

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION AND PETITION OF)
SANITATION DISTRICT NO. 2 OF)
MONTGOMERY COUNTY, KENTUCKY, A)
SANITATION DISTRICT FORMED)
PURSUANT TO THE PROVISIONS OF)
SECTIONS 220.010 THROUGH 220.540)
OF THE KENTUCKY REVISED STATUTES)
SEEKING A CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
AUTHORIZING THE CONSTRUCTION OF)
A SANITARY SEWER SYSTEM TO SERVE)
THE DISTRICT; SEEKING APPROVAL OF)
PROPOSED SEWER RATES; AND SEEKING)
APPROVAL OF THE ISSUANCE OF)
SANITATION DISTRICT BONDS TO)
FINANCE THE COST OF SAID SEWER)
SYSTEM)

CASE NO. 8282

O R D E R

The Sanitation District No. 2 of Montgomery County, Kentucky, ("Sanitation District") filed an application on July 7, 1981, for approval of the financing and certification of the construction of a \$3,265,200 project to provide sewage collection and disposal service to 450 initial customers including the Camargo Elementary School. It also requested approval of its proposed rates for sewage service. The rates allowed herein should produce annual revenues of approximately \$90,000 from the 450 initial customers.

The \$3,265,200 financing includes \$66,500 from applicants for service, a \$185,000 grant from the Farmers Home Administration ("FmHA"), loans totalling \$663,000 from the FmHA and a \$2,350,700 grant from the Environmental Protection Agency. The loan repayment period is to be 40 years with principal repayment deferred for the first 2 years. The FmHA interest rate will be 5 percent on the initial loan commitment of \$594,000 and 12 percent on the \$69,000 loan commitment obtained after construction bids were received. Sanitation District's revenue bonds are to be issued as security for these loans.

A copy of a letter from the Division of Water of the Department for Natural Resources and Environmental Protection approving the plans and specifications as prepared by the engineering firm of Proctor-Davis-Ray ("Engineer") is on file with this Commission.

A hearing was held on October 21, 1981, in the offices of the Public Service Commission in Frankfort, Kentucky. At the hearing, certain requests for additional information were made. This information has been filed, and the entire matter is now submitted for final determination by the Commission.

Test Period

Construction of the sewage facilities proposed by Sanitation District has not been started at this time. Therefore, test period information is not available for determination of

sewage service rates. Estimated operating expenses were used in the determination of revenue requirements and rates.

Projected Operating Expenses

Sanitation District submitted a level of operating expenses projected on the basis of providing service to 450 initial customers. The Commission is of the opinion that the projected level of \$36,988 in annual operating expenses is fair, just and reasonable and has accepted it for rate-making purposes. A breakdown of this figure is provided in Appendix B to this order.

Revenue Requirement

In the determination of its revenue requirement, Sanitation District proposed to include 1.2X its debt service coverage which is in conformity with the requirements of its lender, the FmHA. The Commission is of the opinion that this method is fair, just and reasonable and has accepted it for rate-making purposes. The Commission, therefore, has computed Sanitation District's operating revenue requirement to be \$89,913 as calculated in Appendix B to this order.

Summary

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

1. The public convenience and necessity require that the construction proposed in the application be performed and that a certificate of convenience and necessity be granted.

2. Sewage collection and treatment facilities to be provided by the proposed construction include: a 284,000 gallon per day sewage treatment plant; 53,000 feet of 8-inch gravity sewers; 28,800 feet of force mains comprised of 10,000 feet of 6-inch pipe, 4,500 feet of 4-inch pipe, 10,000 feet of 2-inch pipe and 4,300 feet of 1 1/2-inch pipe; and 18 sewage pump stations of which 4 are wet pit stations with 4-inch pumps and 14 are 1 1/4-inch grinder pump stations. The low bids received September 23, 1981, totaled \$2,473,632.

3. Any deviation from the approved construction which could adversely affect service to any customer should be subject to the prior approval of this Commission.

