

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE MEADE COUNTY)
WATER DISTRICT, A WATER DISTRICT)
ORGANIZED PURSUANT TO CHAPTER 74 OF)
THE KENTUCKY REVISED STATUTES, OF)
MEADE COUNTY, KENTUCKY, FOR (1) A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY, AUTHORIZING AND PERMITTING)
SAID WATER DISTRICT TO CONSTRUCT A)
NEW WATERWORKS DISTRIBUTION SYSTEM,) CASE NO. 9459
CONSISTING OF A PUMPING STATION AND)
THE NECESSARY DISTRIBUTION SYSTEM AND)
LINES NEEDED TO SERVE WATER TO SAID)
DISTRICT; (2) APPROVAL OF THE PROPOSED)
PLAN OF FINANCING OF SAID PROJECT; AND)
(3) APPROVAL OF THE WATER RATES)
PROPOSED TO BE CHARGED BY THE DISTRICT)
TO CUSTOMERS OF THE DISTRICT)

O R D E R

The Meade County Water District ("Meade"), by application filed November 12, 1985, and revised during the proceedings in this matter, is seeking the establishment of water service rates, authorization to construct a \$1,363,900 waterworks project, and approval of its financing for the proposed project. The project financing includes \$85,400 from applicants for service, a loan of \$639,000 from the Farmers Home Administration ("FmHA"), and a Community Development Block Grant ("CDBG") of \$639,500 from the Department of Housing and Urban Development ("HUD"). The FmHA loan will be secured by waterworks revenue bonds maturing over 40-year period at an interest rate of 9 1/8 percent per annum on \$480,000 and 7 1/8 percent per annum on \$159,000.

The proposed construction will provide initial water service to about 428 applicants for service. Plans and specifications for the construction prepared by Derrick Engineering, Inc., Louisville, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on July 9, 1986. The sole intervenor was the Attorney General's Utility and Rate Intervention Division ("Attorney General").

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

Meade's Engineer has provided information which indicates that reliable and adequate service can be maintained throughout the system after completion of the proposed construction. The Commission is concerned, however, that Meade's service to its customers in the higher elevations of its service area may not be adequate in the long term.

The Commission reminds Meade of its obligation to provide adequate and reliable service to all of its customers. Meade should monitor the adequacy of the water distribution system after construction. If this monitoring indicates that the level of service is inadequate or declining, Meade must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

The Commission is also concerned that in response to its information request dated January 17, 1986, Item 10, Meade is requesting a waiver of 807 KAR 5:066, Section 11(2a), to allow the

installation of 2-inch diameter water lines which exceed the maximum lengths specified by this regulation. This concern is based on the fact that these 2-inch diameter water lines were bid to cost approximately 1.9 times as much per lineal foot as a 4-inch water line. Meade has failed to demonstrate any service or cost advantages to justify the installation of 2-inch diameter water lines in excess of the maximum lengths allowed by 807 KAR 5:066, Section 11 (2a). Due to these circumstances, a waiver of 807 KAR 5:066, Section 11 (2a), should not be allowed.

TEST PERIOD

This is a new rather than an existing utility, and accordingly, test period information does not exist. Estimated pro forma expenses have been utilized for the determination of revenue requirement.

PROJECTED REVENUES AND EXPENSES

Meade projected operating expenses on the basis of providing service to approximately 428 customers. The Commission is of the opinion that the projected operating expenses are generally proper and they have therefore been accepted with the following exception:

Depreciation Expense

Meade proposed test period depreciation expense of \$13,275.¹ The Commission, upon reviewing Meade's calculation of depreciation expense, discovered that construction overheads and the

¹ Response to Information Request dated January 16, 1986, Revised Exhibit K.

full amount of contributions in aid of construction had not been included. The Commission has calculated the appropriate level of depreciation expense for rate-making purposes to be \$15,089, an increase of \$1,814 to Meade's proposed level.

After consideration of the aforementioned adjustment, projected revenues and expenses are as follows:

	<u>Meade's Proposed Operation</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$118,558	-0-	\$118,558
Operating Expenses	<u>62,118</u>	<u>\$ 1,814</u>	<u>63,932</u>
Operating Income	<u>\$56,440</u>	<u>\$<1,814></u>	<u>\$ 54,626</u>

REVENUE REQUIREMENTS

Meade's annual debt service based on debt proposed in this proceeding is \$57,675.² Meade's requested net operating revenues of \$54,626 provide a debt service coverage ("DSC") of only 0.947X. In a case such as this where Meade is a new system yet to begin operations it is difficult to estimate or project operating revenues and expenses until the system has some actual operating results. The Commission is concerned that the rates requested may not provide an adequate surplus necessary for equity growth; however, the Commission restates that the financial data are only

2

	<u>Amount</u>	<u>Amortization Factor</u>	<u>Annual Debt Service</u>
Initial Bonds 9-1/2%	480,000	0.09469	\$45,451
Additional Bonds 7-1/8%	159,000	0.07688	<u>12,224</u>
Total			<u>\$57,675</u>

projections and estimates provided by Meade. The Commission therefore has granted the amount of revenues requested by Meade, but advises that Meade should review its financial position after one year of operating its system and take the appropriate action as it deems necessary. The Commission will monitor Meade's financial condition through review of Meade's annual reports for the purpose of determining what, if any, future rate adjustments might be necessary.

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. A waiver of 807 KAR 5:066, Section 11 (2a), to allow the installation of 2-inch diameter water lines which exceed the maximum lengths as specified by this same regulation should be denied. Meade should install small diameter water lines of lengths no greater than allowed by 807 KAR 5:066, Section 11 (2a).

2. With the changes as outlined in Finding Number 1 herein 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.

3. The proposed project for the Meade water system includes 428 service connections, about 23 miles of 10-, 8-, 6-, 4-, and 2-inch water main, a 200,000-gallon water storage tank, a booster pumping station, 3 hydropneumatic stations and miscellaneous appurtenances. The low bids received for the proposed con-

struction totaled \$1,052,168 which will require about \$1,363,900 in project funding after allowances are made for fees, contingencies, and other indirect costs.

4. Meade should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

5. 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.

6. Meade should furnish duly verified documentation of the total costs 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.

7. Meade'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 plans and specifications and in conformance with the best practices of the construction trades involved in the project.

8. Meade should require the Engineer to furnish a copy of the "as-built" drawings and a signed statement that the con-

struction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

9. 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.

10. The financing plan proposed by Meade is for lawful objects within the corporate purposes of its utility operations, is necessary and appropriate for and consistent with the proper performance of services to the public and will not impair its ability to perform these services and should, therefore, be approved.

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

12. The rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged by Meade and should produce gross metered water revenues of \$118,558.

IT IS THEREFORE ORDERED that:

1. Meade 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 on the condition that small diameter water lines be installed in accordance with 807 KAR 5:066, Section 11 (2a).

2. Meade's plan of financing consisting of a loan from the FmHA in the amount of \$480,000 with an interest rate of 9 1/8

percent and a 40-year term, and a loan from the FmHA in the amount of \$159,000 with an interest rate of 7 1/8 percent and a 40-year term, CDBG funds from the HUD in the amount of \$639,500 and \$85,400 from applicants for service be and it hereby is approved.

3. If under new FmHA loan conditions Meade is notified and granted the option of accepting a lower interest rate at the date of closing, Meade 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. Meade shall file a statement of the interest rate accepted from FmHA within 30 days of the date of closing.

5. If Meade 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 Meade 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. Meade shall comply with all matters set out in Findings 4 through 9 as if the same were individually so ordered.

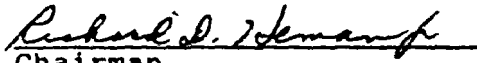
8. The rates and charges in Appendix A be and they hereby are approved for service rendered on and after the date of this Order.

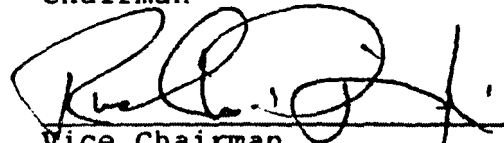
9. Within 30 days from the date of this Order, Meade shall file with the Commission its tariff sheets setting out the rates approved herein.

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 28th day of July, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9459 DATED 7/28/86

The following rates and charges are prescribed for the customers receiving water service from Meade County Water District.

Monthly Rates

First 2,000 gallons	\$ 11.30 Minimum Bill
Next 5,000 gallons	5.60 per 1,000 gallons
Next 10,000 gallons	5.40 per 1,000 gallons
Next 20,000 gallons	4.75 per 1,000 gallons
All Over 37,000 gallons	4.00 per 1,000 gallons

Service Connection Charge

5/8-inch X 3/4-inch meter	\$300.00
All connections larger than 5/8-inch X 3/4-inch	Actual cost

Reconnection Charge

\$ 15.00

Deposits

Not to exceed two-twelfths (2/12) of the estimated annual bill.

Other Special Charges

Customer Requested Meter Test	\$ 5.00
Late Charge	10 percent