

From: Wuetcher, Jerry (PSC)
Sent: Tuesday, June 22, 2004 2:22 PM
To: 'Henry M. Reed III (E-mail)'
Cc: 'Vernon Brown (E-mail)'; Rice, James D. (PSC); Goff, J.R. (PSC)
Subject: Case No. 2004-00202: Adair County Water District

Dear Mr. Reed:

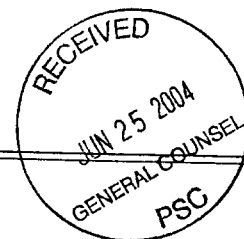
During Commission Staff's review of Adair County Water District's Application in Case No. 2004-00202, the following questions have arisen:

- Why is a rate adjustment required? Adair County Water District did not propose a rate adjustment nor did Rural Development require such adjustment when the original financing plan was submitted to the Commission in Case No. 2003-00364. Although the water district will receive additional grant funds of \$413,000 from the Tobacco Settlement Program and the total cost of both construction phases (without contingencies) has been reduced by \$307,500, the water district now seeks and RD now requires an increase in rates. Please provide the calculations and assumptions upon which the need for a rate adjustment is based.
- The Original Letter of Conditions states that the proposed project will add new 113 customers. The bid tabulations indicate that Adair County Water District is purchasing 146 meters for installation. Why is the water district purchasing 33 meters more than the expected number of additional customers?
- Adair County Water District has allotted \$966,000, or 30.2 percent of total project cost, for contingencies. Historically, most construction project provide for a 10 percent contingency. Why is the water district proposing a higher contingency in this case? What uses, if any, does the water district or RD have for any unused contingency funds? If the funds are to be used for specific system improvements, what are these improvements?
- What specific system improvements are required by the Agreed Order that Adair County Water District executed with the Kentucky Division of Water on April 27, 2004? How will each improvement increase the volume of water that Adair County Water District needs?

Commission Staff respectfully requests that Adair County Water District provide a response to these questions at its earliest convenience.

Sincerely,

Gerald E. Wuetcher
Assistant General Counsel
Public Service Commission of Kentucky
(502) 564-3940, Extension 259
jwuetcher@mail.state.ky.us



June 23, 2004

Mr. Jerry Wuetcher
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RECEIVED

JUN 25 2004

PUBLIC SERVICE
COMMISSION

Re: Case No. 2003-00364
Adair County Water District

Dear Mr. Wuetcher:

In response to your recent comments regarding the above referenced case we offer the following. The proposed increase in rates is due to a series of events which consists of increased wholesale rates from all of the Water District's suppliers, the impact of the increase in petroleum prices which affects their pipe material prices, an increase in steel prices which affects nearly all of their material costs such as valves, fittings, and meter settings, planned increases in operating costs so that they can maintain the required level of operation, and finally from advisement from the District's primary lender, the U.S. Department of Agriculture to sustain a level of operation in order to meet all bond requirements. Prior to the submission of the documents to your agency for the Phase I portion, we were aware that the Water District would require a rate increase but at that time it was unknown as to the level of increase that would be needed. Since that time the Water District has been informed by their wholesale water suppliers as to the amount of increase that has either occurred or will occur. This issue combined with their current knowledge of what they can expect as far as pipe and material cost increases, along with a defined plan for maintaining their operation, has allowed them to determine the level of rate increase they will need to apply to their consumers. Please note that the District's last retail rate increase occurred in August of 1992, and although they have worked to maintain those rates, they have finally reached a point where their rates must be adjusted in order for them to continue the required level of service.

In regard to the financing, the cost of Phase I will be \$1,426,000.00. The budget for Phase II has been increased from \$1,457,000.00 to \$1,870,000.00 due to the receipt of a grant by the Water District in the amount of \$413,000.00. This grant is from the Commonwealth of Kentucky through last year's Kentucky Infrastructure Authority's Tobacco Settlement Program, and the funds are allocated to be spent to develop the water system in the areas of the Phase II project. The conditions of the Tobacco Settlement Grant stipulate where the funds are to be spent and it must be in areas that were initially planned for where the Rural Development funds were to be spent.



