

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE ADAIR COUNTY WATER)	
DISTRICT, A WATER DISTRICT ORGANIZED PUR-)	
SUANT TO CHAPTER 74 OF THE KENTUCKY REVISED)	
STATUTES, IN ADAIR COUNTY, KENTUCKY, FOR)	
(1) A CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY, AUTHORIZING AND PERMITTING SAID)	
WATER DISTRICT TO CONSTRUCT WATER DISTRI-)	CASE NO.
BUTION SYSTEM IMPROVEMENTS, CONSISTING OF)	9518
SEVENTY-SIX MILES OF WATER TRANSMISSION)	
LINE AND APPURTENANCES; (2) APPROVAL OF)	
THE PROPOSED PLAN OF FINANCING OF SAID)	
PROJECT; AND (3) APPROVAL OF INCREASED)	
WATER RATES PROPOSED TO BE CHARGED BY THE)	
DISTRICT TO ITS CUSTOMERS)	

INTERIM ORDER

The Adair County Water District ("Adair"), by application filed March 3, 1986, and revised during the proceedings in this matter, is seeking approval to increase its water service rates, authorization to construct a \$2,105,700 waterworks project, and approval of its financing for the proposed project. The project financing includes \$59,700 from applicants for service, a loan of \$1,155,000 from the Farmers Home Administration ("FmHA"), and a grant of \$891,000 from the FmHA. The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 7 3/4 percent per annum.

The proposed construction will provide water service to about 516 additional applicants for service. Plans and specifications for the construction prepared by Morton-Lyne & Associates,

Architects-Engineers, Nashville, Tennessee, ("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 May 15, 1986. There were no intervenors present and no protests were entered.

This Interim Order will address the construction and financing portion of the application. A subsequent Order will address Adair's rate adjustment proposals. In the final Order in this case, the Commission will set rates necessary to provide the utility with an opportunity to recover its reasonable operating costs, service its debt and provide a reasonable surplus for equity growth.

COMMENTARY

In 1981 the FmHA and the Public Service Commission entered into a "Memorandum of Agreement" pertaining to FmHA funded construction projects. This "Memorandum of Agreement," revised in 1984, outlines a reasonable time schedule for the accomplishment of all necessary steps to satisfy the concerns of both the FmHA and the Public Service Commission.

Unfortunately in this case, Adair has not complied with the timetable set out in the FmHA/PSC agreement. Adair's application was not timely filed and was lacking in critical information. This has precluded the Public Service Commission from properly reviewing this case and entering a final Order prior to the expiration of construction bids. In order to facilitate, if possible, the construction process the Commission has elected to

enter an Interim Order addressing only the construction and financing portion of the case at this time. This situation is not desirable since it unnecessarily adds time and expense to the Commission's review process and could jeopardize Adair's construction project.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

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

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

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 project for the Adair water system includes 516 service connections, about 76 miles of 6-, 4-, 3- and 2-inch water main, and miscellaneous appurtenances. The low bids received for the proposed construction totaled \$1,451,209 which will require about \$2,105,700 in project funding after allowances are made for fees, contingencies, other indirect costs and additional construction being considered as a result of receiving bids under the final estimate.

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

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. Adair 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.

6. Adair'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.

7. Adair 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. 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.

9. The financing plan proposed by Adair 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.

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

IT IS THEREFORE ORDERED that:

1. Adair 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. Adair's plan of financing consisting of a loan from the FmHA in the amount of \$1,155,000 with an interest rate of 7 3/4 percent and a 40-year term, a grant from the FmHA in the amount of \$891,000 and \$59,000 from applicants for service be and it hereby is approved.

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

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

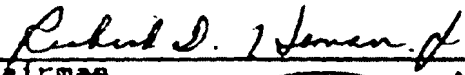
6. If Adair is eligible but does not take advantage of a lower interest rate at the time of closing, it shall fully document why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over its life.

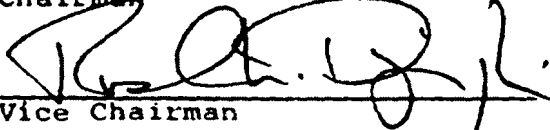
7. Adair shall comply with all matters set out in Findings 3 through 8 as if the same were individually so ordered.

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 6th day of June, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary