

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE EAST CLARK )  
COUNTY WATER DISTRICT, OF CLARK )  
COUNTY, KENTUCKY, FOR APPROVAL OF ) CASE NO. 9512  
CONSTRUCTION, FINANCING, AND )  
INCREASED WATER RATES )

O R D E R

The East Clark County Water District ("East Clark"), by application filed February 19, 1986, and revised during the proceedings in this matter, is seeking approval to increase its water service rates, authorization to construct a \$1,169,300 waterworks project, and approval of its financing for the proposed project. The project financing includes \$45,300 from applicants for service, loans of \$224,000 from the Farmers Home Administration ("FmHA"), a grant of \$552,000 from the FmHA, an Area Development Fund ("ADF") grant of \$30,000, an Appalachian Regional Commission ("ARC") grant of \$126,000 and a Community Development Block Grant ("CDBG") of \$192,000. The FmHA loans will be secured by waterworks revenue bonds maturing over a 40-year period at interest rates of 11 3/8 percent per annum on \$84,000, 9 1/8 percent per annum on \$36,000 and 7 5/8 percent per annum on \$104,000.

East Clark served approximately 298 customers in Eastern Clark County during the test period. The proposed construction will provide water service to about 151 additional applicants for service. Plans and specifications for the construction prepared

by Palmer Engineering Company of Winchester, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

The rates proposed by East Clark would produce additional revenues of \$59,988, an increase of 46.5 percent over normalized test year revenues. East Clark proposed a normalization to test year revenues for the additional 151 customers of \$30,951. The determinations made herein provide for a \$31,077 increase to normalized test year revenues and a \$24,065 or 18.6 percent increase above normalized test year revenues.

A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on September 3, 1986. There were no intervenors present and no protests were entered.

#### TEST PERIOD

East Clark proposed and the Commission has accepted the 12-month period ending December 31, 1985, as the test period in this matter. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

#### REVENUES AND EXPENSES

East Clark proposed several adjustments to revenues and expenses in its original and amended applications. The Commission has made, for rate-making purposes, the following modifications to these proposals:

##### Normalized Test Year Usage and Revenue

In its initial application, East Clark projected the addition of 136 new customers as a result of the proposed construction.

Anticipated revenue was based on a distribution of the new customers at the various usage levels in the same percentages as existing customers.<sup>1</sup> East Clark's amended petition increased the number of anticipated new customers to 151.<sup>2</sup> The response to the Commission's June 26, 1986, Order<sup>3</sup> stated that adjustments to the billing analysis for the additional 15 customers should be made in the same manner as the initial projections. In preparing the adjustment to normalize test year revenues for the additional 151 customers, East Clark calculated an increase of \$30,951. A review of those calculations showed a minor error in the annualization of monthly revenues. Thus, the increase for normalized test year revenues included herein is \$31,077. After adjustments to the billing analysis to include the 151 new customers and correct for the error, East Clark's normalized test year usage, exclusive of water for resale and bulk sales, is approximately 26,633,088 gallons with normalized revenues from general customers of approximately \$97,041.

The water purchase contract with Winchester Municipal Utilities ("WMU"), discussed in detail later in this Order, contains a provision allowing East Clark to sell to water haulers only with written consent of WMU at locations approved by WMU.

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<sup>1</sup> Response to Commission's First Information Request, Item No. 20, filed May 23, 1986.

<sup>2</sup> Amended Petition filed May 23, 1986.

<sup>3</sup> Response to Commission's Second Information Request, Item No. 14, filed July 10, 1986.

During the test year, East Clark sold approximately 5,882,600 gallons of water from bulk sales stations with resulting revenue of \$25,663.