June 23, 2004

Page Two

In regard to the amount of contingency funds as shown on the budget, the District recognizes the unusual amount and these funds are targeted toward water system improvements that are required as a result of the recent Agreed Order imposed upon the Water District which limits the number of new customers that can be connected to the system. This Order was issued to the District due to the inability of the wholesale suppliers to either treat or transport to the District the volume of water needed for the District to operate. The proposed improvements consist of constructing a transmission main and storage tank that would allow the District to transport water from the Campbellsville water system and eventually the new Columbia / Adair County Water Treatment Plant, to the portion of the District's system that can only be served from the Cities of Russell Springs and Jamestown. This will allow the District to be removed from the conditions of the Order and continue to experience growth in its service area.

In regard to the increased number of customers, the District initially developed a project area where it was anticipated that the number of customers that would actually use the water system would be less than the number of potential customers that reside in the area. The participation has been greater than expected and combined with some minor extensions to the original service area has resulted in an increased demand for the water service.

Should you need additional information, please advise.

Sincerely,

A handwritten signature in cursive script, appearing to read 'David M. Bowles', is written above the typed name.

David M. Bowles, P.E.

/dmb

Cc Charles Blankenship
Rural Development

Lennon Stone
Adair County Water District

Hank Reed
Reed Law Office

COMMONWEALTH OF KENTUCKY
ENVIRONMENTAL AND PUBLIC PROTECTION CABINET
DEPARTMENT FOR ENVIRONMENTAL PROTECTION

FILED

MAY 27 2004

Office of Administrative Hearings

IN THE MATTER OF:

AGREED ORDER

Adair County Water District
109 Grant Lane
Columbia, KY 42728

Case No. DOW 04024

WHEREAS, the parties to this Agreed Order, the Environmental and Public Protection Cabinet (hereinafter the Cabinet) and Adair County Water District (hereinafter the System), state:

1. The Cabinet is charged with the statutory duty of enforcing KRS Chapter 224 and the regulations promulgated pursuant thereto.
2. The System operates a community public water system (PWSID No. 0010702), as that term is defined in 401 KAR 8:010 (92), and which is located in Adair County, Kentucky.
3. The System purchases drinking water from Jamestown Municipal Water Works (PWSID No. 1040210). On November 20, 2002, the Cabinet's Division of Water imposed a water line extension ban on Jamestown Municipal Water Works, based on its drinking water production levels being at approximately 90 percent of plant design capacity and in accordance with 401 KAR 8:100 Section 1 (10).
4. The System purchases drinking water from Russell Springs Water/Sewer (PWSID No. 1040377). Russell Springs Water/Sewer purchases drinking water from Jamestown Municipal Water Works.
5. On December 17, 2003, representatives of the Cabinet and the System met to discuss the current water line extension ban on Jamestown Municipal Water Works and ways to avoid further line extension and tap on bans that will affect the System. Also present at this meeting were representatives of Jamestown Municipal Water Works and Russell Springs Water/Sewer. At the meeting, an agreement was reached between the Cabinet and the System. The intent of this agreement is to allow the System to manage its municipal water supply through the use of a Cabinet approved water budget.
6. This Agreed Order sets forth the agreement reached between the Cabinet and the System at the meeting described in Paragraph 5, above.

NOW THEREFORE, in the interest of settling all civil claims and controversies involving the sanctions described above, the parties hereby consent to the entry of this Agreed Order and agree as follows:

REMEDIAL MEASURES

7. The System shall submit two water budgets to the Cabinet. One water budget shall address the area of the System served by Jamestown Municipal Water Works and one water budget shall address the area of the System served by Russell Springs Water/Sewer. These water budgets shall be approved by the Cabinet and then implemented by the System. Requirements for the water budgets are as follows:

- a. The budget shall be for projected growth, and is in addition to service provided to current customers.
- b. Allocations of drinking water shall be listed in the water budget and shall include allotted amounts, in gallons per day (gpd), as defined by a priority listing. Total allocations shall be subtracted from the water budget. The remaining balance of the water budget may be applied to regular growth in the System's service area, using the equation:

$$\text{Number of taps} * 75 \text{ gallons per tap} * 3.3 \text{ people per tap} = \text{tap demand.}$$

