

COMMONWEALTH OF KENTUCKY  
BEFORE THE UTILITY REGULATORY COMMISSION

\* \* \* \* \*

In the Matter of:

APPLICATION OF KENTON COUNTY WATER )  
DISTRICT NO. 1 TO ISSUE REVENUE BONDS )  
IN THE AMOUNT OF \$15,000,000; TO ) CASE NO. 7794  
CONSTRUCT ADDITIONAL PLANT FACILITIES; )  
AND NOTICE OF ADJUSTMENT OF RATES ON )  
APRIL 21, 1980 )

O R D E R

On March 28, 1980, Kenton County Water District No. 1, hereinafter referred to as "Applicant," filed with this Commission its application seeking authority (1) to issue \$15,000,000 of parity revenue bonds; (2) to construct \$7,030,000 of system improvements, to refund outstanding temporary bank loans and to make other expenditures as detailed on Exhibit No. 15; (3) and to increase its rates in the amount of \$2,271,063 annually (Exhibit No. 10) to become effective on or after April 21, 1980.

On the 28th day of March, 1980, the Commission entered its Order suspending the proposed rates and charges for a period of five (5) months or until September 21, 1980. In addition, the Commission set the first hearing for May 6, 1980, and directed the Applicant to notify its customers of said hearing.

The hearing was held as scheduled with further hearings being held on May 30, June 3, and July 23, 1980. All parties of interest were notified in the manner prescribed by the Kentucky Revised Statutes. Intervenors in this matter include the Consumer Intervention Division of the Attorney General's Office; Boone County Water District; Florence Water District; Taylor Mill Utility Commission; Interlake, Inc.; and the cities of Taylors Mill, Ludlow, Cold Springs and Florence. At the hearings, the Utility's witnesses testified and were cross-examined by the Commission and intervenors of record. In addition, the intervenors' witnesses testified and were cross-examined by the Commission and the Applicant. Additional information requested at the hearings has been filed and the entire matter is submitted for final determination by this Commission.

### REVENUE BOND ISSUE

As was stated, Kenton County originally proposed to issue \$15,000,000 of revenue bonds. This proposed issue among other items included funds for the defeasance or refunding of the entire principal amount of the bonds outstanding at the end of the test year. The principal requirement for the defeasance of the bonds outstanding is subject to the interest rate of issuance, as are other items included in the bond issue amount. Subsequent to the application date, in "Supplemental Data" filed by Fox, Reusch and Company, financial advisors of the Applicant, the District provided the amount necessary for issue at an interest rate of 9% which was \$13,507,600. This difference then in this estimate and the original estimate was predicated on the reduced level of principal necessary to defease the outstanding bonds.

From this information, using the utility's own proposals and assumptions concerning the bond issue calculations and the 9% interest rate which is reflective of current market conditions, the Commission finds that the amount of the issue necessary is \$13,510,000 and is herein approved. It should be further noted that this calculation incorporates a "contingency factor" of \$300,000 as opposed to the Utility's original proposal of \$250,000<sup>1/</sup> and should provide sufficient coverage in the event of cost overruns.

### TEST PERIOD

The Utility proposed, and the Commission has accepted the twelve (12) months ending December 31, 1979, for the purpose of determining the reasonableness of the proposed rates. Pro forma adjustments have been included where found fair and reasonable.

### RATE BASE

From the record<sup>2/</sup> the Commission has determined that Applicant's Net Original Cost Rate Base at the end of the test period is as follows:

- 
- <sup>1/</sup> Applicant's Exhibit 15  
<sup>2/</sup> Applicant's Exhibit 13

Total Original Cost of Existing Plant	\$20,997,000
Deduct:	
Reserve for Depreciation	3,143,000
Contributions in Aid of Construction	1,534,000
Subtotal	<u>\$ 4,677,000</u>
Add:	
Materials & Supplies	\$ 84,000
Cash Working Capital	298,000
Subtotal	<u>\$ 382,000</u>
Net Original Cost Rate Base	<u>\$16,702,000</u>

Applicant proposed to include future plant additions of \$7,500,000 in its net original cost rate base. The Commission rejects this proposal on the grounds that it is unfair for the utility ratepayer to provide a return on future additions which as yet are not even under construction.

