COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HENDRON WATER DISTRICT FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING APPLICANT TO CONSTRUCT AN ELEVATED WATER STORAGE TANK AND WATER LINES; (2) APPROVAL OF FINANCING THE PROPOSED CONSTRUCTION THROUGH THE KENTUCKY INFRA-STRUCTURE AUTHORITY AND AUTHORITY TO INCUR INDEBTEDNESS; (3) APPROVAL OF THE PROPOSED ADJUSTMENT OF RATES AND TARIFFS NECESSARY TO PAY THE INDEBTEDNESS INCURRED; AND (4) APPROVAL OF LOANS PREVIOUSLY INCURRED BY THE APPLICANT	)	CASE NO. 91-289

O R D E R

On September 12, 1991, Hendron Water District ("Hendron Water") filed an application for a Certificate of Public Convenience and Necessity to construct a $690,600 waterworks improvement project, for approval of its plan of financing for this project, for approval to convert previously incurred demand notes to long-term debt, and for adjustments to its water service rates. The proposed rates would generate approximately $156,135 annually in additional revenues, an increase of 41 percent over test-year revenues from water sales of $381,287. Project funding includes a $650,000 loan from the Kentucky Infrastructure Authority ("KIA") and $40,600 in Hendron Water funds. The loan will be for a 20-year period at an interest rate of 8 percent per annum.

Hendron Water's current financing includes short-term debt in the amounts of $60,000 and $100,000 demand notes at interest rates of 7.0 and 7.35 percent, respectively. Hendron Water will retire

a third demand note in the original amount of $45,000 in 1993. KRS 278.300(8) provides that demand notes issued by a utility need not be approved by the Commission if renewable in periods not greater than 2 years and to renewals of those notes for up to 6 years. Hendron Water now seeks Commission approval to convert the $60,000 and $100,000 demand notes to long-term debt. The third demand note is to be retired five years after its creation and needs no approval under KRS 278.300(8).

The proposed construction will add water storage capacity to Hendron Water's water distribution system, and provide service to 75 additional customers. Plans and specifications for the proposed improvements prepared by Florence & Hutcherson, Inc. of Paducah, Kentucky ("Engineer"), have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

In March of 1991, Commission Staff conducted a field review of Hendron Water's test-period financial records and assisted in the preparation of its application. Based upon this review, Commission Staff issued its report on December 12, 1991, recommending that Hendron Water be authorized to increase its annual operating revenues from rates by $135,827.

By Order dated December 19, 1991, Hendron Water was advised to file comments on the Staff Report or request a hearing within 15 days of the date of the Order. Hendron Water's attorney informed the Commission by letter dated January 6, 1992 that Hendron Water accepted the findings of the Staff Report.

FIRE HYDRANT INSTALLATION

Hendron Water proposes to install 17 conventional fire hydrants as part of this construction project. The installation of these fire hydrants must comply with Standard 24 of the National Fire Protection Association as adopted by 815 KAR 10:020 and the "Recommended Standards For Water Works" by the Great Lakes-Upper Mississippi River Board of State Sanitary Engineers as adopted by 401 KAR 6:200. The Recommended Standards for Water Works expressly state that fire hydrants shall not be connected to water mains which are not designed to carry fire flows.

The Commission in good conscience cannot approve the installation of conventional fire hydrants which would be contrary to state regulations and accepted engineering standards. Furthermore, the installation of conventional fire hydrants not in compliance with the findings enumerated below may mislead Hendron Water's customers into believing that the water distribution system is capable of providing adequate and reliable volumes of water for fire protection purposes. For this construction project only conventional fire hydrants which comply with Findings 4 through 8 should be installed.

FINDINGS AND ORDERS

After consideration of all evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Public convenience and necessity require that the construction proposed be performed and that a Certificate of Public Convenience and Necessity be granted subject to compliance with the findings listed herein.

2. The proposed construction consists of a 300,000-gallon water storage tank, approximately 4.4 miles of 10- and 6-inch diameter pipeline, and related appurtenances. Based on the low bids submitted and after allowances are made for fees, contingencies, and other indirect costs, the total project cost is $690,600.

3. Hendron Water should monitor the adequacies of the expanded water distribution system after construction. If the level of service is inadequate or declining or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 6(1), Hendron Water should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

4. In those instances where a professional engineer with a Kentucky registration can certify that adequate and reliable fire flows can be obtained in conformance with good standard engineering practice, the installation of appropriate fire hydrants should be allowed.

5. On 6-inch or larger water mains where a professional engineer with a Kentucky registration can certify that a minimum fire flow of 1,000 gallons per minute ("gpm") for a 2-hour period at 20 pounds per square inch gauge ("psig") residual pressure system-wide can be obtained, the installation of a conventional fire hydrant should be allowed. A conventional fire hydrant is defined by the Recommended Standards for Water Works of the Great Lakes-Upper Mississippi River Board of Sanitary Engineers as having a bottom valve size of at least 5 inches, one 4 1/2-inch

pumper nozzle, and two 2 1/2-inch nozzles. In those instances where such conditions do not exist, the installation of conventional fire hydrants is not good standard engineering practice.