- c. The priority listing shall include all projects and reserved sales to other public drinking water systems.
- d. Tap demand shall only include new water taps that will utilize under 1,000 gpd (hereinafter "small taps"). All new water taps that will utilize more than 1,000 gpd (hereinafter "large taps") shall be submitted to the Cabinet and reviewed according to 401 KAR Chapter 8.
- e. Tap demand shall be tracked on the System's Monthly Operating Reports (MORs). Tracking of tap demand shall continue until this Agreed Order is terminated.
- f. Any project not listed on the priority listing shall not be approved by the Cabinet, and will be considered a violation of this Agreed Order.
- g. New regular growth that exceeds the balance of the water budget shall not be approved and shall be considered a violation of this Agreed Order.
- h. The System, through a review and approval by the Cabinet, may request amendments to one or both of the water budgets on a semi-annual basis, in June or January. Amendments may be requested for new projects not appearing on a water budget's priority listing, for large taps, or for infrastructure improvements.

The Cabinet acknowledges that the System has submitted water budgets and those water budgets have been accepted as a result of the meeting described in paragraph 5 of this order, and are as follows:

| | | | |
|--|--|-------|------------|
| <i>Initial Budget (for area served by Jamestown Municipal Water Works)</i> | | 7,500 | <i>gpd</i> |
|--|--|-------|------------|

| | | | |
|--------------------------|--------------|------------|--|
| <i>Priority Listing</i> | | | |
| <i>Melson Ridge</i> | <u>1,500</u> | <i>gpd</i> | |
| <i>Total Allocations</i> | 1,500 | <i>gpd</i> | |

| | | | |
|----------------|--|-------|------------|
| <i>Balance</i> | | 6,000 | <i>gpd</i> |
|----------------|--|-------|------------|

| | | | |
|--|--|--------|------------|
| <i>Initial Budget (for area served by Russell Springs Water/Sewer)</i> | | 27,500 | <i>gpd</i> |
|--|--|--------|------------|

| | | | |
|--|--------------|------------|--|
| <i>Priority Listing</i> | | | |
| <i>Phase 5, Line Extension Project</i> | <u>7,000</u> | <i>gpd</i> | |
| <i>Total Allocations</i> | 7,000 | <i>gpd</i> | |

| | | | |
|----------------|--|--------|------------|
| <i>Balance</i> | | 20,500 | <i>gpd</i> |
|----------------|--|--------|------------|

MISCELLANEOUS PROVISIONS

8. This Agreed Order addresses only those sanctions specifically described above. Nothing contained herein shall be construed to waive or to limit any remedy or cause of action by the Cabinet based on statutes or regulations under its jurisdiction, and the System reserves its defenses thereto. The Cabinet expressly reserves its right at any time to issue administrative orders and to take any other action it deems necessary, including the right to order all necessary remedial measures, assess penalties for violations, or recover all response costs incurred, and the System reserves its defenses thereto.

9. This Agreed Order shall not prevent the Cabinet from issuing, reissuing, renewing, modifying, revoking, suspending, denying, terminating, or reopening any permit or approval to the System. The System reserves its defenses thereto, except that the System shall not use this Agreed Order as a defense.

10. The System waives its right to any hearing on the matters admitted herein. However, failure by the System to comply strictly with the terms of this Agreed Order shall be grounds for the Cabinet to seek enforcement of this Agreed Order in Franklin Circuit Court and to pursue any other appropriate administrative or judicial action under KRS Chapter 224 and the regulations promulgated pursuant thereto.

11. Each separate provision, condition or duty contained in this Agreed Order may be the basis for an enforcement action for a separate violation and penalty pursuant to KRS Chapter 224

upon failure to comply with the terms of this Agreed Order.

12. This Agreed Order may not be amended except by a written order of the Cabinet's Secretary or the Secretary's designee. The System may request an amendment by writing the Director of the Division of Water at 14 Reilly Road, Frankfort, Kentucky 40601 and stating the reasons for the request. If such request is granted, the amended Agreed Order shall not affect any provision of this Agreed Order unless expressly provided in the amended Agreed Order.