4. The FmHA letter of conditions dated July 5, 1979, requires the deposit of \$30,000 into an "Initial Operations and Maintenance Reserve Account." This account should be established by Sanitation District to be used proportionately over the first 5 years of operations to supplement initial operating revenues.

5. The proposed borrowing of \$663,000 is for lawful objects within the corporate purposes of Sanitation District, is necessary and appropriate for and consistent with the proper performance of services to the public by Sanitation District, will not impair its ability to perform these services and is reasonably necessary and appropriate for such purposes.

6. Sanitation District's plan of financing in the amount of \$3,265, 200 should be approved.

7. Sanitation District should furnish duly verified documentation of the total cost 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.

8. Sanitation District's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering. This supervision and inspection should 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. Sanitation District should require the Engineer to furnish a copy of the record plans 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. Sanitation District should file with the Commission a copy of all contractual agreements for the provision of services or the purchase of services which are subject to the approval of this Commission.

11. The rates proposed by Sanitation District are fair, just and reasonable and should be approved.

IT IS THEREFORE ORDERED that Sanitation District be and it hereby is granted a certificate of public convenience and

necessity to proceed with the proposed construction as set forth in the contract plans, specifications and finding number three herein.

IT IS FURTHER ORDERED that any deviations from the approved construction which could adversely affect the service to any customer shall be subject to the prior approval of the Commission.

IT IS FURTHER ORDERED that Sanitation District be and it hereby is authorized to borrow \$594,000 at 5 percent and \$69,000 at 12 percent from the FmHA over a 40-year period with payment of principal deferred for 2 years and to issue water-works revenue bonds as security therefor.

IT IS FURTHER ORDERED that Sanitation District's plan of financing in the amount of \$3,265,200 be and it hereby is approved.

IT IS FURTHER ORDERED that Sanitation District shall establish a \$30,000 Initial Operations and Maintenance Reserve Account to be utilized proportionately over the first 5 years of operations to supplement initial operating revenues in accordance with its bond ordinance and finding number four herein.

IT IS FURTHER ORDERED that Sanitation District shall file with the Commission duly verified documentation which shows the total costs of construction herein certificated including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that the contract between Sanitation District and its Engineer shall require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering. This supervision and inspection shall insure that the construction work is done in accordance with the contract plans and specifications and conforms with the best practices of the construction trades involved in the project.

IT IS FURTHER ORDERED that Sanitation District shall require the Engineer to furnish the Commission with a copy of the record 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 the proposed construction.

IT IS FURTHER ORDERED that Sanitation District shall file with the Commission a copy of all contractual agreements for the provision of services or for the purchase of services which are subject to the approval of this Commission.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates for Sanitation District to charge for sewer service and are hereby approved effective with the date of this order.

IT IS FURTHER ORDERED that within 90 days of the date of this order Sanitation District shall file its tariff sheet

setting forth the rates approved herein. Further, a copy of Sanitation District's operating rules and regulations shall be filed with its tariffs.

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

Done at Frankfort, Kentucky, this 20th day of April, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Woz
Chairman

Katherine Bradlee
Vice Chairman

Tom Carver
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8282
DATED April 20, 1982

The following rates are prescribed for all customers
in the area served by Sanitation District No. 2 of Montgomery
County.

RATES: Monthly

First 2,000 gallons

\$ 8.40 Minimum Bill

Over 2,000 gallons

4.20 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8282 DATED APRIL 20,
1982

Sanitation District No. 2 of Montgomery County

Operating Expenses

Treatment Facility:

Power	\$ 7,679	
Chlorine	591	
Maintenance and Repairs	1,000	
Building Services	900	
Laboratory	1,000	\$11,170

Lines and Pumping Stations:

Power	\$ 6,440	
Maintenance and Repairs	1,990	
Labor	12,000	
Billing Services	5,388	\$25,818

Total Operating and Maintenance Expenses \$36,988

Add:

Debt Service	\$44,104	
X 1.2	X 1.2	
	<u>\$52,925</u>	\$52,925

Revenue Requirement \$89,913