With its amended petition, East Clark filed a supplement to the water purchase contract<sup>4</sup> whereby WMU has determined that East Clark may no longer sell water to water haulers and sets out conditions under which WMU is to purchase from East Clark all equipment presently being used for bulk sales. WMU will repurchase substantially the same volume of water for continued operation of the bulk sales stations as East Clark's test year bulk sales. This water, however, will be resold to WMU at the rate of \$1.45 per 1,000 gallons, \$3.03 less per 1,000 gallons than the bulk sales rate charged by East Clark during the test year, resulting in a gross revenue loss to East Clark of approximately \$17,133. The billing analysis has been adjusted to reflect this change. After adjustments for both the anticipated new customers and the revenue loss from bulk sales, the billing analysis shows East Clark's total normalized test year revenue from water sales to be \$129,127.

#### Purchased Water Expense

East Clark's actual purchased water expense for the test year was \$47,785. An adjustment to test-year operating expenses of \$9,693 was proposed to reflect the additional purchases required to serve the 151 new customers. The adjustment calculation was based on an average customer water usage of 4,650 gallons.

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<sup>4</sup> Amended Petition filed May 23, 1986.

However, in the original application, East Clark provided information which reflected an average customer water usage of 5,300 gallons. At the hearing, Vickie L. Lewis, East Clark's General Manager, testified that the 5,300 figure would be a valid estimate of customer usage and it would be appropriate to calculate the adjustment based on that amount.<sup>5</sup> Thus, the adjustment has been recalculated and the resulting increase to test-year water expense included herein is \$11,186.

#### Maintenance of Mains

East Clark reported test-year maintenance of mains expense of \$7,908. East Clark deducted from that amount \$1,048 in expenses related to bulk loading stations, which East Clark sold to WMU on February 1, 1986. East Clark proposed an increase in this expense of \$7,789 due to increased charges for contracted labor, materials and services, as well as an increase in the miles of line to maintain.

A review of the proposed increase for contracted materials and services revealed that \$65 of the charges was not adequately documented. This review was based on a recalculation of the increased charges as documented by East Clark's consulting engineer. In addition, a \$194 charge for meetings held with the new customers concerning the location of the water line was included as part of the test year expense. During the hearing, Mrs. Lewis agreed that this was a non-recurring expense.<sup>6</sup>

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<sup>5</sup> Hearing Transcript, September 3, 1986, page 46.

<sup>6</sup> Ibid., page 48.

Of the \$7,789 proposed increase, \$6,050 resulted from East Clark's projection of the test year expense, as a per-existing mile rate, to the additional miles of line to be added. East Clark contends that the expansion of lines will increase repair and maintenance costs. Because the test year figure has been audited and is known, East Clark believes that the calculation used is a valid estimate of the future expense. East Clark has provided no additional evidence to support its position that future maintenance of mains expense will be directly related to test year expenses on a cost-per-mile basis. Though it can be expected that some additional costs may be incurred due to the expansion, the amount is not known or measurable. Therefore, it is the Commission's opinion that the estimated additional expenses of \$6,050 should not be included herein for rate-making purposes.

Thus, the increase to maintenance of mains expense included herein is \$434.

#### Depreciation Expense

The test-year depreciation expense for East Clark was \$20,403. East Clark proposed to increase this expense by \$23,215 to reflect annual depreciation expense on the new plant. East Clark's adjustment was based on a proposal to depreciate the entire addition over a 50-year life, regardless of the type of utility plant added.

A review of the various items of utility plant to be added reveals that a 50-year service life is not appropriate for all items according to the depreciation guidelines developed by the National Association of Regulatory and Utility Commissioners

("NARUC"). By using the appropriate service lives outlined by NARUC, the addition to depreciation expense would be \$33,119.<sup>7</sup>

East Clark made no adjustment to exclude depreciation expense recorded during the test period on the bulk loading stations, which were sold to WMU. Therefore, an adjustment has been made herein to reduce depreciation expense by \$1,042.

