

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of

APPLICATION OF CAMPBELL COUNTY)
KENTUCKY WATER DISTRICT TO ISSUE)
PARITY REVENUE BONDS IN THE AMOUNT) CASE NO. 7766
OF \$4,500,000; TO CONSTRUCT ADDITIONAL)
PLANT FACILITIES; AND NOTICE OF ADJUST-)
MENT OF RATES ON APRIL 1, 1980)

O R D E R

On March 10, 1980, Campbell County Kentucky Water District, hereinafter referred to as the "UTILITY", filed with this Commission its application seeking authority (1) to issue \$4,500,000 of parity revenue bonds; (2) to construct \$2,383,137 of system improvements, to refund outstanding temporary bank loans and to make other expenditures as detailed on Exhibit No. 15; and (3) to increase its rates in the amount of \$831,825 annually (Exhibit No. 10) to become effective on and after April 1, 1980.

On the 10th day of March, 1980, the Commission entered its Order suspending the proposed rates, charges and classifications for a period of five months on and after the 1st day of April, 1980. On March 11, 1980, the Commission entered a further order setting the hearing at the Commission's offices in Frankfort, Kentucky, on the 2nd day of April, 1980, at 10:00 a.m.; directing the District to publish the place, date and hour of the hearing, and directing the District to file prepared testimony on or before the date of the hearing.

The hearing was held as scheduled with a further hearing being held on April 16, 1980. All parties of interest were notified in the manner prescribed by the Kentucky Revised Statutes. The Consumer Intervention Division of the Attorney General's Office was the sole intervenor of record in this matter. At the hearings, the Utility's witnesses testified and were cross-examined by the Commission and the intervenor of record. Additional information, which was requested at the hearings, along with a copy of a letter from the Sanitary Engineering Division of the Kentucky Department of Natural Resources and Environmental Protection approving the plans and specifications, has been filed, and the entire matter is

submitted for a final determination by this Commission.

COMMENTARY

In a normal construction case, past practice has been to wait until final bids are received before seeking approval of the projects for which the construction is proposed. In the instant case said practice has placed a severe strain on the Commission's resources as a decision on the need for the construction precipitates a need for a simultaneous decision on both the financing and the rate increase. The Commission has responded to the District's needs in this case; however, we wish to put the District on notice that the Commission finds the current practice untenable. If the District's application was the only business before this Commission, we could easily meet the Applicant's needs in a timely manner. The fact is, however, that the Commission has approximately fifty-seven (57) rate cases on its current docket. Therefore, the Commission must have the time allowed by Statute to evaluate these rate applications. We are, therefore, putting the Company on notice that future Applications for construction, financing and rates must be filed so as to permit the Commission, a minimum of five months and twenty days to process the case. Our current workload simply will not allow us to deviate from this practice.

TEST PERIOD

The Utility proposed, and we have adopted for use, the twelve (12) months ending December 31, 1979, for the purpose of determining the reasonableness of the proposed rates. Proforma adjustments have been included where found fair, just and reasonable.

RATE BASE

Net Original Cost - From the Record, the Commission has determined that the Applicant's Net Original Cost at the end of the test year is as follows:¹

Total Original Cost of Existing Plant Per Utility Books	\$8,895,411
Deduct:	
Reserve for Depreciation	1,665,387
Contributions in Aid of Construction	864,183
Customer Advances for Construction	<u>48,432</u>
Total Original Cost Deductions	2,578,002
Net Original Cost-Existing Plant	6,317,409
Add:	
Materials and Supplies Inventory	\$ 81,661
Prepayments	30,833
Cash Working Capital at 12.5 Percent of Out-of-Pocket Expenses	102,858
Acquisition Adjustment	<u>129,097</u>
Total Additions	<u>\$ 344,449</u>
Total Original Cost Base (before plant additions)	<u>\$6,661,858</u>

COST OF REPRODUCTION AS A GOING CONCERN

No evidence of reproduction costs as a going concern has been introduced in this case. However, the Commission takes note that if such were presented it might exceed the original cost of the property.

REVENUES AND EXPENSES

The Applicant proposed, in its Exhibit No. 10, Revised, several proforma revenue and expense adjustments. The Commission is of the opinion that the adjustments generally are proper and they have, therefore, been accepted for rate-making purposes. As shown below, the net effect of these adjustments is to reduce net operating income by \$57,418 to \$218,203.

	<u>Actual</u>	<u>Proforma Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$1,585,024	\$113,789	\$1,698,813
Operating Expenses	<u>1,309,403</u>	<u>171,207</u>	<u>1,480,610</u>
Net Operating Income	\$ 275,621	\$(57,418)	\$ 218,203

¹ Applicant's Exhibit No. 13, Revised.

REVENUE REQUIREMENTS

The issuance of parity bonds by the District is governed by the parity provisions set forth in the present revenue bond indenture. These requirements must be met in order for the proposed bonds to be issued. Necessary line additions and reinforcements dictate that the proposed construction take place at the earliest possible time. Under these circumstances it does not appear that alternative method of financing would be available at a reasonable cost.

To meet the parity provisions, the District maintained that gross annual revenues of \$2,553,624 would be required. The Commission concurs. However, in determining the revenue increase required, the District failed to consider interest income to be derived from the investment of \$1,064,163, a portion of the proceeds of the bond issue to be used to fully fund the Debt Service Reserve, at 10% per annum. Taking this into consideration, the Commission has determined that an increase of \$748,395,² the revenues granted herein, is necessary to allow the District the opportunity to pay its operating expenses and meet the requirements of its bond indenture.

