

ORIGINAL



**APPLICATION FOR CERTIFICATE OF
PUBLIC CONVENIENCE AND
NECESSITY WITH FINANCING**

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NOV 19 2004

PUBLIC SERVICE
COMMISSION

**BEFORE THE PUBLIC SERVICE
COMMISSION OF KENTUCKY**

**NEW SALEM CHURCH
COUNTY EXPANSION PROJECT**

**HARDIN COUNTY
WATER DISTRICT No. 1**

NOVEMBER 2004



Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 50 Years

1400 Rogersville Road
Radcliff, KY. 40160

November 16, 2004

Ms. Beth A. O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602-0615

Case 2004-00453

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NOV 19 2004

PUBLIC SERVICE
COMMISSION

**SUBJECT: Application Requesting Certificate of Public Convenience & Necessity
with Financing for New Salem Church County Expansion Project**

Dear Director O'Donnell;

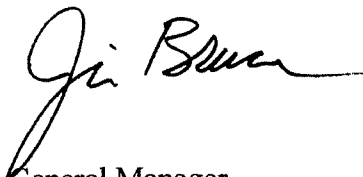
Enclosed you will find our application for the above project. This project has been in the planning and design stage beginning in 1998. Our District has developed of Plan of Finance which uses a Tobacco Settlement Grant, a portion of unrestricted reserves, and a new tax-exempt, fixed rate private sector bond issue. A portion of the bond sale amount will be used to retire a portion of our current variable rate debt.

Bids were received from contractors on October 19, 2004. Our Board has since accepted the applicable bids, and authorized staff and legal counsel to proceed with the project. In the bidding documents, the contractors are required to hold their bid prices for ninety days or until January 19, 2005.

The District requests expedited Commission approval of the financing plan and issuance of the Certificate of Public Need & Necessity no later than this date so that the District would not need to re-bid the project or accept higher prices from the contractor's, most likely increasing the construction costs of the project and likely higher interest rates on the new bonds as interest rates have been and are predicted to continue increasing.

Our District is one of the few water districts in the state to not use or require federal funds for our capital projects. It has been our experience, however, that this financing approach has taken excessive time for review and approval by the Commission. We would hope that would not be the case with this project, and that your staff is able to provide an efficient review and approval of our project. We are available to meet with your staff as needed to help expedite this review. If you have any questions, please do not hesitate to call.

Sincerely,



Jim Bruce, General Manager

**Application for Certificate of
Public Convenience and Necessity with Financing**

**New Salem Church
County Expansion Project**

**Before the
Public Service Commission of Kentucky
Hardin County Water District No. 1**

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BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF THE APPLICATION OF
HARDIN COUNTY WATER DISTRICT NO. 1 FOR
THE ISSUANCE OF A CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY WITH FINANCING

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Case No. _____

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NOV 19 2004

APPLICATION

**PUBLIC SERVICE
COMMISSION**

1. Applicant is a duly organized and operating water district organized and operating under the laws of the Commonwealth of Kentucky (KRS 74 ET. SEQ.) and is engaged in the business of treating and selling potable water and maintaining a water distribution system. The applicant now operates and does business in an existing service area which includes the city limits of the City of Radcliff and encompasses the City of Vine Grove and a portions of Hardin and Meade Counties. The entire service area is within the boundaries of the Commonwealth of Kentucky.
2. The address of the applicant is 1400 Rogersville Road, P.O. Box 489, Radcliff, Kentucky 40159-0489.
3. A certified copy of the order of the Hardin County Fiscal Court establishing the water district and all amendments is enclosed as **Exhibit No. 1.**
4. The Applicant request that it be issued a Certificate of Public Convenience and Necessity authorizing and approving the construction and extension of the applicant's water lines into a previously unserved portion of its District located generally in western and northeastern Hardin County. Specifically, the Applicant request that a Certificate authorizing and approving; 1) water line extensions of approximately forty miles, 2) the construction of a new elevated water tank, allowing the District to abandon a 24 year old ground storage tank that does not benefit the system and cannot be used due to its elevation, and 3) rebuilding of an existing pump station necessary to provide a redundant supply to the south end of the District's service area from the Ft. Knox Interconnect when the water plant is not operating. The District estimates that 370 households will be initially served by the proposed extension.
5. No franchises or permits are required with the exception of a permit from the Kentucky Division of Water and the Kentucky Transportation Cabinet both of which are enclosed as **Exhibit No. 2.**
6. The proposed location of the water line extensions, new water storage tank, and rebuilding of an existing pump station is identified as **Exhibit No. 3.** The new construction and extensions will not compete with any known public utilities, corporations or individuals.