East Clark's test-year and proposed depreciation expense includes depreciation on contributed property. The Commission finds it unfair to have customers pay depreciation on assets acquired with contributed funds. We have adjusted depreciation expense to \$12,749,<sup>8</sup> excluding depreciation attributed to utility property which was acquired at no cost through contribution from

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7	Depreciation on Added Plant:	
	Distribution Mains, Meters and Storage Tank (50-Year Life)	
	Cost \$830,686	\$16,613
	Pumps and Telemetry (20-Year Life)	
	Cost \$330,114	<u>16,506</u>
	Total Depreciation	<u>\$33,119</u>

8	Calculation of Allowed Expense:		
		<u>Test Year</u>	<u>Addition</u>
	Depreciation Expense	\$ 19,361	\$ 33,119
	+ Gross Utility Plant in Service	926,352	1,160,800
	= Composite Depreciation Rate	2.09%	2.853%
	Contributions in Aid of Construction	\$622,212	\$ 936,800
	x Composite Depreciation Rate	2.09%	2.853%
	= Depreciation on Contributed Property	13,004	26,727
	Depreciation Expense	<u>\$ 19,361</u>	<u>\$ 33,119</u>
	Less: Depreciation on Contributed Property	<13,004>	<26,727>
	Allowed Depreciation Expense	<u>\$ 6,357</u>	<u>\$ 6,392</u>
	TOTAL	<u>\$ 12,749</u>	

customers or federal grants for both the existing and added utility plant.

#### Property Insurance

East Clark proposed to increase property insurance expense by \$200, due to the additional plant being added. In the hearing, Mrs. Lewis stated that she arrived at the \$200 figure by estimating that the cost of current coverage would be approximately the same for the new addition.<sup>9</sup> East Clark did not seek or provide quotes for that addition's insurance cost from an insurance agent. It is the Commission's opinion that the increase proposed cannot be considered known and measurable and, therefore, only its test-year actual charges have been included for rate-making purposes herein.

#### Outside Services Employed

For the test year, East Clark recorded \$3,092 as Miscellaneous General Expense. A review of these expenses indicated that the expenditures should be reclassified as Outside Services Employed. East Clark agreed that the reclassification was proper.<sup>10</sup>

Included in the \$3,092 were two groups of payments which appeared to be non-recurring items. Payments totaling \$2,287 to Ronald Van Stockum for the negotiation of the bulk loading station sale and the \$85 payment to James Clay for an easement were

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<sup>9</sup> Hearing Transcript, September 3, 1986, pages 32-33.

<sup>10</sup> Response to the Commission's Second Information Request, Item No. 8, page 5, filed July 10, 1986.



determined to be non-recurring. Mrs. Lewis agreed with the determination while testifying at the hearing.<sup>11</sup>

Therefore, the Miscellaneous General Expense during the test year has been reclassified as Outside Services Employed and reduced by \$2,372, due to the non-recurring nature of the expenses.

Interest on Long-Term Debt

East Clark proposed an increase to interest expense of \$20,770, due to the three FmHA loans secured to finance the new plant additions, and a decrease of \$200, due to the interest on East Clark's existing FmHA loan.

The proposed increase in interest expense results from the interest rates in effect at the time of the FmHA loan approval.<sup>12</sup> Under current FmHA loan provisions, East Clark is allowed the option of seeking the interest rate in effect at the time of the loan closing or when FmHA funds advances begin. Using the rates that will be in effect at the time of the fund advances, the annual expense on the new loans will be \$15,400.<sup>13</sup> Thus, based on the anticipated interest cost on the new loans and the annual interest on all other loans outstanding at the end of the test

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<sup>11</sup> Hearing Transcript, September 3, 1986, page 48.

<sup>12</sup> Interest Calculation based on interest rates at loan approval:

\$ 84,000 @ 11 3/8%	=	\$ 9,555
36,000 @ 9 1/8%	=	3,285
104,000 @ 7 5/8%	=	<u>7,930</u>
Total \$224,000	=	<u>\$20,770</u>

<sup>13</sup> Interest Calculation, based on loan closing interest rate:

\$224,000 @ 6 7/8%	=	<u>\$15,400</u>
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period, the Commission has included \$30,500 in interest on long-term debt for rate-making purposes herein.

