

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HARDIN COUNTY)
WATER DISTRICT NO. 2, HARDIN)
COUNTY, KENTUCKY, (1) FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY AUTHORIZING SAID)
DISTRICT TO CONSTRUCT MAJOR)
IMPROVEMENTS AND ADDITIONS TO ITS)
EXISTING MUNICIPAL WATER DISTRI-) CASE NO. 9041
BUTION SYSTEM PURSUANT TO THE)
PROVISIONS OF CHAPTER 74 OF THE)
KENTUCKY REVISED STATUTES; (2))
SEEKING APPROVAL OF THE ADJUST-)
MENT OF WATER SERVICE RATES AND)
CHARGES; AND (3) SEEKING APPROVAL)
OF THE ISSUANCE OF CERTAIN)
SECURITIES)

O R D E R

The Hardin County Water District No. 2 ("Hardin") filed an application on April 20, 1984, for approval of adjustments to its water service rates, authorization to construct a \$2,133,500 waterworks improvements project, and approval of its financing for the proposed project. Hardin's project financing includes \$162,500 from applicants for service in the proposed project area, a loan of \$1,571,000 from the Farmers Home Administration ("FmHA") at 11 5/8 percent annual interest, and a loan of \$150,000 from the FmHA at an annual interest rate of 10.0 percent. The FmHA loan amount was reduced from \$400,000 to \$150,000 after construction bids were received.

Hardin will issue waterworks revenue bonds as security for the FMHA loans. The repayment period for the loan will be 40 years. The proposed improvements will provide service to about 200 additional customers.

Plans and specifications for these improvements as prepared by GRW Engineers, Inc., of Bowling Green, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Hardin originally requested approval of increased rates which would provide an increase in operating revenues of \$286,590. Hardin later revised its filing to request increased rates which would provide an increase in operating revenues of \$361,705. After changes due to revised financing, Hardin requested an increase in operating revenues of \$358,405. The Commission has allowed the requested increase in this Order.

A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on September 6, 1984. There were no intervenors, and no protests were entered.

TEST PERIOD

Hardin proposed and the Commission has accepted the 12-month period ending December 31, 1983, as the test period in this matter.

REVENUES AND EXPENSES

Hardin had a net operating loss for the test period of \$69,184. In order to reflect expected operating conditions subsequent to completion of the proposed construction project, Hardin proposed numerous adjustments to revenues and expenses

resulting in an adjusted net operating loss of \$44,694. The Commission finds Hardin's proposed adjustments to be generally proper and has accepted them for rate-making purposes with the following exceptions:

Water Sales

Hardin purchased its water from both Hardin County Water District No. 1 ("HCWD No. 1") and the City of Elizabethtown ("Elizabethtown") during the test period. The purchased water rate from Elizabethtown was nearly double that of HCWD No. 1. At the hearing, Hardin's witnesses testified that the proposed construction would alleviate the need to purchase from Elizabethtown and that Hardin was no longer purchasing water from Elizabethtown. The Commission has normalized Hardin's test period purchased water expense of \$347,210 by \$24,830¹ to reflect both the rate increase experienced from HCWD No. 1 effective in June 1983² and the reduction in purchased water cost experienced because Hardin will no longer purchase water from Elizabethtown. Additionally, the Commission has accepted Hardin's proposed adjustment to purchased water cost of \$8,000 to reflect increased cost due to new customers for a total pro forma purchased water cost of \$380,040.

¹	531,485.3 Thousand gallons (Test Period Volume)		
	X \$0.70 per Thousand gallons	=	\$372,040
	Test Period Expense	=	347,210
	Increase	=	<u>\$ 24,830</u>

² Refer to Response filed June 18, 1984, to 1st Staff Request, Item 11.

Depreciation Expense

The Commission has allowed depreciation expense on the proposed construction in the amount of \$30,250, a reduction in Hardin's original proposed depreciation expense for the new construction of \$4,870, due to revisions in the estimated construction cost.³

Capital Expenditures

Hardin's witness Mr. Aubrey Young was questioned at the hearing regarding numerous expenditures which were accounted for as maintenance expenses for the test period. Mr. Young testified that these repair items were expensed rather than capitalized because of the insignificance of the dollar amounts and because the original assets would continue to be reflected on the books for many years, although he admitted that these repair items would tend to extend the useful life of the assets affected.⁴ The Commission is of the opinion that the estimated useful lives of these plant additions totalling \$8,663 is 10 years and has therefore adjusted operating expenses by \$8,663 to remove these items from expenses and to increase depreciation expense by \$866, a net adjustment of \$7,797.⁵ The Commission is further of the opinion that Hardin should more closely evaluate its maintenance

³ Refer to Information filed November 21, 1984, Amended Table V-4.

⁴ Transcript of Evidence, September 6, 1984, page 40.

⁵ See Appendix B for a list of these items.

expenditures in the future to properly determine whether they should be capitalized or expensed.

Therefore, the Commission finds that Hardin's adjusted test period operations are as follows:

	<u>Hardin Adjusted</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 817,840	\$ 0	\$817,840
Operating Expenses	<u>862,534</u>	<u>12,163</u>	<u>874,697</u>
Net Operating Income	\$ <u>(44,694)</u>	\$ <u>(12,163)</u>	\$ <u>(56,857)</u>
Other Income	<u>\$ 44,045</u>	<u>\$ 0</u>	<u>\$ 44,045</u>
Income Available for Debt Service	<u>\$ (649)</u>	<u>\$ (12,163)</u>	<u>\$ (12,812)</u>

REVENUE REQUIREMENTS

The Commission has used the debt service coverage ("DSC") method to determine appropriate revenue requirements for Hardin. Hardin's pro forma average debt service, including financing of the proposed construction project, is \$302,185. Hardin's proposed revenue requirement of \$1,220,290 including other income of \$44,045 will produce net operating income of \$345,583 and a DSC of 1.14X which the Commission finds to be the fair, just and reasonable coverage for Hardin to earn to insure its financial stability and to provide reliable and adequate service to its customers.

