

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF RATTLESNAKE )  
RIDGE WATER DISTRICT, CARTER, )  
ELLIOT, AND LAWRENCE COUNTIES, )  
KENTUCKY (1) FOR A CERTIFICATE OF )  
PUBLIC CONVENIENCE AND NECESSITY )  
AUTHORIZING SAID DISTRICT TO )  
CONSTRUCT A WATER DISTRIBUTION )  
SYSTEM PURSUANT TO THE PROVISIONS ) CASE NO. 9071  
OF CHAPTER 74 OF THE KENTUCKY )  
REVISED STATUTES; (2) SEEKING AP- )  
PROVAL OF A SCHEDULE OF RATES AND )  
CHARGES TO BE CHARGED FOR WATER )  
SERVICE; AND (3) SEEKING APPROVAL )  
OF THE ISSUANCE OF CERTAIN )  
SECURITIES )

O R D E R

The Rattlesnake Ridge Water District ("Rattlesnake Ridge"), by application filed May 31, 1984, and amended during the proceedings in this matter, is seeking the establishment of initial water service rates, authorization to construct a \$3,116,700 waterworks project, and approval of its financing for the proposed project. The project financing includes \$172,400 from applicants for service in the proposed project area, a \$5,000 service connection fee from the Carter County Board of Education, a \$75,000 service connection fee from the U. S. Army Corps of Engineers, a \$95,700 service connection fee from the Kentucky Department of Parks, a grant of \$390,000 from the Appalachian Regional Commission, a grant of \$5,000 from the Fivco Area

Development District, a grant of \$1,587,600 from the Farmers Home Administration ("FmHA") and FmHA loans that total \$786,000 (a \$706,000 loan at 9 1/8 percent annual interest secured before advertisement for bids and an \$80,000 loan with an estimated interest rate of 10 percent that was secured after bids were opened). The estimated 10 percent interest rate was provided by the FmHA. The actual rate will be set by the FmHA before the date of loan closing. Rattlesnake Ridge will issue waterworks revenue bonds as security for the loans. The repayment period for the loans will be 40 years.

The proposed construction will provide service to about 578 applicants for service. Plans and specifications for this construction as prepared by Kenco Associates, Inc., of Ashland, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Rattlesnake Ridge originally requested approval of rates which would provide operating revenues of \$150,280. Rattlesnake Ridge later revised its filing to request rates which would provide operating revenues of \$161,460. The Commission has allowed the requested rates in this Order.

A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on December 7, 1984. There were no intervenors, and no protests were entered.

### TEST PERIOD

This is a proposed rather than an operating utility and, accordingly, test period information does not exist. Estimated pro forma projections of expenses have been utilized for the determination of revenue requirements.

### PROJECTED REVENUES AND EXPENSES

Rattlesnake Ridge projected operating expenses of \$89,000 on the basis of providing service to 578 customers. The Commission is of the opinion that the projected operating expenses generally are proper and they have, therefore, been accepted.

### REVENUE REQUIREMENTS

Based on its proposed method of financing Rattlesnake Ridge projected a revised debt service of \$75,065. Utilizing the projected number of customers to be served by Rattlesnake Ridge, the revised rates proposed should generate sufficient revenues to allow Rattlesnake Ridge to meet its debt service requirements to FmHA. Expected growth may provide additional revenues in the future. The Commission is, therefore, of the opinion that the revenue requirements requested by Rattlesnake Ridge are fair, just and reasonable in that they will allow Rattlesnake Ridge to meet its operating expenses, provide sufficient revenues to meet its debt service requirements and contribute toward adequate equity growth.

### RATE DESIGN

The rate design proposed by Rattlesnake Ridge is based on water used through various sized meters. The minimum allowance for each rate schedule for the different size meter is based on the usage allowance associated with the 5/8" X 3/4" meter connection. The Commission is of the opinion that this is a fair and equitable method for charging for water used and that the proposed revised rates are fair, just and reasonable. They have therefore been accepted.

### FINDINGS AND ORDERS

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

1. Public convenience and necessity require that the construction proposed in the application and record as modified herein by Finding Number 2 should be performed and that a certificate of public convenience and necessity should be granted.

2. At 10 dead-end pipe locations, Rattlesnake Ridge has proposed to construct 2-inch diameter pipe in lengths of 250 feet or more. Nine of these locations show lengths in excess of the 250-foot limitation stipulated by Section 11 of 807 KAR 5:066. After consideration of initial service demands, future service demands and available service pressures, the Commission finds that 3-inch diameter pipe should be the minimum size pipe at 4 of the 10 locations.

The plan sheet numbers and lengths of pipe are as follows: A-13/250 feet, E-5/330 feet, E-8/350 feet and E-12/350 feet. Further the Commission finds that a deviation from Section 11 permitting the construction of 2-inch diameter pipe for the lengths proposed at the following six locations should be granted: A-11/300 feet, A-11/300 feet, A-35/350 feet, B-3/370 feet, B-21/400 feet and E-6/320 feet.

3. The proposed project for the Rattlesnake Ridge water system includes a 60,000-gallon water storage tank, a 97,000-gallon water storage tank, a 262,000-gallon water storage tank, 4 booster pumping stations, 578 service connections, about 75 miles of 8-, 6-, 4-, 3-, 2-, 1 1/2- and 1-inch water main and miscellaneous appurtenances.

