

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF McCREARY COUNTY)	
WATER DISTRICT FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY TO)	
CONSTRUCT AN IMPROVEMENTS PROJECT AND)	
TO ISSUE SECURITIES IN THE APPROXIMATE)	CASE NO.
AMOUNT OF \$1,510,000 TO FINANCE A PORTION)	2003-00007
OF SAID PROJECT PURSUANT TO KRS 278.020,)	
278.300 AND 807 KAR 5:001)	

O R D E R

On January 7, 2003, McCreary County Water District (McCreary District) applied for a Certificate of Public Convenience and Necessity to construct a waterworks improvement project and to obtain approval of McCreary District s proposed plan of financing. The total cost of the project is approximately \$3,415,000.

The proposed construction consists of two projects. The first, Contract 25, will expand McCreary District s newly constructed water treatment plant no. 2 located on Tom Roberts Road near Wiborg, Kentucky to a total treatment capacity of 3,000,000 gallons per day. This includes the construction of two additional flocculation/sedimentation basin trains, two new filters, additional clearwell capacity, two additional high service pumps and related appurtenances. The second, Contract 26, Water Transmission Main Phase II Expansion for US Bureau of Prisons, consists of the construction of 11,400 feet of 18-inch ductile iron water line transmission main beginning on Wiborg Loop, near Flat Rock, Kentucky, north of the intersection of Wiborg Loop and U.S. Highway 27, and extending south along Wiborg Loop to the intersection

of U.S. Highway 27, thence south along U.S. Highway 27 to the intersection of U.S. Highway 27 and Kentucky Highway 1651.

McCreary District proposes to fund its waterworks improvement project with a \$1,510,000 Kentucky Infrastructure Authority (KIA) loan,¹ a \$847,000 Economic Development Administration (EDA) grant, a \$450,000 Kentucky Local Government Economic Development Assistance grant and a \$608,000 U.S. Bureau of Prisons contribution. According to the KIA Commitment Letter, the proposed loan will have a 20-year term with an effective interest rate of 3.5 percent per annum.²

As part of its application, McCreary District requests a deviation from the provision of 807 KAR 5:001, Section 6, requiring that, [w]henver in these rules it is provided that a financial exhibit shall be annexed to the application, the said exhibit shall cover operations for a twelve month period, said period ending not more than ninety days prior to the date the application is filed. However, Section 14 of that regulation permits a deviation upon the showing of good cause.

In support of its request, McCreary District states that there has been no change that is material in nature in the financial condition or operation of McCreary District since December 31, 2001. In its application, McCreary District uses the financial data for the 12-month period ending December 31, 2001, the most recent published financial data available. Furthermore, because its computer system cannot generate the financial data in a timely manner, McCreary District claims that it could lose the favorable

¹ The KIA Commitment Letter states that the proposed loan shall not exceed \$1,725,714. KIA bases this amount on the project cost, a proportional share of the bond financing expenses, and a 10 percent debt service reserve.

² Application, Exhibit D, KIA Commitment Letter at 8.

construction bid, while more current financial data is compiled. Having considered McCreary District's requested deviation, the Commission has determined that good cause for granting the deviation has been presented, and that there is sufficient financial information in the record for it to render a decision regarding the proposed KIA loan.

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

1. McCreary District proposes to expand its newly constructed water treatment plant no. 2 to a total treatment capacity of 3,000,000 gallons per day. This construction includes two additional flocculation/sedimentation basin trains, two new filters, additional clearwell capacity, two additional high service pumps and related appurtenances. McCreary District also proposes to construct 11,400 feet of 18-inch ductile iron water line transmission main to serve the expansion for the U.S. Bureau of Prisons.

2. Plans and specifications for the proposed improvements (Contract 25 and Contract 26) that were prepared by Monarch Engineering, Inc. of Lawrenceburg, 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 McCreary District's application be performed and that a Certificate of Public Convenience and Necessity be granted.

4. McCreary District's proposal to obtain the KIA loan as described herein, to finance its proposed improvement project is for a lawful object within its corporate

purpose, is necessary, appropriate for and consistent with the proper performance of its service to the public, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. McCreary District's motion to deviate from 807 KAR 5:001, Section 6, is granted.

2. McCreary District 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.

3. McCreary District is authorized to borrow an amount not to exceed \$1,725,714 from the KIA at an interest rate of 3.5 percent per annum.

4. McCreary District shall, within 30 days of executing the agreement for the proposed KIA loan, file a statement setting forth the date of the loan, the actual interest rate, and the actual principal amount.

5. The proceeds from the transaction authorized herein shall be used only for the lawful purposes specified in the application.

6. McCreary District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

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

8. McCreary District 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 Uniform System of Accounts for Water Utilities prescribed by the Commission.

9. McCreary District shall require the construction to be inspected under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering. This is 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.

10. McCreary District 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.

11. Nothing contained herein shall be construed as constituting approval of any other portion of McCreary District's application.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency as to the securities authorized herein.

Done at Frankfort, Kentucky, this 18th day of February, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Charles H. [unclear]", written over a horizontal line.

Executive Director