6. In those instances where a professional engineer with a Kentucky registration can certify that a fire flow of less than 1,000 gpm, but at least 500 gpm, for a 2-hour period at 20 psig residual system-wide can be obtained, the installation of a post hydrant with two 2 1/2-inch hose nozzles should be allowed.

7. In those instances where a professional engineer with a Kentucky registration can certify that a fire flow of less than 500 gpm, but at least 250 gpm, for a 2-hour period at 20 psig residual pressure system-wide can be obtained, the installation of a post hydrant with one 2 1/2-inch hose nozzle should be allowed.

8. In those instances where a professional engineer with a Kentucky registration cannot certify a minimum of 250 gpm for a 2-hour period at 20 psig residual pressure system-wide, an appropriate blow-off valve assembly in accordance with good standard engineering practice should be installed.

9. Any deviation from the construction approved should be undertaken only with the prior approval of the Commission.

10. Hendron Water should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

11. Hendron Water 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 the Commission.

12. Hendron Water's contract with its Engineer should require the provision of construction inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure 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.

13. Hendron Water should require the Engineer to furnish within 60 days of the date of substantial completion of this construction 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.

14. The recommendations and findings contained in the Staff Report are supported by the evidence of record, are reasonable, and are hereby adopted as the findings of the Commission in this proceeding and are incorporated by this reference as if fully set out herein.

15. The financing plan proposed by Hendron Water is for lawful objects within its corporate purpose, 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 these services, and is reasonably necessary and appropriate for such purpose. It should therefore be approved.

16. The rates in Appendix A, attached hereto and incorporated herein, are fair, just, and reasonable rates for service provided by Hendron Water and will produce annual revenues from water sales of $544,976. These rates will allow Hendron Water sufficient revenues to meet its operating expenses, service its debt, and provide for future equity growth.

IT IS THEREFORE ORDERED that:

1. Hendron Water 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 fire hydrants be installed in compliance with Findings 4 through 8, and service levels be monitored and corrective action taken in accordance with Commission regulations.

2. The rates proposed by Hendron Water in its application are denied.

3. Hendron Water's financing plan consisting of a loan from KIA not to exceed $650,000 over a term of 20 years at an interest rate of 8 percent per annum and $40,600 in Hendron Water funds be and it hereby is approved. The financing herein approved shall be used only for the lawful purposes specified in Hendron Water's application.

4. Within 60 days of the date of this Order, Hendron Water shall file with the Commission the final loan documents evidencing the terms and conditions of its loan from KIA.

5. The rates in Appendix A are approved for service rendered by Hendron Water on and after the date of this Order.

6. Within 30 days of the date of this Order, Hendron Water shall file with the Commission its revised tariffs setting out the rates approved herein.

7. Hendron Water shall comply with all matters set out in Findings 3 through 14 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 3rd day of February, 1992.

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. 91-289 DATED 2/03/92

The following rates and charges are prescribed for the customers in the area served by Hendron Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE NO. 1

Rates: Applicable within the service area of the Hendron Water District, described as project #APW-KY-140-GL (PLF-KY-90, a map of which is on file in the utility office.

5/8 Inch x 3/4 Inch Meter	Rates
First 2,000 gallons	$7.30 Minimum Bill
Next 3,000 gallons	3.55 per 1,000 gallons
Next 5,000 gallons	3.20 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

3/4 Inch Meter	
First 3,500 gallons	$12.63 Minimum Bill
Next 1,500 gallons	3.55 per 1,000 gallons
Next 5,000 gallons	3.20 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

1 Inch Meter	
First 5,000 gallons	$17.95 Minimum Bill
Next 5,000 gallons	3.20 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

1 1/2 Inch Meter

First 10,000 gallons	$33.95 Minimum Bill
Next 10,000 gallons	2.75 per 1,000 gallons
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

2 Inch Meter

First 20,000 gallons	$61.45 Minimum Bill
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

SCHEDULE NO. 2

Rates: Applicable within the service area of the Hendron Water District, described as project PFL-KY-206, a map of which is on file in the utility office.

5/8 Inch x 3/4 Inch Meter	Rates
First 2,000 gallons	$10.30 Minimum Bill
Next 3,000 gallons	3.55 per 1,000 gallons
Next 5,000 gallons	3.20 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

3/4 Inch Meter

First 3,500 gallons	$15.63 Minimum Bill
Next 1,500 gallons	3.55 per 1,000 gallons
Next 5,000 gallons	3.20 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

1 Inch Meter

First 5,000 gallons	$20.95 Minimum Bill
Next 5,000 gallons	3.20 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

1 1/2 Inch Meter

First 10,000 gallons	$36.95 Minimum Bill
Next 10,000 gallons	2.75 per 1,000 gallons
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons

2 Inch Meter

First 20,000 gallons	$64.45 Minimum Bill
Next 30,000 gallons	2.65 per 1,000 gallons
Next 50,000 gallons	2.45 per 1,000 gallons
Over 100,000 gallons	2.35 per 1,000 gallons