4. The low bids received for the proposed construction totaled \$2,549,610 which will require about \$3,116,700 in project funding after allowances are made for fees, contingencies, and other indirect costs.

5. Any deviations from the construction herein approved which could adversely affect service to any customer should be subject to the prior approval of this Commission.

6. Rattlesnake Ridge should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

7. Rattlesnake Ridge should file with the Commission duly verified documentation which shows the total costs of construction including all capitalized costs (engineering,

legal, administrative, etc.) within 60 days of the date that construction is substantially completed. The construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

8. Rattlesnake Ridge's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering. The supervision and inspection should insure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

9. Rattlesnake Ridge should require the Engineer to furnish a copy of the record plans and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

10. A 5/8-inch x 3/4-inch meter should be the standard customer service meter for all new customers and should be installed at all points of service unless the customer provides sufficient justification for the installation of a larger meter.

11. Rattlesnake Ridge should file with the Commission a copy of all contractual agreements for the provision of

services or the purchase of services which are subject to the approval of this Commission.

12. The risks to be borne by Rattlesnake Ridge during the initial operating years of its water utility facilities require the establishment of a financial reserve against these risks. Rattlesnake Ridge should, therefore, set aside \$50,000 of its applicant contributions as an "Initial Operations and Maintenance Reserve Fund" in accordance with the FmHA letter of conditions for this project. This fund should be utilized to supplement the cost of utility operations and maintenance during the first 5 years of operations.

13. The proposed borrowing of \$786,000 is for lawful objects within the corporate purposes of Rattlesnake Ridge, is necessary and appropriate for and consistent with the proper performance of services to the public by Rattlesnake Ridge, and will not impair its ability to perform these services.

14. The financing secured by Rattlesnake Ridge for this project will be needed to pay for the work herein approved. Rattlesnake Ridge's financing plan should, therefore, be approved.

15. The revised rates should generate sufficient revenues to meet Rattlesnake Ridge's operating expenses and debt service requirements and provide for sufficient capital growth.

16. The proposed revised rates are fair, just and reasonable and should be approved.

IT IS THEREFORE ORDERED that Rattlesnake Ridge be and it hereby is granted a certificate of public convenience and necessity to proceed with the waterworks construction projects described by the plans and specifications of record herein approved subject to incorporation of the changes required by Finding Number 2 of this Order.

IT IS FURTHER ORDERED that Rattlesnake Ridge shall comply with Findings 5 through 12 herein as if each of these findings were also ordered.

IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are the fair, just and reasonable rates to be charged by Rattlesnake Ridge for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Rattlesnake Ridge's proposed financing of the construction herein certificated be and it hereby is approved.

IT IS FURTHER ORDERED that Rattlesnake Ridge shall file its tariff sheets setting forth the rates approved herein within 20 days of the date of this Order.

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 4th day of January, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Henne  
Chairman

Paul W. Joseph  
Vice Chairman

John S. Smith  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 9071 DATED 1/4/85

The following rates and charges are prescribed for the customers in the area served by Rattlesnake Ridge Water District.

Rates for Service

| <u>METER SIZE</u>                | <u>MONTHLY RATE</u>      |
|----------------------------------|--------------------------|
| <u>5/8 inch X 3/4 inch Meter</u> |                          |
| First 1,000 gallons              | \$ 9.75 (Minimum Bill)   |
| Next 4,000 gallons               | 5.25 per 1,000 gallons   |
| Next 5,000 gallons               | 4.50 per 1,000 gallons   |
| Next 10,000 gallons              | 3.75 per 1,000 gallons   |
| Over 20,000 gallons              | 2.75 per 1,000 gallons   |
| <u>3/4 inch Meter</u>            |                          |
| First 5,000 gallons              | \$ 30.75 (Minimum Bill)  |
| Next 5,000 gallons               | 4.50 per 1,000 gallons   |
| Next 10,000 gallons              | 3.75 per 1,000 gallons   |
| Over 20,000 gallons              | 2.75 per 1,000 gallons   |
| <u>1 inch Meter</u>              |                          |
| First 10,000 gallons             | \$ 53.25 (Minimum Bill)  |
| Next 10,000 gallons              | 3.75 per 1,000 gallons   |
| Over 20,000 gallons              | 2.75 per 1,000 gallons   |
| <u>1 1/2 inch Meter</u>          |                          |
| First 30,000 gallons             | \$ 118.25 (Minimum Bill) |
| Over 30,000 gallons              | 2.75 per 1,000 gallons   |
| <u>2 inch Meter</u>              |                          |
| First 50,000 gallons             | \$ 173.25 (Minimum Bill) |
| Over 50,000 gallons              | 2.75 per 1,000 gallons   |
| <u>3 inch Meter</u>              |                          |
| First 100,000 gallons            | \$ 310.75 (Minimum Bill) |
| Over 100,000 gallons             | 2.75 per 1,000 gallons   |

Service Connection Charges

| <u>Meter Size</u>   | <u>Charges</u> |
|---------------------|----------------|
| 5/8 inch x 3/4 inch | \$ 500         |
| 3/4 inch            | 600            |
| 1 inch              | 850            |
| 2 inch              | 1,200          |
| 3 inch              | 1,800          |