SUMMARY

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and FINDS that:

1. Public convenience and necessity require the construction of the proposed improvements to the Utility's existing water distribution system in the areas defined by the application and exhibits filed in this matter.
2. The construction project proposed by the Utility includes approximately 68,350 linear feet of 16-inch pipe, 13,800 linear feet of 12-inch pipe, 12,500 linear feet of 8-inch pipe, 750 linear feet of 6-inch pipe, 100 linear feet of 4-inch pipe and other miscellaneous improvements; all at a total construction cost of \$1,960,358 and a total project scope of \$4,500,000.
3. Any construction deviations from the contract plans and specifications, herein approved, which could adversely affect service to any customer shall be subject to the prior approval of this Commission.

²

$$\$2,553,624 - (\$1,698,813 + \$106,416) = \$748.395$$

4. The proposed issuance of \$4,500,000 of parity bonds is for a lawful object within the corporate purposes of the utility, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purposes.

5. The rates set out in Appendix "A" attached hereto and made a part hereof are fair, just and reasonable rates to be charged by Campbell County Kentucky Water District in that they will produce annual revenues from water sales of approximately \$2,447,208 and should be approved. This revenue along with the \$106,416 of interest income from the investment of the Debt Service Requirement will produce gross annual revenues of \$2,553,624 or that revenue needed by the Applicant to pay its operating expenses and meet the bond indenture requirements. The general service rate should be, and will become uniform in all areas served by the District upon institution of the Appendix "A" rate schedule.

6. The rates proposed by Campbell County Kentucky Water District and set out in the Application should be denied in that they produce annual revenues in excess of that found reasonable.

7. The Utility should furnish this Commission with duly verified documentation of the total cost of this project, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.), within sixty (60) days of the date that construction is substantially completed.

8. The contract between the Utility and the Engineer should require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

9. Within sixty (60) days of the date of substantial completion of this construction, the Utility should require the Engineer to furnish this Commission with a copy of the as-built plans along with the Engineer's certification and the construction has been satisfactorily completed in accordance with the contract plans and specifications.

IT IS THEREFORE ORDERED:

(1) That Campbell County Kentucky Water District be and it is hereby granted a Certificate of Public Convenience and Necessity to construct the proposed extensions, additions, and other improvements to its existing water distribution system in the areas set forth in the application and in accordance with the contract and specifications filed in this record.

(2) That any construction deviations from the contract plans and specifications, herein approved, which could adversely affect service to any customer shall be subject to the prior approval of this Commission.

(3) That the Utility be and is hereby authorized to issue and sell, at competitive bidding \$4,500,000 of parity revenue bonds to the purchaser or purchasers submitting bids which will result in the lowest annual cost of money to the District.

(4) That the proceeds from the sale of the securities authorized herein shall be used only for lawful purposes as set out in the Application.

(5) That the District shall file within a reasonable time the date or dates of sale, the exact interest rate, the purchasers, the maturity dates, and a list of the expenses and fees involved in the issuance of the parity revenue bonds authorized herein.

(6) That the contract between the Utility and the Engineer shall require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the contractor's construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

(7) That the Utility shall require the Engineer, within sixty (60) days of substantial completion of the proposed construction, to furnish this Commission with a copy of the "As-Built Plans" and a certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

(8) That the District shall advise the Commission as to the investments of the Funds for the Debt Service Reserve Requirement and any change thereafter.

(9) That the Rates proposed by the District and set out in

the Application insofar as they differ from those in Appendix "A" be and are hereby denied.

(10) That the proposed rates for water service set out in Appendix "A" attached hereto and made a part hereof are fixed and prescribed as the rates for water service rendered by the Campbell County Kentucky Water District on and after the date of the issuance of the parity revenue bonds.

(11) That the District shall file with the Commission within (30) days from the effective date of the rates authorized herein, its revised tariff sheets setting out the water service rates and charges approved herein.

(12) That the District shall file with the Commission quarterly financial statements until further notice.

Nothing contained herein shall be deemed a finding of value for any purpose whatsoever, nor construed as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this the 16th day of May, 1980

UTILITY REGULATORY COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE KENTUCKY UTILITY
REGULATORY COMMISSION IN CASE NO. 7766 DATED
MAY 16, 1980

The following rates are prescribed for all general customers in the entire area served by Campbell County Kentucky 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 date of this Order.

GENERAL SERVICE RATE QUARTERLY

Rate (Net)

First	3,000 gallons used Per Quarter	\$12.00 (minimum)
Next	12,000 gallons used Per Quarter	2.25 per M gallons
Next	30,000 gallons used Per Quarter	1.80 per M gallons
Next	105,000 gallons used Per Quarter	1.70 per M gallons
Over	150,000 gallons used Per Quarter	1.60 per M gallons

MINIMUM QUARTERLY CHARGES

5/8 Inch Meter	\$12.00
3/4 Inch Meter	15.25
1 Inch Meter	31.70
1 1/2 Inch Meter	63.50
2 Inch Meter	97.35
3 Inch Meter	254.60
4 Inch Meter	448.20
6 Inch Meter	905.50

SPECIAL RATES

Other Utilities at Wholesale

Rate

City of Highland Heights	\$0.529 per 1,000 gallon
Pendleton County Water District	\$0.590 per 1,000 gallon