13. The Cabinet does not, by its consent to the entry of this Agreed Order, warrant or aver in any manner that the System's complete compliance with this Agreed Order will result in compliance with the provisions of KRS Chapter 224, and the regulations promulgated pursuant thereto. Notwithstanding the Cabinet's review and approval of any plans formulated pursuant to this Agreed Order, the System shall remain responsible for compliance with the terms of KRS Chapter 224 and the regulations promulgated pursuant thereto, this Agreed Order and any permit requirements.

14. The provisions of this Agreed Order shall apply to and be binding upon the System. The acts or omissions of the System's officers, directors, agents, and employees shall not excuse the performance of any provision of this Agreed Order. The Cabinet reserves the right to seek enforcement of this Agreed Order against the successors and assigns of the System, and the System reserves its defenses thereto. The System shall give notice of this Agreed Order to any purchaser, lessee or successor in interest prior to the transfer of ownership and/or operation of any of its now-existing facilities occurring prior to termination of this Agreed Order, shall notify the Cabinet that such notice has been given, and shall follow all statutory and regulatory requirements for a transfer. Whether or not a transfer takes place, the System shall remain fully responsible for payment of all civil penalties and for performance of all remedial measures identified in this Agreed Order.

15. The Cabinet agrees to allow the performance of the above-listed remedial measures by the System to satisfy the System's obligations to the Cabinet generated by the sanctions described above.

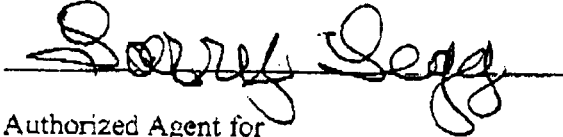
16. This Agreed Order shall be of no force and effect unless and until it is entered by the Secretary or the Secretary's designee as evidenced by the Secretary's signature thereon. If this Agreed Order contains any date by which the System is to take any action, and the Secretary enters the Agreed Order after that date, then the System is nonetheless obligated to have taken the action by the date contained in this Agreed Order.

TERMINATION

17. Both parties of this Agreed Order understand and agree that the Agreed Order will remain in affect until such time that the plant capacity expansion project for Jamestown Municipal Water Works is completed and the System can procure an amount of water from Jamestown Municipal Water Works and Russell Springs Water/Sewer that is required to supply the areas of the System utilizing these sources. The System may submit written notice to the Cabinet when it believes all

requirements of this Agreed Order have been performed. The System may also submit written notice to the Cabinet should it procure other sources of water that would sufficiently supply the areas of the System currently supplied by water purchased from Jamestown Municipal Water Works and Russell Springs Water/Sewer. The Cabinet will notify the System in writing of whether it intends to agree with or object to termination. The Cabinet reserves its right to enforce this Agreed Order, and the System reserves its right to file/seek a hearing pursuant to KRS 224.10-420(2) contesting the Cabinet's determination.

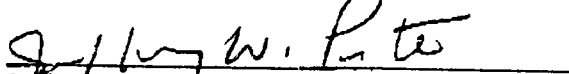
AGREED TO BY:




Authorized Agent for
Adair County Water District

4/28/04
DATE

APPROVAL RECOMMENDED BY:


Jeffrey W. Pratt, Director
Division of Water

4/22/04
DATE


Attorney for the Cabinet
Office of Legal Services

4-27-04
DATE

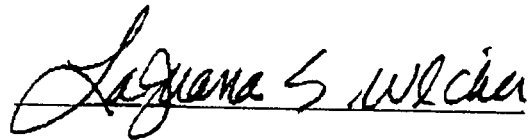


William P. Emrick, Executive Director
Office of Legal Services

4/28/04
DATE

ORDER

WHEREAS, the foregoing Agreed Order is entered as the final Order of the Environmental and Public Protection Cabinet this 27th day of May, 2004.



LAJUANA S. WILCHER, SECRETARY
ENVIRONMENTAL AND PUBLIC
PROTECTION CABINET

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing AGREED ORDER was mailed, postage prepaid, to the following this 27th day of May, 2004.

Adair County Water District
109 Grant Lane
Columbia, KY 42728

Sammy Lewis
DOCKET COORDINATOR

DISTRIBUTION:

Division of Water
Order File
Attorney, Office of Legal Services
LTS
Gom