

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RATE ADJUSTMENT OF KENTON) CASE NO.
COUNTY WATER DISTRICT) 8572

ORDER GRANTING REHEARING

Following the entry of the Commission's Order of March 22, 1983, granting an increase in rates of \$904,073 Kenton County Water District ("Kenton County"), filed an Application for Rehearing on April 7, 1983. The application asserted that the Commission used the amount \$508,242 for interest income whereas the proper amount was \$184,907, or no more than that amount plus \$14,757, \$13,232 and \$27,426, or a total of \$240,316. Of the \$267,926 difference between the \$508,242 used by the Commission and Kenton County's figure, Kenton County claims \$191,680 is inappropriate for consideration since it is needed to defease the "old" bonds. Kenton County asserts that the remaining \$76,246 interest at issue, consisting of interest on the debt service reserve fund, is restricted as to its use and unavailable for purposes of calculating revenue requirements.

A second area of concern to Kenton County involved the Commission's denial of depreciation expense on contributed property. Although the rate-making treatment applied is consistent with the Commission's longstanding policy on this item,

of which counsel for Kenton County should have been aware, Kenton County claimed the adjustment was a surprise resulting in a denial of Kenton County's due process rights.

Referring to Kenton County's prior rate case, Case No. 7794, the Commission notes that a request for approval of financing which included the defeasement of Kenton County's old bonds was also addressed in that case. Fox, Reusch and Co., Inc., financial advisers to Kenton County, supplied information in Case No. 7794 on behalf of Kenton County's request which evaluated the various financing alternatives available to Kenton County, including defeasement of the old bonds. Their estimate for the cost of defeasing the old bonds was \$2,169,000 and was to be paid from the proceeds of a new bond issue totalling \$13,510,000. However, the Commission notes that the Kenton County bond resolution filed in response to a staff request in this case indicates that only \$1,875,900 of the proceeds was allocated to defease the old bonds. That figure is inconsistent with Kenton County's own Exhibit 4 to its Application filed September 30, 1982, which shows that only \$1,187,900 of the bond proceeds was escrowed in a fund to defease the old bonds. This question must be satisfied concurrently with the interest income issue raised on rehearing by Kenton County.

Having considered the evidence of record and the Application for Rehearing and attached affidavits, and being advised, the Commission is of the opinion and finds that the Application

for Rehearing should be granted and that the rehearing should include an investigation into the proper level of funding of the defeased old bonds.

IT IS THEREFORE ORDERED that Kenton County's Application for Rehearing be and it hereby is granted.

IT IS FURTHER ORDERED that the rehearing shall include an investigation into the funding of the defeased old bonds and the use of the proceeds from the 1981 bond issue of \$13,510,000.

IT IS FURTHER ORDERED that Kenton County shall file responses to the following information requests, indicating the witness responsible for preparation, within 14 days of the date of this Order:

1(a). Provide a detailed narrative explanation of the reserve requirements of the February 1, 1980, General Bond Resolution Securing Water District Revenue Bonds. As a part of this explanation include the annual deposits required for each reserve, the total amount of funding required for each reserve, details of all restrictions on the uses of the funds included in each reserve account, the level of funds in each reserve at the end of the test period, and the anticipated uses of any of these funds on an annual basis for the next 5 years.

(b). Provide a similar analysis to that required in 1(a) for all other cash reserves and investments maintained at the test year end.

(c). Reconcile cash reserves and investments as listed in 1(b) and the reserve requirements referred to in 1(a) with the Balance Sheet.

2. Provide the basis for the determination of annual revenue requirements as specified in the bond resolution. Use actual test year data and cite specific sections of the bond resolution which support the calculation provided.

3(a). Provide a detailed analysis of the actual uses of the proceeds of the 1980 bond issue. Include a detailed narrative explanation of all differences in the projected uses of the funds as set out in the official statement covering the Bond Issue and the actual use of the funds.

(b). Provide a narrative explanation and supporting documentation to show what disposition was made of the debt service reserve fund previously maintained on the defeased old bonds upon their defeasement.

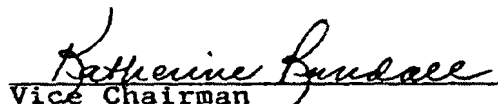
(c). Provide in verified form a statement from the trustee detailing the funds originally provided from Kenton County for defeasing the old bonds, the amount currently held by the trustee to defease the bonds, the precise location of those funds also indicating how they are invested and at what rate of interest.

IT IS FURTHER ORDERED that a hearing shall be held on June 2, 1983, at 9:30 a.m., Eastern Daylight Time, at the Commission's offices in Frankfort, Kentucky.

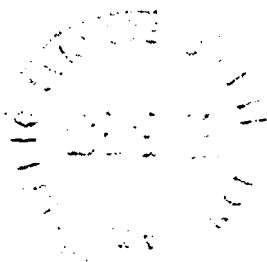
Done at Frankfort, Kentucky, this 27th day of April, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner



ATTEST:

Secretary