its financial position and to take the appropriate action as it deems necessary.

Having considered the application and evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Based upon the utility's projected customer base of 100 customers, the rate in Appendix A will produce annual sewer revenues of \$38,844.
2. The rates set forth will allow Kingswood sufficient revenues to meet its operating expenses and provide for future equity growth, including provisions for servicing its debt.
3. Kingswood should monitor its financial condition to ensure that its rates remain adequate to meet its operating expenses and provide for equity growth.

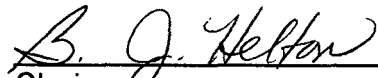
¹ \$36,024 (Operating Expenses) ÷ \$38,884 (Operating Revenue) = 92.6%.

IT IS THEREFORE ORDERED that:

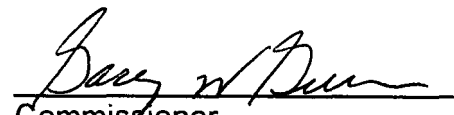
1. The rate set forth in Appendix A to this Order is approved for sewer service rendered by Kingswood on and after the date of this Order.
2. Within 30 days of the date of this Order, Kingswood shall file with the Commission revised tariff sheets setting out the rate approved herein.
3. Nothing contained herein constitutes nor shall be considered as approval of any construction project not previously considered and approved by the Commission in Case No. 96-423.²

Done at Frankfort, Kentucky, this 27th day of February, 1998.

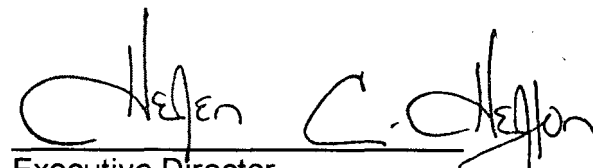
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

² Case No. 96-423, Application of Kingswood Development, Inc for a Certificate of Public Convenience and Necessity (Feb. 28, 1997).

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 97-257 DATED FEBRUARY 27, 1998

The following rates and charges are prescribed for the customers in the area served by Kingswood Development, Inc. 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.

Monthly Sewer Service Rate

\$38.84