#### REVENUES & EXPENSES

The Applicant proposed several pro forma adjustments to its operating statement<sup>3/</sup>. The Commission is of the opinion these adjustments are necessary with the exception of the adjustment to depreciation expense of \$150,000<sup>4/</sup> related to the proposed plant additions. The Commission rejects this adjustment as it implies recovery of future plant which is not in service.

Moreover, the Commission has made an adjustment to Applicant's operating revenue of \$7,888<sup>5/</sup> to reflect the normal experienced level of revenues from customer growth.

Therefore, Applicant's adjusted operations at the end of the test period are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$2,453,891	\$ 7,888	\$2,461,779
Operating Expenses	<u>2,655,988</u>	<u>144,510</u>	<u>2,800,498</u>
Operating Income (Loss)	\$ (202,097) <sup>6/</sup>	\$(136,622)	\$ (338,719)

<sup>3/</sup> Applicant's Exhibit 10

<sup>4/</sup> Ibid, page 2.

<sup>5/</sup> Calculation:

$$\begin{aligned}
 &145 \text{ new customers } (1/1/80-6/30/80 \times 2) = 290 \\
 &\text{Minimum Bill } \$6.80/\text{quarter} \times 4 = \$27.20 \times \\
 &\text{Revenue From Customer Growth} \quad \quad \quad \underline{\$7,888}
 \end{aligned}$$

<sup>6/</sup> Applicant's Exhibit 10

OPERATING REVENUE INCREASE

The 1980 series bond issue approved herein will require revenues sufficient to cover operation and maintenance expenses, depreciation expense, and 1.2 times the debt service requirements on the approved issue. Further, as the issue itself includes or funds a debt service reserve, any interest income earned on this fund will be unrestricted or available to meet the income requirements of the issue.

The Applicant in its calculation of operating revenue requirements failed to include the interest income to be derived from the debt service reserve fund. The Commission finds that this amount should reduce the revenue requirements provided from rates. Therefore, the Commission has adjusted operating revenue requirements to reflect the annualized interest income the District can earn on this fund at the current treasury bill rate of 8%.

The increase in operating revenue is then calculated as follows:

1.2 x Debt Service Coverage	\$1,579,320
Adjusted Operating Expense	2,800,498
Subtotal	<u>\$4,379,818</u>
Less:	
Adjusted Operating Revenue	\$2,461,779
Interest Income from Debt Service Reserve Fund	105,300
Other Income	5,000
Subtotal	<u>\$2,572,079</u>
Increase	<u>\$1,807,739</u>

RETURN

Based on the requirements of the 1980 bond series approved herein, Applicant is entitled to earn a return on its Net Original Cost Rate Base of 8.8% which is the return the Commission finds is fair, just and reasonable. This return provides operating income of \$1,469,020 which when added to the sum of net interest income and other income of \$110,300 provides net utility income of \$1,579,320 or 1.2 times the maximum debt service coverage requirements under the approved bond issue.

## 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 a 36" water main from Campbell County to intersection of Madison Pike and Dudley Road; 16" water main from intersection of Madison and Hands Pike to intersection of Richardson and Narrows Road; one million gallon elevated storage tank in Independence, Kentucky and other miscellaneous improvements, all at a total construction cost of \$7,030,000 and a total project scope of \$13,510,000.

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

4. The Commission has determined that an issuance of \$13,510,000 of revenue bonds, 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. That the rates as set out in Appendix "A", attached hereto and made a part hereof, are the just and reasonable rates to be charged by the Applicant and should produce annual revenue from the sale of water of approximately \$4,269,578 or that revenue needed to pay operating expenses and meet the bond indenture requirements. The general service rate as set out in Appendix "A" should be the rate charged all retail consumers including the Greater Cincinnati Airport; Interlake, Inc.; and Grefco, and will become uniform in all areas served by the Applicant upon institution of this rate schedule.