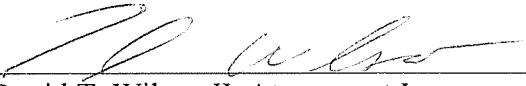
7. Competitive bids were received on October 19, 2004 for the construction of the proposed project. On October 28, 2004, the District's Board of Commissioners accepted the low bids, including certain alternate bids and rejecting other optional alternates, which total of all bids accepted is \$3,843,467. Copies of the bid tabulations certified by the District's Engineer are enclosed under **Exhibit No. 4**.
8. Minutes recording the approval of the project and submitting an application to the Commission are identified as **Exhibit No. 5**.
9. Additional non-bid project costs for engineering, construction administration, inspection and the upgrade and installation of SCADA (Supervisory Control And Data Acquisition) system changes and a construction contingency of \$275,000 add \$566,000 to the construction bid amounts are included in the proposed bond sale amount.
10. In the bidding documents, the contractors are required to hold their bid prices for ninety days or until January 19, 2005. The District requests Commission approval of the financing plan and issuance of the Certificate of Public Need & Necessity no later than this date so that the District would not need to re-bid the project or accept higher prices from the contractor's, most likely increasing the cost of the project. The current trend in interest has also been upward, and the more time that passes before a bond sale can be completed the higher the interest rate and debt costs to the District's customers in the future will be.
11. The expansion will be financed by the sale of tax exempt, private sector, fixed rate revenue bonds as well as a \$700,000 Tobacco Settlement Grant and \$703,000 of current unrestricted cash reserves of the District's. The amount of the bond sale is sized to include \$2,740,000 additional which will be used to refund or replace existing variable rate debt of the District. The total bond issue required is estimated at \$7,700,000 which includes an amount of \$2,740,000 which will be used to retire current variable rate debt. Further explanation of the Finance Plan is provided by the District's General Manager and is included with **Exhibit No. 6**.
12. After extensive research and solicitation of bids, the District's Board has also accepted bids to convert to Automated Meter Reading (AMR) using radio read technology over a five year period. The District's year-end 2003 total plant asset value is \$23,605,151. As the cost of the AMR project is less than 10% of the current plant asset value, a separate Certificate of Public Convenience & Necessity is not requested nor required and the value of this project is not included in submitted financial and accounting information, other than in the Finance Plan for the requested bond issue.
 - a. The cost benefit analysis of this conversion has shown that annual hours dedicated to meter reading and check reading will drop by 78% or from 12,511 hours annually to 2,748 hours.
 - b. Additional data-flow diagraming and process analysis showed that miles of driving dedicated to meter reading would drop by 99%, and the number of dedicated full-time equivalent employees (FTE's) assigned to meter reading, meter reading re-checking would drop 79% from 6.6 to 1.4 FTE's.

- c. Over a fifteen year period, the return on investment of the conversion would equal 2.1% positive ROI annually. In order to finance the project over a five year AMR conversion period, an additional \$1,010,000 has been added to the bond issuance amount.
13. The estimated cost of operation after the completion of the county expansion project and related debt service is approximately \$230,000 per year, using a present value analysis. This analysis is identified as **Exhibit No. 7**.
14. The calculated cost impact of the county expansion project over the term of the debt, divided by the average number of District customers, is \$1.97 per month. Based on the cost of the project and the Finance Plan enclosed, the District will not require and is not requesting any rate adjustment or increase at this time.
15. Engineering plans and specifications for “New Salem Church County Expansion Project” and “Brizendine Elevated Water Storage Tank” are identified as **Exhibit No. 8**. Engineering plans and specifications have been prepared by Quest Engineers, Inc. and have been signed, sealed and dated by an engineer registered in the Commonwealth of Kentucky. An engineering report regarding the proposed construction and a hydraulics analysis are identified as **Exhibit No. 9**.
16. The Applicant is an authorized public utility which treats and distributes all water to the businesses and residences within the boundaries of its district. Additionally, the Applicant sells water to the City of Vine Grove and the Meade County Water District. The Applicant’s property includes a water treatment facility, five water storage facilities, administrative offices, 220 miles of water line and various ancillary support inventory. The original costs of the District’s assets are enclosed as **Exhibit No. 10**.
17. The District will not be issuing any stock in order to finance the proposed water line expansion.
18. The District does propose to issue fixed rate bonds to finance the water line expansion which detail in included in the Finance Plan enclosed as **Exhibit No. 6**.
19. The financial exhibits required by 807 KAR 5:001 §6 are enclosed hereto and included in the Finance Plan as **Exhibit No. 6**.
20. The District has not issued trusts, deeds or mortgages.
21. A plat of the proposed tank site property is enclosed hereto as **Exhibit No. 11**. An overall map of the project is included as **Exhibit No. 3**.

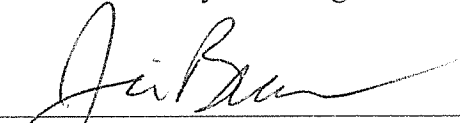
WHEREFORE, Hardin County Water District No.1, hereinafter referred to as Applicant, request that the Public Service Commission of the Commonwealth of Kentucky and issue a Certificate of Public Convenience and Necessity moving to propose the water line expansion and the method of financing.

Dated at Radcliff, Kentucky, this 16th day of November, 2004.

HARDIN COUNTY WATER DISTRICT No. 1

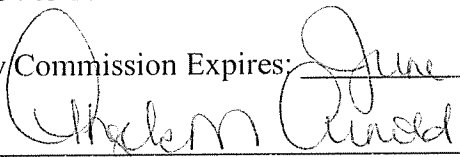
By 
David T. Wilson II, Attorney at Law
Attorney for Hardin County Water District No. 1
Skeeters, Bennett & Wilson PLC
550 W. Lincoln Trail Blvd., P.O. Box 610
Radcliff, Ky 40160
(270) 351-4404
david.wilson@sbw-law.com

The foregoing statements are true and correct to the best of my knowledge and belief.


Mr. Jim Bruce, General Manager
jbruce@hcwd.com

STATE OF KENTUCKY
COUNTY OF HARDIN

Subscribed, sworn to and acknowledged before me by Jim Bruce on this 16th day of November,
2004 to be his true act and deed.

My Commission Expires: June 2, 2007

Notary Public