RATE STRUCTURE

Hardin's present rate structure allows a different minimum bill to be charged for each size connection. However, there is no correlation between the number of gallons allowed and the rate charged for each minimum bill. For example, Hardin's present

minimum bill for the 4-inch rate schedule is \$140 which entitles the consumer to use 50,000 gallons. The charge for 50,000 gallons under the 5/8 X 3/4-inch rate schedule is \$57.30.

The Commission is of the opinion that a minimum charge for the various size connections is fair; however, the Commission has determined that all rate schedules should reflect the same rate per 1,000 gallons. Therefore, the Commission has adjusted the amount to be paid for each minimum to reflect the rate per 1,000 gallons under the 5/8 X 3/4-inch rate schedule.

FINDINGS AND ORDERS

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

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

2. The proposed construction includes a 450,000-gallon water storage tank, a 300,000-gallon water storage tank, about 200 service connections, about 33 miles of 12-, 10-, 8-, 6- and 4-inch water main and miscellaneous appurtenances.

3. The low bids received for the proposed improvements totaled \$1,437,702 which will require about \$1,848,000 in project funding after allowances are made for fees, contingencies and other indirect costs.

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

5. The proposed borrowing of \$1,721,000 is for lawful objects within the corporate purposes of Hardin, is necessary and appropriate for and consistent with the proper performance of services to the public by Hardin, and will not impair its ability to perform these services.

6. The financing secured by Hardin for this project will be needed to pay for the work herein approved. Hardin's financing plan should, therefore, be approved.

7. Hardin should file with the Commission duly verified documentation which shows the total costs of construction including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

8. Hardin'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. The 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. Hardin 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. A 5/8-inch x 3/4-inch meter should be the standard customer service meter for all new customers and should be installed at all points of service unless the customer provides sufficient justification for the installation of a larger meter.

11. Hardin 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.

12. The rates and charges in Appendix A are the fair, just and reasonable rates to be charged by Hardin in that they should produce the revenue required by Hardin.

IT IS THEREFORE ORDERED that Hardin be and it hereby is granted a certificate of public convenience and necessity to proceed with the waterworks improvements projects set forth in the plans and specifications of record hereby approved.

IT IS FURTHER ORDERED that Hardin shall comply with all matters set out in Finding Number 4 and Findings Number 7 through 11 as if the same were individually so ordered.


IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are approved as the fair, just and reasonable rates and charges to be charged by Hardin for service rendered on and after the date of this Order.


IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Hardin shall file its tariff sheets setting out the rates and charges approved herein.

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

Done at Frankfort, Kentucky, this 7th day of January, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9041 DATED 1/7/85

The following rates are prescribed for the customers in the area served by Hardin County Water District No. 2. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

RATES: Monthly

5/8 x 3/4-Inch Connection

First	2,000 gallons	\$ 8.15 Minimum Bill
Next	2,000 gallons	2.45 per 1,000 gallons
Next	6,000 gallons	1.95 per 1,000 gallons
Next	30,000 gallons	1.60 per 1,000 gallons
Next	60,000 gallons	1.35 per 1,000 gallons
Over	100,000 gallons	1.15 per 1,000 gallons

1-Inch Connection

First	5,000 gallons	\$15.00 Minimum Bill
Next	5,000 gallons	1.95 per 1,000 gallons
Next	30,000 gallons	1.60 per 1,000 gallons
Next	60,000 gallons	1.35 per 1,000 gallons
Over	100,000 gallons	1.15 per 1,000 gallons

1 1/2-Inch Connection

First	10,000 gallons	\$24.75 Minimum Bill
Next	30,000 gallons	1.60 per 1,000 gallons
Next	60,000 gallons	1.35 per 1,000 gallons
Over	100,000 gallons	1.15 per 1,000 gallons

2-Inch Connection

First	20,000 gallons	\$40.75 Minimum Bill
Next	20,000 gallons	1.60 per 1,000 gallons
Next	60,000 gallons	1.35 per 1,000 gallons
Over	100,000 gallons	1.15 per 1,000 gallons

3-Inch Connection

First 30,000 gallons
Next 10,000 gallons
Next 60,000 gallons
Over 100,000 gallons

\$56.75 Minimum Bill
1.60 per 1,000 gallons
1.35 per 1,000 gallons
1.15 per 1,000 gallons

4-Inch Connection

First 50,000 gallons
Next 50,000 gallons
Over 100,000 gallons

\$86.25 Minimum Bill
1.35 per 1,000 gallons
1.15 per 1,000 gallons

APPENDIX B

<u>Identifying Page Number*</u>	<u>Item</u>	<u>Expenditure</u>
3(a) Page 3 of 32	Meter	\$ 215.80
Page 3 of 32	Hydrant	390.23
Page 3 of 32	Valve	225.88
3(b) Pages 3 to 9	Rebuilt Motors	\$4,076.03
3(c) Page 16 of 34	Impeller	\$2,643.60
Page 17 of 34	3 Parts	1,111.83
		<u>\$8,663.37</u>

*Refer to Response to 2nd Staff Request, August 9, 1984,
Attachment #3.