

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE CORINTH)
WATER DISTRICT, A WATER DISTRICT)
ORGANIZED PURSUANT TO CHAPTER 74)
OF THE KENTUCKY REVISED STATUTES,) CASE NO. 9349
OF GRANT COUNTY, KENTUCKY, FOR)
APPROVAL OF CONSTRUCTION,)
FINANCING AND RATES)

O R D E R

The Corinth Water District ("Corinth"), by application filed May 30, 1985, and revised during the proceedings in this matter, is seeking approval to establish initial water service rates, authorization to construct an \$882,700 waterworks project, and approval of its financing for the proposed project. The project financing includes \$32,000 from applicants for service in the proposed project area, a loan of \$222,000 from the Farmers Home Administration ("FmHA") at 9 1/8 percent annual interest, a grant of \$596,700 from the FmHA, a grant of \$30,000 from the Grant County Fiscal Court and a grant of \$2,000 from the Northern Kentucky Area Development District. Corinth will issue waterworks revenue bonds as security for the loans. The repayment period for the loan will be 40 years.

The proposed construction will provide service to about 160 applicants for service. Plans and specifications

for this construction as prepared by Proctor, Davis, Ray, Engineers of Lexington, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on December 17, 1985. There were no intervenors present and no protests were entered.

COMMENTARY

Corinth, a non-profit water utility, which after completion of construction will provide water service initially to approximately 160 customers near the City of Corinth, will be located in southern Grant County.

The Bullock Pen Water District is a non-profit water utility engaged in the distribution and sale of water to approximately 1,380 customers in northeastern Grant, southeastern Boone and western Pendleton counties. The largest portion of Corinth's service area is in Grant County.

KRS 74.361 states in part:

The general assembly of the Commonwealth of Kentucky determines as a legislative finding of fact that reduction of the number of operating water districts in the Commonwealth will be in the public interest, in that mergers of such districts will tend to eliminate wasteful duplication of costs and efforts, result in a sounder and more businesslike degree of management and ultimately result in greater economies, less cost, and a higher degree of service

to the general public; and that the public policy favors the merger of water districts wherever feasible.

Mr. Winfred Colson, Chairman of Corinth, testified that the water district has not investigated the possibility of merging with the Bullock Pen Water District. In view of the legislative mandate, the Commission is of the opinion that Corinth should seriously consider merging with the Bullock Pen Water District in Grant County.

TEST PERIOD

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

PROJECTED REVENUES AND EXPENSES

Corinth projected operating expenses on the basis of providing service to approximately 160 customers. The Commission is of the opinion that the projected operating expenses generally are proper and they have therefore been accepted with the following exception:

Depreciation Expense

Corinth did not include depreciation expense in its proposed expenses; however, a calculation of depreciation expense on noncontributed plant was provided at \$4,440. The Commission has therefore adjusted operating expenses to include \$4,440 for depreciation on noncontributed property. It is the practice of the Commission not to allow depreciation expense when the property has been contributed.

After consideration of the aforementioned adjustment, projected revenues and expenses are as follows:

	<u>Pro Forma</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$50,650	\$ -0-	\$50,650
Operating Expenses	22,828	4,440	27,268
Net Operating Income	<u>27,822</u>	\$ <4,440>	<u>23,382</u>
Interest Expense	20,258		20,258
Net Income	<u>\$ 7,564</u>	<u>\$ <4,440></u>	<u>\$ 3,124</u>

REVENUE REQUIREMENTS

Historically, the Commission has used the debt service coverage ratio as the criterion for determining revenues for nonprofit water utilities, and it finds no reason to deviate from this established precedent in this proceeding. The average annual debt service of Corinth for 1988-1992 is \$21,075. Applying a debt service coverage of 1.2X as identified in Corinth's Bond Resolution, the Commission finds a minimum net operating income requirement of \$25,290. Operating expenses of \$27,268 plus net operating income of \$25,290 produce revenue requirements from water sales of \$52,558. Corinth requested rates which would produce approximately \$50,650 in revenues during the first year of operation. The Commission is concerned that the rates requested may not provide an adequate surplus necessary for equity growth; however, the Commission realizes the projections provided by Corinth for revenues and expenses are only estimates. The Commission therefore has granted the amount of revenues requested by Corinth of

\$50,650; however, the Commission encourages Corinth to reassess its financial position and to take the necessary steps to ensure its financial stability.

