

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF HENRY COUNTY)
WATER DISTRICT NO. 2, OF HENRY)
TRIMBLE, CARROLL, AND OLDHAM) CASE NO. 9394
COUNTIES, KENTUCKY, FOR APPROVAL)
OF CONSTRUCTION AND FINANCING)

O R D E R

The Henry County Water District No. 2 ("Henry") filed its application on August 1, 1985, for authorization to construct a \$557,000 waterworks improvement project and approval of its plan of financing for this project. The planned financing includes a \$500,000 loan from the Farmers Home Administration ("FmHA"), and a local contribution of \$57,000 from Henry. The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 10 percent per annum.

The proposed construction will improve hydraulic flow and service reliability to customers near the communities of New Castle and Smithfield in Henry County, Kentucky. Drawings and specifications for the proposed improvements prepared by Sieco, Inc., Consulting Engineers, of Columbus, Indiana, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet. Construction bids were received on November 19, 1985.

A hearing was held in the offices of the Public Service Commission, in Frankfort, Kentucky, on January 21, 1986. No intervenors were present and no protests were entered.

COMMENTARY

The record shows that a portion of the financing for which approval is requested in this case was for funding a newly constructed booster pumping station, without prior application for the Commission's approval of such construction or its financing. Henry did not notify the Commission of the need for such construction nor request a certificate of public convenience and necessity for this facility prior to its construction.

While the Commission realizes that extraordinary circumstances occasionally occur that prevent a timely application for a certificate of public convenience and necessity, there is no showing that such was true in this instance. KRS 278.020 states that a certificate must be obtained before a utility may "begin the construction of any plant, equipment, property or facility for furnishing to the public any of the services" set out in the statute. This Commission cannot condone Henry's apparent disregard for the statutory requirements and the Commission's regulations governing certificates of public convenience and necessity. Henry is hereby admonished that its conduct in this matter is not acceptable and that future such construction must receive the Commission's prior approval.

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 consists of a 300,000-gallon elevated water storage tank, a booster pumping station, and related appurtenances to improve water service to existing customers in Henry County. The low bids totaled \$383,003 which will require about \$557,000 after allowances are made for fees, contingencies, other indirect costs and previously completed construction.

3. Henry should obtain approval from the Commission prior to beginning the construction of any plant, equipment, property or facility for furnishing to the public any of the services enumerated in KRS 278.020.

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

5. Henry 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. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

6. Henry'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, to insure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Henry should require the Engineer to furnish a copy of the "as-built" 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 this construction.

8. The financing plan proposed by Henry is for the lawful objects within the corporate purpose of its utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform that service and should, therefore, be approved.

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

IT IS THEREFORE ORDERED that:

1. Henry be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein.

2. Henry's plan of financing consisting of local contributions in the amount of \$57,000 and a loan from the FmHA in the amount of \$500,000 with an interest rate of 10 percent and a 40-year term be and it hereby is approved.

3. If under new FmHA loan conditions Henry is notified and granted the option of accepting a lower interest rate at the date of closing, Henry shall file with the Commission the FmHA notification of the lower interest rate and shall provide all correspondence from and to FmHA concerning this notification within 30 days of the closing date.

4. Henry shall file a statement of the interest rate accepted from FmHA within 30 days of the date of closing.

5. If Henry accepts an interest rate different from the rate approved herein, it shall file amended pages to its bond resolution and an amended amortization schedule.

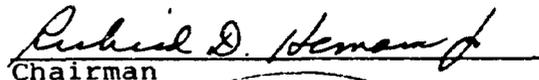
6. If Henry is eligible but does not take advantage of a lower interest rate at the time of closing, it shall fully document why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over its life.

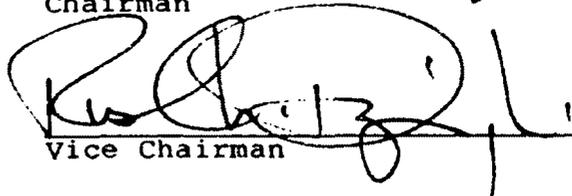
7. Henry shall comply with all matters set out in Findings 3 through 7 as if the same were individually so ordered.

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 25th day of February, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary