

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE LAUREL COUNTY)
WATER DISTRICT NO. 2 OF LAUREL COUNTY,)
KENTUCKY, FOR (1) A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER)
DISTRICT TO CONSTRUCT A WATERWORKS) CASE NO. 9509
CONSTRUCTION PROJECT, CONSISTING OF)
EXTENSIONS, ADDITIONS, AND IMPROVEMENT)
TO THE EXISTING WATERWORKS SYSTEM OF)
THE DISTRICT, AND (2) APPROVAL OF)
PROPOSED FINANCING OF PROJECT)

O R D E R

The Laurel County Water District No. 2 ("Laurel No. 2") by application filed February 5, 1986, and revised during the proceedings in this matter is seeking authorization to construct an estimated \$87,000 waterworks project, approval of its financing for the proposed project and approval of a monthly surcharge to be paid by the new customers that will be served by the proposed construction. The project financing includes \$10,500 from applicants for service in the proposed project area and an estimated loan of \$76,500 from the Cumberland Valley National Bank ("CVNB") at a variable interest rate of 85 percent of CVNB's prime rate, not to exceed 13 percent per annum. The rate at the time of application was 7.65 percent.

The proposed construction will make water line extensions to provide service to about 42 additional customers on State Road No. 1629 and Rocky Branch Road. Plans and specifications for this

construction as prepared by Robert G. Campbell and Associates, Inc., of Knoxville, Tennessee, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet. A joint hearing in this matter and C.N. 9569 was conducted August 28, 1986, at the Commission's offices. No other party was present.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

The Engineer has provided information which indicates that reliable and adequate service can be maintained throughout the expanded system after completion of the proposed construction. The Commission is concerned, however, that water service to its customers in the higher elevations of its service area may not be totally adequate in the long term.

The Commission reminds Laurel No. 2 of its obligation to provide adequate and reliable service to all of its customers. Laurel No. 2 should monitor the adequacy of the expanded water distribution system after construction. If this monitoring indicates that the level of service is inadequate or declining, Laurel No. 2 must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

REVENUE REQUIREMENTS

On February 13, 1986, Laurel No. 2 provided a water user agreement reflecting a provision for a surcharge not to exceed \$10 per month. After further investigation in connection with Case No. 9569, Laurel No. 2 provided the Commission on August 14, 1986,

documentation supporting its contention that costs of this project could be supported by the proposed surcharge and the existing rates less the cost of water.

Assuming that the 7.65 percent rate of interest remains constant throughout the full 10-year term of the note, annual requirements will be \$11,221 based on a loan of \$76,500. At present, 42 customers have signed this water user agreement and, thus, revenues, less cost of water (estimated at 70¢ per 1,000 gallons) including the surcharge, will be \$11,413. Laurel No. 2 anticipates that up to 60 customers could be generated by this extension. Although the Commission could dispute this methodology, it finds it to be generally reasonable and accepts its conclusions. However, it should be noted that other incremental costs, i.e., meter reading, billing cards, etc., will be increased as a result of these new customers. Thus, the financing of this extension can be generated from these 42 customers. Absent this methodology, each customer would have been required to pay some \$2,071 less a minimum of 50 feet per customer paid by the utility.

As stated earlier, Laurel No. 2 provided support for its proposed surcharge on August 14, 1986. As part of this documentation, Laurel No. 2 stated that it would maintain separate bookkeeping for customers of State Road No. 1629 and Rocky Branch Road in order to determine all revenue and expense of this extension. The Commission finds this to be reasonable considering the unusual circumstance of this extension. With regard to its additional bookkeeping requirements, Laurel No. 2 will be required to record

the \$10 surcharge not as revenue but as contributions in aid of construction as discussed at the hearing.

The Commission does have a concern that the surcharge be applied to all customers of State Road No. 1629 and Rocky Branch Road. During cross-examination, Laurel No. 2 assured the Commission that it will apply the surcharge, not only to the current signees, but to all prospective signees as a result of this extension, until such time as the note is repaid but not to exceed 10 years from the date of this Order.

SUMMARY

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 Laurel No. 2 water system includes 42 service connections, about 3 miles of 6-, 4-, and 3-inch water main and miscellaneous appurtenances.

3. The proposed construction is estimated to cost \$70,000 which will require about \$87,000 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. Laurel No. 2 should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

6. Laurel No. 2 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. Laurel No. 2 should provide construction 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. Laurel No. 2 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. Laurel No. 2 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 \$76,500 is for lawful objects within the corporate purposes of Laurel No. 2, is necessary and appropriate for and consistent with the proper performance of services to the public by Laurel No. 2, and will not impair its ability to perform these services.

12. The financing secured by Laurel No. 2 for this project will be needed to pay for the work herein approved. Laurel No. 2's financing plan should, therefore, be approved.

13. The surcharge proposed by Laurel No. 2 as set out in this Order is fair, just and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. Laurel No. 2 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.

2. Laurel No. 2 shall comply with Findings 4 through 10 herein as if each of these findings were also ordered.

3. Laurel No. 2 shall maintain separate bookkeeping records for the customers on State Road No. 1629 and Rocky Branch Road.

4. The surcharge proposed by Laurel No. 2 be and it hereby is approved.

5. Laurel No. 2 shall record the \$10 surcharge as contributions in aid of construction.

6. Laurel No. 2's plan of financing be and it hereby is approved.

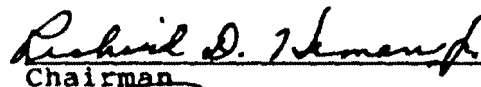
7. Laurel No. 2's tariffs shall reflect a \$10 surcharge for customers of State Road No. 1629 and Rocky Branch Road not to exceed 10 years past the date of this Order.

8. Laurel No. 2 shall file with this Commission within 30 days from the date of this Order, its revised tariff sheets reflecting such surcharge as provided in Appendix A.

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 24th day of October, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9509 DATED 10/24/86

The following rates and charges are prescribed for the customers in the area served by the SR 1629 and Rocky Branch Road project of Laurel County Water District No. 2. 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 1,000 Gallons	\$ 5.50 Minimum Bill
Next 4,000 Gallons	2.20 Per 1,000 Gallons
Next 5,000 Gallons	1.95 Per 1,000 Gallons
Over 10,000 Gallons	1.75 Per 1,000 Gallons

Monthly Surcharge: \$10.00*

* Surcharge shall be applied under the conditions set forth in this Order.