RATE DESIGN

Corinth proposed a 4-step declining block rate schedule, which the Commission finds acceptable, except that no usage allowances were proposed for 1-inch, 1 1/2-inch, and 2-inch service. The absence of such usage allowances is not consistent with normal rate design practice. Therefore, the Commission has established in Appendix A usage allowances and minimum bills for 1-inch, 1 1/2-inch, and 2-inch service consistent with Corinth's rate schedule.

In addition, Corinth proposed a connection charge of \$200 at the time of system construction. Upon completion of construction, the charge would vary relative to any given customer's location vis-a-vis the serving water main. This is also contrary to normal rate design practice. Therefore, in Appendix A, the Commission has established a connection charge of \$200 for 5/8 x 3/4 - inch connections. Corinth should apply to the Commission to establish charges for larger size connections.

Other rates and charges have been accepted by the Commission as proposed.

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 be performed and that a certificate of public convenience and necessity be granted.

2. The proposed project for the Corinth water system includes 160 service connections, about 13.7 miles of 8-, 6- and 4-inch water main, a 122,000-gallon water storage tank and miscellaneous appurtenances.

3. The low bids received for the proposed construction totaled \$660,010 which will require about \$882,700 in project funding after allowances are made for fees, contingencies and other indirect costs.

4. 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.

5. Corinth should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

6. Corinth 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.

7. Corinth'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.

8. Corinth 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.

9. 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.

10. Corinth 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.

11. The proposed borrowing of \$222,000 is for lawful objects within the corporate purposes of Corinth, is

necessary and appropriate for and consistent with the proper performance of services to the public by Corinth, and will not impair its ability to perform these services.

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

13. Corinth should investigate the feasibility of merging with the Bullock Pen Water District. Corinth should file a written report on the results of its investigation with the Commission within 90 days of the date of this Order.

14. Corinth should maintain its accounting system as prescribed by the Uniform System of Accounts for water utilities.

15. The rate structure proposed by Corinth should be approved as proposed, except that minimum bills and usage allowances should be established for 1-inch, 1 1/2-inch, and 2-inch service.

IT IS THEREFORE ORDERED that:

1. Corinth be and it hereby is granted a certificate of public convenience and necessity to proceed with the waterworks construction project described by the plans and specifications of record herein approved.

2. Corinth shall comply with Findings 4 through 10, 12 and 13 as if the same were individually ordered.


3. Corinth shall maintain its accounting system as prescribed by the Uniform System of Accounts for water utilities.

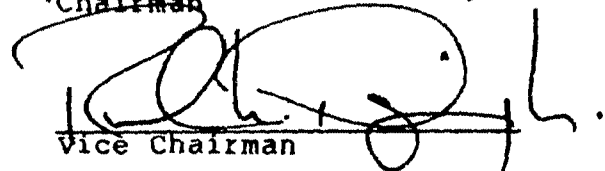
4. The rates and charges in Appendix A are the fair, just, and reasonable rates for service rendered effective on and after the date of this Order.

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 6th day of February, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9349 DATED FEBRUARY 6, 1986

The following rates and charges are prescribed for the customers in the area served by Corinth Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Rate Schedule

<u>Rate Block</u>	<u>Rate Per Month</u>
First 1,000 gallons	\$11.00 (Minimum bill) *
Next 4,000 gallons	5.00 per 1,000 gallons
Next 5,000 gallons	3.00 per 1,000 gallons
Over 10,000 gallons	2.50 per 1,000 gallons

* 5/8" x 3/4" meter. For meters larger than 5/8" x 3/4", the minimum bill shall be as follows:

<u>Meter Size</u>	<u>Usage Allowance</u>	<u>Minimum Bill</u>
1 - Inch	2,000 gallons	\$16.00
1 1/2 - Inch	3,000 gallons	21.00
2 - Inch	5,000 gallons	31.00

The rate schedule shall be applied in 100 gallon increments. Multi-unit customers shall be assessed the same rate schedule as single-unit customers. The meter size shall determine the amount of the minimum bill.

Connection Charge

The service connection charge shall be \$200.00 for 5/8 x 3/4-inch connections.

Delinquent Charges

A \$5.00 delinquent charge shall be assessed on any bill not paid within 20 days from the date of issue. If a delinquent bill is not paid within 30 days from the date of issue, service shall be discontinued. A \$30.00 reconnection charge shall be assessed to restore discontinued service.