

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SIMPSON COUNTY)
WATER DISTRICT, SIMPSON, COUNTY,)
KENTUCKY, (1) FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
AUTHORIZING SAID DISTRICT TO)
CONSTRUCT MAJOR IMPROVEMENTS AND)
EXTENSIONS TO ITS EXISTING MUNICIPAL) CASE NO. 8266
WATER DISTRIBUTION SYSTEM PURSUANT)
TO THE PROVISIONS OF CHAPTER 74 OF)
THE KENTUCKY REVISED STATUTES; (2))
SEEKING APPROVAL OF THE ADJUSTMENT)
OF WATER SERVICE RATES AND CHARGES;)
AND (3) SEEKING APPROVAL OF THE)
ISSUANCE OF CERTAIN SECURITIES)

INTERIM ORDER

The Simpson County Water District ("Simpson Water") filed its application on June 24, 1981, for approval of adjustments to its water service rates, approval of proposed improvements in the amount of \$814,600, approval to borrow \$793,000 from the Farmers Home Administration ("FmHA") and authority to issue waterworks revenue bonds as security therefor. The proceeds from the \$793,000 loan along with \$21,600 from applicants for water service are to be used for making the system improvements on which bids were received on September 30, 1981, ("Phase I") and for further improvements on which bids are to be received during the first quarter of 1982 ("Phase II").

Simpson Water is now serving about 1,380 customers. Phase I construction will add about 144 new customers and Phase II construction should add about 100 more.

Plans and specifications for the Phase I improvements have been approved by the Division of Water of the Department for Natural Resources and Environmental Protection.

A hearing was held October 13, 1981, in the offices of the Public Service Commission, Frankfort, Kentucky, on Simpson Water's proposed rate adjustments, its financing and the certificating of its proposed Phase I construction. There were no intervenors in this proceeding.

The Commission will address the proposed rates in its final order in this case. A fundamental ratemaking principle is that the utility under efficient management should be allowed rates sufficient to produce revenues which cover its reasonable operating expenses and interest cost, and provide a margin which allows growth in surplus. This principle not only insures that the utility has adequate cash flow in the form of depreciation but also that the customer does not pay for imprudently incurred costs.

The Public Service Commission, after consideration of the application and all evidence of record and being advised, is of the opinion and finds that:

1) The public convenience and necessity require that the construction proposed in the application and record be performed, and that a certificate of public convenience and necessity be granted.

2) The proposed Phase I construction project will provide service to about 144 new customers located in 14 separate areas within the service area boundaries of Simpson Water. It includes about 28.9 miles of water mains of 4-inch and 3-inch diameter and miscellaneous appurtenances thereto. The low bid received for this work is \$308,949, which will require about \$424,360 of the total \$814,600 available funds after allowances are made for fees, contingencies and other indirect costs. The balance of about \$390,240 will be used for financing the Phase II construction project.

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

4) The proposed borrowing of \$793,000 is for lawful objects within the corporate purposes of Simpson Water, is necessary and appropriate for and consistent with the proper performance of services to the public by Simpson Water, will not impair its ability to perform these services and is reasonably necessary and appropriate for such purposes.

5) Simpson Water should obtain approval of this Commission before any construction on its Phase II project is begun.

6) Simpson Water should furnish 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 60 days of the date that construction is substantially completed.

7) The contract between Simpson Water 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.

8) Within 60 days of the date of substantial completion of this construction, Simpson Water should require the engineer to furnish to the Commission a copy of the as-built plans and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

IT IS THEREFORE ORDERED that Simpson Water be and it is hereby granted a certificate of public convenience and necessity to proceed with the proposed Phase I construction project as set forth in the plans and specifications of record herein.

IT IS FURTHER ORDERED that any construction deviations from the contract plans and specifications approved herein which could adversely affect the service to any customer shall be subject to the prior approval of this Commission.

IT IS FURTHER ORDERED that Simpson Water be and it is hereby authorized to borrow \$793,000 from the Farmers Home Administration at 5 percent interest over a 40-year period with

payment of principal deferred for 2 years and to issue waterworks revenue bonds as security therefor.

IT IS FURTHER ORDERED that Simpson Water be and it is hereby authorized to utilize approximately \$390,240 of its \$814,600 funds for water system improvements to finance its Phase II construction project. Further, no construction work on the Phase II project shall be started without first obtaining approval therefor from this Commission.

IT IS FURTHER ORDERED that Simpson Water shall file with this Commission duly verified documentation which shows the total costs of the construction herein certificated including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that the contract between Simpson Water 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.

IT IS FURTHER ORDERED that Simpson Water shall require the engineer, within 60 days of the date of substantial completion of the proposed construction, to furnish this Commission with as-built drawings and a signed statement that the construction has been satisfactorily completed and has been done in accordance with the contract plans and specifications.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 15th day of December, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohy
Chairman

Katharine Randall
Vice Chairman

Sam R. Rouse
Commissioner

ATTEST:

Secretary