

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE McCREARY )  
COUNTY WATER DISTRICT: FOR (1) A )  
CERTIFICATE OF PUBLIC CONVENIENCE )  
AND NECESSITY TO EXTEND ITS WATER )  
LINES AND SERVICES; (2) CONSTRUCT ) CASE NO. 9415  
A DAM TO REPLACE THE EXISTING DAM )  
IMPOUNDING A RAW WATER SUPPLY; )  
(3) AUTHORITY TO BORROW \$1,070,000 )  
FROM FARMERS HOME ADMINISTRATION; )  
AND, (4) INCREASE IN GENERAL WATER )  
RATES )

O R D E R

The McCreary County Water District ("McCreary County"), by application filed September 6, 1985, and revised during the proceedings in this matter, is seeking approval to increase its water service rates, authorization to construct a \$2,033,000 waterworks project, and approval of its financing for the proposed project. The project financing includes a loan of \$1,070,000 from the Farmers Home Administration ("FmHA"), a grant of \$213,000 from the Appalachian Regional Commission ("ARC") and a Department of Housing and Urban Development ("HUD") Community Development Block Grant of \$750,000. The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 5 percent per annum.

The proposed construction will replace the existing Laurel Creek Reservoir Dam, make water distribution system improvements and provide water service to about 241 additional applicants for

service. Plans and specifications for the construction prepared by Kenvirons, Inc., of Frankfort, Kentucky, ("Engineers") 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 April 8, 1986. There were no intervenors present and no protests were entered. This Order grants rates designed to produce an annual increase in revenues of \$63,511.

TEST PERIOD ADJUSTMENTS

REVENUES AND EXPENSES

McCreary County reported net operating income of \$39,141 for the 12-month test period ending July 31, 1985. In order to recognize normal operating conditions and the proposed expansion of the system, McCreary County proposed several adjustments to test period operations. The Commission finds the proposed adjustments acceptable for rate-making purposes, with the following exceptions:

Operating Revenue

McCreary County reported test period operating revenues of \$581,479. A surcharge of \$21,308 and an adjustment to Accounts Receivable of \$12,400 were proposed, increasing reported revenues a total of \$33,708. These two items were the result of an attempt to correct revenue figures from the 12 months prior to the test period and are not reflective of test year operations. The Commission concludes that these two items result in an overstatement

of McCreary County's test year revenues and has, therefore, reduced test year operating revenues by \$33,708.

McCreary County reduced test year operating revenues by \$14,305 through adjustments to customer bills. While the Commission finds water loss adjustments to be acceptable, McCreary County's witness testified that approximately 60 percent of these adjustments were due to leaks on the customer's side of the meter. Leaks on the customer's side of the meter are the responsibility of the individual customer and such costs should not be borne by all of the ratepayers. Accordingly, we have adjusted McCreary County's test period operating revenues by adding back \$8,583 of this amount.

McCreary County adjusted test period operating revenues by \$10,944 to recognize the revenue to come from new customers of the expanded system, and the elimination of the 53 cents per bill surcharge. McCreary County also proposed an increase of \$1,746 to Miscellaneous Service Revenues. McCreary County based these adjustments on approximately 241 additional customers and a test year average usage from each rate category, producing adjusted test year operating revenues of \$569,044. The Commission has adjusted McCreary County's proposal by \$1,720 using the actual test year billing analysis and finds McCreary County's adjusted test year revenues to be \$570,764.

#### Operation and Maintenance Expenses

McCreary County proposed to increase its operation and maintenance expenses by \$30,000 but provided no support for these increases other than estimates based on the proposed expansion and



debt. Although McCreary County made no adjustments, the Commission finds it reasonable to allow depreciation expense on the non-contributed portion of the expansion and has thus determined McCreary County's depreciation expense for rate-making purposes to be \$64,160.<sup>2</sup>

Adjustments to McCreary County's test period operations produced the following results:

|                    | Actual           | Company<br>Adjustments  | Commission<br>Adjustments | Adjusted<br>Balance |
|--------------------|------------------|-------------------------|---------------------------|---------------------|
| Operating Revenues | \$581,479        | 12,690                  | \$<23,405>                | \$570,764           |
| Operating Expenses | 542,339          | 30,000                  | <74,332>                  | 498,007             |
| Operating Income   | <u>\$ 39,140</u> | <u>\$&lt;17,310&gt;</u> | <u>\$ 50,927</u>          | <u>\$ 72,757</u>    |

#### Revenue Requirements

The Commission has determined McCreary County's average annual debt service for the 5 years subsequent to the test period to be \$129,229, which includes the 5 percent interest on the new debt of \$1,070,000. The adjusted operating income of \$72,757 plus interest income in the amount of \$3,953 results in total income for rate-making purposes of \$76,711 and will allow McCreary County a debt-service coverage ("DSC") of .59.

|  |                  |                 |
|--|------------------|-----------------|
| <sup>2</sup> Plant In Service            | \$3,224,234      |                 |
| Less: Contributions                      | (1,703,205)      |                 |
| Depreciable Plant                        | <u>1,521,029</u> |                 |
| X Rate                                   | <u>.0241</u>     |                 |
| Allowable Depreciation (Test Year)       |                  | \$36,657        |
| Depreciation on Capitalized Expenditures |                  | 753             |
| Plant Additions                          | 1,070,000        |                 |
| X Rate                                   | <u>2.5%</u>      |                 |
| Depreciation for Rate-making Purposes    |                  | <u>26,750</u>   |
|  |                  | <u>\$64,160</u> |

The additional revenues granted in this case will provide McCreary County with a DSC of 1.08. An analysis of cash flow indicates that a DSC of 1.08 will allow McCreary County to cover its operating expenses, service its debt and provide adequate funds for growth; however, since the 1.08 DSC does not meet the parity requirement of the Bond Ordinance the Commission advises McCreary County to review its financial position after completion of the expansion program.

#### 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 McCreary County water system includes 241 service connections, about 21 miles of 8-, 6-, 4-, 3- and 2-inch water main, two 150,000-gallon water storage tanks, construction of a new earthfill dam and miscellaneous appurtenances. The low bids received for the proposed construction totaled \$1,623,860, which will require about \$2,033,000 in project funding after allowances are made for fees, contingencies, other indirect costs and additional construction being considered as a result of receiving bids under the final estimate.

3. McCreary County should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

4. Any deviations from the construction herein approved which could adversely affect service to any customer should be done only with the prior approval of this Commission.

5. McCreary County should furnish duly verified documentation of the total costs 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. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

6. McCreary County'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 to 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.

7. McCreary County should require the Engineer to furnish a copy of the "as-built" drawings 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.

8. 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.

9. The financing plan proposed by McCreary County is for lawful objects within the corporate purposes of its utility operations, is necessary and appropriate for and consistent with the proper performance of services to the public and will not impair its ability to perform these services and should, therefore, be approved.

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

IT IS THEREFORE ORDERED that:

1. McCreary County be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein.

2. McCreary County's plan of financing consisting of a loan from the FmHA in the amount of \$1,070,000 with an interest rate of 5 percent and a 40-year term, a grant from the ARC in the amount of \$213,000 and a grant from the HUD in the amount of \$750,000 be and it hereby is approved.

3. McCreary County shall comply with all matters set out in Findings 3 through 8 as if the same were individually so ordered.

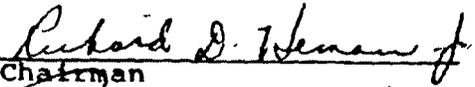
4. The rates in Appendix A be and they hereby are approved for water service rendered by McCreary County on and after the date of this Order.

5. Within 30 days from the date of this Order McCreary County shall file with this Commission the revised tariff sheets setting out the rates approved herein.

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 21st day of May, 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. 9415 DATED MAY 21, 1986

The following rates and charges are prescribed for the customers in the area served by McCreary County 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.

RATES: Monthly

|                     |                        |
|---------------------|------------------------|
| First 2,000 gallons | \$6.95 Minimum Bill    |
| Next 8,000 gallons  | 2.50 per 1,000 gallons |
| Next 10,000 gallons | 2.25 per 1,000 gallons |
| Over 20,000 gallons | 2.00 per 1,000 gallons |