6. The rates proposed by Kenton County Water District No. 1 and set out in the Application should be denied in that they produce annual revenues in excess of that found reasonable.

7. That 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 Utility should 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 after construction is substantially completed, the Utility should furnish this Commission with a copy of the as built plans along with the engineers certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

IT IS THEREFORE ORDERED:

1. That the Kenton County Water District No. 1 be and it is hereby granted a Certificate of 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.

2. That all contracts entered into by Kenton County Water District No. 1 for the construction of the proposed extensions, additions and other improvements made to the District be filed with this Commission within thirty (30) days of the effective date of the contract.

3. That the improvements, additions, extensions and other improvements made to the water distribution system be in accordance with the contracts and specifications to be filed with this Commission.

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

5. That the Utility be and hereby is authorized to issue and sell, at competitive bidding \$13,510,000 of revenue bonds to the purchaser or purchasers submitting bids which will result in the lowest annual cost of money to the District.

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

7. 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.

8. That the Utility shall 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. That the Utility shall file with this Commission, within sixty (60) days of the completion date of the proposed construction, 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.

10. That the Utility shall advise the Commission as to the investment of the funds for the Debt Service Reserve requirement and any change thereafter.

11. That the rates proposed by the Utility and set out in the Application insofar as they differ from those in Appendix "A" be and hereby are denied.

12. That the District shall file with the Commission within thirty (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.

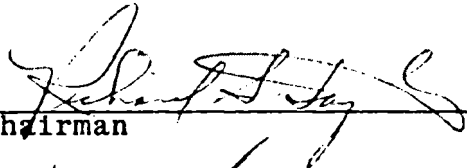
13. That the District shall file with the Commission quarterly financial statements until further notice.

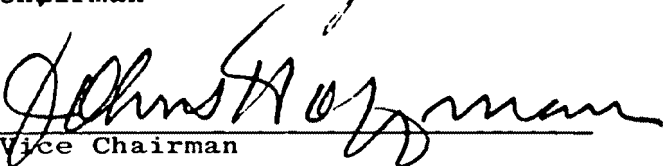
14. That the rates in Appendix "A" hereto attached and made a part hereof are fixed and prescribed as the rates for water service rendered by the Kenton County Water District No. 1 on and after the date of the issuance of the parity revenue bonds.

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 29th day of August, 1980.

UTILITY REGULATORY COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary



APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY  
COMMISSION IN CASE NO. 7794 DATED AUGUST 29, 1980.

The following rates and charges are prescribed for the customers in the area served by Kenton County Water District No. 1. 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 Rates Quarterly- to be charged in all service area

First	600 Cubic Feet used per quarter	\$6.00 Minimum
Next	4,400 Cubic Feet used per quarter	0.70 per 100 Cu. Ft.
Next	495,000 Cubic Feet used per quarter	0.53 per 100 Cu. Ft.
Next	1,500,000 Cubic Feet used per quarter	0.45 per 100 Cu. Ft.
All Over	2,000,000 Cubic Feet used per quarter	0.38 per 100 Cu. Ft.

Wholesale Rates

The City of Florence, Ky., Boone County Water District, the City of Independence, Ky., and the City of Cold Spring, Ky., shall be charged the following rate:

All water purchased (Cu. Ft.) @ \$0.41 per 100 Cu. Ft.

The City of Bromley, Ky., the City of Ludlow, Ky., Campbell County Water District No. 3, Taylor Mill Water Commission and Winston Park Water Department, shall be charged the following rate:

All Water purchased (Cu. Ft.) @ \$0.38 per 100 Cu. Ft.

Tapping Fee Schedule

5/8" Service Installation	\$225.00
3/4" Service Installation	260.00
1" Service Installation	325.00
1½" Service Installation	500.00
2" Service Installation	600.00

All Service Over 2" at actual cost plus 10%