

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE BULLOCK PEN WATER)	
DISTRICT FOR A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY TO CONSTRUCT)	
AND FINANCE AN IMPROVEMENTS PROJECT)	CASE NO.
AND TO IMPLEMENT A SURCHARGE TO ITS)	2002-00015
EXISTING RATES PURSUANT TO KRS 278.020)	
AND 278.300)	

O R D E R

On February 7, 2002, Bullock Pen Water District (Bullock Pen) submitted an application for a Certificate of Public Convenience and Necessity to construct a \$1,187,875 waterworks improvement project, for approval of its plan of financing for this project, and for approval of a surcharge.

The project consists of the construction of approximately 23 miles of 6-inch water mains and related appurtenances to provide service to an additional 145 customers.

Bullock Pen initially proposes to fund the present project with Kentucky Rural Water Finance Corporation bond proceeds in the amount of \$719,000, customer contributions in the amount of \$68,875, and grants in the amount of \$300,000, \$100,000 and \$100,000 to be received in the years 2002, 2003 and 2004, respectively. As grants are received, they will be first used to offset the total construction cost of \$1,187,875. Any remaining grant proceeds will be used to retire outstanding bond obligations.

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

1. Bullock Pen proposes to construct approximately 23 miles of 6-inch water mains and related appurtenances to provide service to an additional 145 customers.

2. Plans and specifications for the proposed improvements prepared by CMW, Inc. of Richmond, Kentucky, have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

3. Public convenience and necessity require that the construction identified in Bullock Pen s application be performed and that a Certificate of Public Convenience and Necessity be granted.

4. The financing plan proposed by Bullock Pen is for lawful objects within the corporate purpose of its utility operation, is necessary and appropriate for and consistent with the proper performance of the utility s service to the public and will not impair its ability to perform that service, is reasonably necessary and appropriate for such purpose, and should be approved.

5. Information included in the application indicates that certain expenditures related to the proposed construction will be reported as operating expenses. These amounts total \$167,304 and include employee salaries, engineering fees and legal fees. Generally Accepted Accounting Principals (GAAP) and the applicable Uniform System of Accounts (USoA) dictate that all costs incurred to bring an asset into service shall be capitalized as a cost of the asset. Wherever possible, those costs shall be assigned directly to the applicable plant account as listed in the USoA. Where direct assignment is not possible, the costs should be allocated to the USoA accounts based on the weighted average of all directly assigned costs.

IT IS THEREFORE ORDERED that:

1. Bullock Pen is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction project as set forth in the plans and specifications of record herein.

2. Bullock Pen shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

3. Any deviation from the construction approved shall be undertaken only with the prior approval of the Commission.

4. Bullock Pen shall furnish 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. Construction costs should be classified into appropriate plant accounts in accordance with the USoA for Water Utilities prescribed by the Commission.

5. Bullock Pen shall require construction to be inspected under the general supervision of a licensed 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.

6. Bullock Pen shall notify the Commission in writing 7 days prior to the actual commencement of the proposed construction and when 50 percent of the proposed construction is completed.

7. Bullock Pen shall file a copy of the as-built drawings and a certified statement that the construction has been satisfactorily completed in accordance with the

contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

8. Bullock Pen is authorized to issue Kentucky Rural Water Finance Corporation Bonds in an amount not to exceed \$719,000.

9. The proceeds from the \$719,000 note shall be used only for the lawful purposes specified in Bullock Pen s application.

10. Three years from the effective date of this Order, Bullock Pen shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

11. The surcharge of \$15 per customer as detailed in Bullock Pen s application is approved for service rendered by Bullock Pen on and after the date of this Order and shall continue until such time that all bonds related to this project are retired. Bullock Pen may adjust the amount of the surcharge after 5 years upon showing good cause to this Commission.

12. Bullock Pen shall identify the surcharge as a separate line item on its bills to all affected customers.

13. The surcharge proceeds shall be used only to service the loan identified in the financing agreement between Bullock Pen and Kentucky Rural Water Finance Corporation.

14. The portion of the bonds to be retired through surcharge revenues is \$377,000. Collection of the surcharge shall cease once that portion of the bonds and all applicable interest has been paid in full.

15. All funds generated by the surcharge shall be deposited in a separate reserve trust account. These funds shall be invested in securities issued or guaranteed by the United States Government until they are needed, and shall be expended, together with any interest or other earnings thereon, solely for the purpose of financing the project specified in this Order.

16. No deviation from the approved use of surcharge revenues may be undertaken without the prior approval of the Commission.

17. Bullock Pen shall file semi-annual statements detailing surcharge revenues collected, including any interest earned thereon, all expenditures made, and remaining balance. These reports shall be filed as of June 30 and December 31 of each calendar year and are due no later than 30 days subsequent to those dates. Failure to file the semi-annual reports shall warrant cessation of the surcharge and immediate refunding of the monies previously collected. If construction has not begun within 5 years after implementation of the surcharge, all funds shall be returned to Bullock Pen s customers, together with interest and earnings.

18. Bullock Pen shall maintain its records in such a manner as will enable it, the Commission, or its customers to determine the amounts to be refunded and to whom they are due in the event that surcharge amounts are ordered refunded.

19. The surcharge revenues constitute contributions and shall be accounted for in the manner prescribed in the USoA for Class A and B water districts and associations. The monthly billing shall be debited to customer accounts receivable and credited to the contributions account. When the amount is collected, special funds shall be debited and customer accounts receivable credited.

20. The district shall account for all construction costs in accordance with GAAP and USoA Accounting Instruction 20.

21. Within 30 days of the date of this Order, Bullock Pen shall file with the Commission its revised tariffs setting out the rates and surcharge approved herein.

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

Done at Frankfort, Kentucky, this 18th day of March, 2002.

By the Commission

ATTEST:


Executive Director