

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WARREN COUNTY	)	
WATER DISTRICT, WARREN COUNTY,	)	
KENTUCKY, (A) FOR A CERTIFICATE OF	)	
CONVENIENCE AND NECESSITY, PURSUANT	)	
TO KRS 278.020 AND 278.023, AUTHORIZING	)	
SAID DISTRICT TO CONSTRUCT	)	
IMPROVEMENTS AND EXTENSIONS TO ITS	)	
EXISTING WATER SYSTEM, WHICH	)	
IMPROVEMENTS AND EXTENSIONS WILL BE	)	CASE NO. 2005-00299
FINANCED IN PART UNDER THE TERMS OF AN	)	
AGREEMENT BETWEEN THE WATER DISTRICT	)	
AND THE UNITED STATES DEPARTMENT OF	)	
AGRICULTURE; RURAL DEVELOPMENT, (B)	)	
FOR AUTHORITY TO ISSUE CERTAIN	)	
SECURITIES AS REQUIRED BY KRS 278.300;	)	
AND (C) FOR APPROVAL OF WATER RATES	)	
AND CHARGES	)	

ORDER

On July 15, 2005, Warren County Water District (“Warren District”) applied for a Certificate of Public Convenience and Necessity to construct, finance, and increase rates for a \$2,125,000 waterworks improvement project. This project consists of the installation of approximately 5.4 miles of ductile iron pipe water mains, a booster pumping station, and related appurtenances to provide projected adequate flows and pressure to its existing and future customers. The project will be financed through the proceeds of the issuance of \$1,250,000 of Water Revenue Bonds to Rural Development (“RD”), an agency of the U.S. Department of Agriculture, and \$875,000 of internal funds.

Warren District made its application pursuant to KRS 278.023, which requires the Commission to accept agreements between water utilities and the U.S. Department of Agriculture or the U.S. Department of Housing and Urban Development and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. Given that Warren District's application met the minimum filing requirements on July 15, 2005, KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of this Agreement. While limiting our authority to act upon the Agreement, KRS 278.023(3) requires us to review and to make recommendations, if necessary, to RD regarding the Agreement.

The Commission recently concluded an investigation into the rates that Warren District assesses for fire protection services.<sup>1</sup> During that proceeding, the Attorney General ("AG"), the city of Bowling Green and the Barren River Development Council raised several concerns about the overall design of Warren District's fire protection service rates. They asserted, among other things, that the current rates failed to consider the benefits that fire sprinkler systems produce for other customer classes, the role of fire protection service in overall system planning and construction, and the Commonwealth's policy for promoting the use of fire sprinkler systems. While we found merit to their concerns and arguments, we noted that our investigation was limited to the elimination of the commodity component from Warren District's fire protection rates and

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<sup>1</sup> Case No. 2002-00042, An Investigation Into Warren County Water District's Rate Schedule for Services With Private Fire Protection Services (Ky.PSC Mar. 29, 2005).

that these concerns should be considered in a general rate case proceeding.<sup>2</sup> We also noted that the Commission has not examined Warren District's rates in a general rate proceeding since prior to 1980.<sup>3</sup>

As the proposed Agreement between RD and Warren District prohibits any reduction in fire protection service rates,<sup>4</sup> the Agreement sharply limits any Commission review or examination of the issues that the AG, the city of Bowling Green, the Barren River Development Council or others have raised. To the extent that in a future investigation, the Commission determines that the fair, just and reasonable rates for fire protection services are lower than those set forth in the Agreement, the Commission is powerless to establish those rates.<sup>5</sup>

Accordingly, the Commission recommends that RD revise its Agreement to provide that the Commission may order rates that differ from those set forth in the Letter of Conditions so long as the revised rates are adequate to meet the cost of maintaining, repairing and operating Warren District's water system and meeting all required

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<sup>2</sup> Id. at 14-15, 19-20.

<sup>3</sup> Id. at 7, n. 18.

<sup>4</sup> Letter from Kenneth Slone, State Director, Rural Development, to R. Harvey Johnson, Chairman, Warren County Water District (June 23, 2005) at 7-8.

<sup>5</sup> KRS 278.023(1) provides: "Because federal financing of such projects entails prior review and oversight by the federal agency and obligates the utility to certain actions, and because conflicting requirements by the federal agency and the Public Service Commission may place the water utility in an untenable position and delay or jeopardize such projects, it is declared to be the policy of the Commonwealth that such agreements shall be accepted by the Public Service Commission, and that the commission shall not prohibit a water utility from fulfilling its obligations under such an agreement [emphasis added]."

principal and interest payments and the required deposits to debt service and depreciation reserve.

IT IS THEREFORE ORDERED that:

1. Warren District is granted a Certificate of Public Convenience and Necessity for the proposed construction project.

2. Warren District's proposed plan of financing with RD is accepted.

3. Warren District is authorized to issue \$1,250,000 of Water Revenue Bonds, Series 2005, at an interest rate not to exceed 4.25 percent per annum.

4. The proceeds from the bond issuance shall be used only for the purposes specified in Warren District's application.

5. Notwithstanding Ordering Paragraph 4, if surplus funds remain after the approved construction has been completed, Warren District may use such surplus to construct an additional plant facility if RD approves of the use and the additional construction will not result in a change in Warren District's rates for service. Warren District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.

6. Warren 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.

7. The rates set out in Appendix A, which is attached hereto and incorporated herein, are the rates approved for service rendered on and after the date of this Order.

8. Within 30 days of the date of this Order, Warren District shall file with the Commission its revised tariffs setting out the rates approved herein.

9. Warren District shall notify the Commission one week prior to the actual start of construction and at the 50 percent completion point.

10. Three years from the effective date of this Order, Warren District 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 Executive Director shall cause a copy of this Order to be served upon the RD State Director.

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 15<sup>th</sup> day of August, 2005.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2005-00299 DATED August 15, 2005

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

A. General Service Rates:

<u>5/8" X 3/4" Inch Meter</u>		
First	2,000 gallons	\$10.52 Minimum Bill*
Next	8,000 gallons	3.09 per 1,000 gallons
Next	90,000 gallons	2.42 per 1,000 gallons
Next	900,000 gallons	1.97 per 1,000 gallons
Over	1,000,000 gallons	1.63 per 1,000 gallons

\*The \$10.52 minimum applies to 5/8" X 3/4" meters only. The minimums below apply to all other meter sizes.

3/4"	\$13.61 Minimum Bill, includes first 3,000 gallons
1"	20.22 Minimum Bill, includes first 5,000 gallons
1 1/2"	38.27 Minimum Bill, includes first 10,000 gallons
2"	51.01 Minimum Bill, includes first 15,000 gallons
3"	74.75 Minimum Bill, includes first 20,000 gallons
4"	125.68 Minimum Bill, includes first 30,000 gallons
6"	188.73 Minimum Bill, includes first 50,000 gallons
8"	273.39 Minimum Bill, includes first 80,000 gallons
10" & larger	382.98 Minimum Bill, includes first 120,000 gallons

The rates to be charged after the minimum rate are the same regardless of meter size.

B. Private Fire Service Rates: \*\*

<u>Meter Size (Inches)</u>	<u>Rate (\$/month)</u>
1"	\$ 6.78
1 1/2"	\$ 10.10
2"	\$ 12.32
3"	\$ 28.83
4"	\$ 63.41
6"	\$112.95
8"	\$186.28
10"	\$299.91
12"	\$451.06

\*\*These charges shall apply to all connections that provide service only for private fire protection facilities whether supplied through a fully metered service or an unmetered service with a detector check valve and bypass meter.