#### Postage

East Clark proposed to increase postage expense by \$371, due to the increased number of customers. The increase was calculated by determining a per current customer charge using the test year expense and applying it to the additional customers.

In its response to the Commission's first information request, East Clark indicated that \$243 of the expense was for general correspondence, while \$488 was for mailing water bills.<sup>14</sup> At the hearing Mrs. Lewis stated the general correspondence would be made up mostly of non-customer mailings.<sup>15</sup> East Clark chose to increase both parts of the expense equally.

The methods used by East Clark to adjust the postage for mailing water bills is reasonable. But, though it can be expected that general correspondence postage expense will increase, the amount is not known or measurable. Therefore, it is the Commission's opinion that the increase due to additional water bill mailings should be included, but the increase for general correspondence mailings should not be included for rate-making purposes. Thus, the postage expense has been increased \$247.

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<sup>14</sup> Response to the Commission's First Information Request, Item No. 35, page 21, filed May 23, 1986.

<sup>15</sup> Hearing Transcript, September 3, 1986, pages 34-35.

### Revisions to Adjustments

East Clark had proposed to increase the following test year expenses:

- Meter Reading Labor, increase of \$1,701
- Public Service Commission Assessment, increase of \$69
- Electricity, net increase of \$558

In each instance, the increase was calculated to reflect the addition of 151 customers to the system. The methods used by East Clark to adjust these expenses are reasonable. However, a review of the calculations supporting these adjustments revealed minor errors which increased or decreased each adjustment by a nominal amount. The net effect of these errors is an increase of \$38 above the adjustments proposed. This net effect has been included herein for rate-making purposes.

### Other Proposed Adjustments

East Clark proposed the following adjustments to the test year expense:

- Other materials and supplies, increase of \$686
- Office supplies, printing and expenses, increase of \$1,227
- Miscellaneous expenses, increase of \$35
- Interest Expense, increase of \$33

In each instance, East Clark computed the adjustment by determining a per current customer charge, using the test year expense, and applying the charge to the number of additional customers. East Clark has contended that since the test year expenses are the actual costs incurred and have been audited, they are "known" and,

therefore, the projections performed are in accordance with the Commission's position of known and measurable.

The methodology used by East Clark is not in accordance with the concept of known and measurable. While test year expenses may be "known," the projection of these expenses to new customers does not mean "measurable." These types of expenses generally are not directly related to the number of customers served by a water utility. East Clark has not provided any evidence showing that a direct relationship of these expenses to the number of customers served exists. Though it can be expected to have some increase in these expenses, it is the Commission's opinion that the adjustments proposed by East Clark to these various expenses are not sufficiently known and measurable and, therefore, have not been included in the operating expenses for rate-making purposes.

After consideration of the aforementioned adjustments, the Commission finds East Clark's test year operations to be as follows:

	<u>Test Year Actual</u>	<u>Commission Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenue	\$118,312	\$10,815	\$129,127
Operating Expenses	117,435	<896>	116,539
Net Operating Income	877	11,711	12,588
Other Income	8,398	<3,532>	4,866
Other Deductions	<u>15,364</u>	<u>15,200</u>	<u>30,564</u>
 NET INCOME <LOSS>	 <u>\$ &lt;6,089&gt;</u>	 <u>\$ &lt;7,021&gt;</u>	 <u>\$ &lt;13,110&gt;</u>

REVENUE REQUIREMENTS

The Commission is of the opinion that the rates producing the adjusted test-year operating loss are clearly unfair, unjust and unreasonable. The Commission finds the Debt Service Coverage ("DSC") method to be an appropriate method of determining revenue requirements in this case and adequate to allow East Clark to pay its operating expenses, meet its debt service requirements and maintain a reasonable surplus.

The Commission has applied a 1.2X DSC to the scheduled average principal and interest payments on the FmHA bonds due within the next 5 years. Using a 1.2X DSC plus operating expenses, the Commission finds East Clark's total revenue requirement to be \$158,058.<sup>16</sup> After consideration of test-year interest income of \$4,866, miscellaneous and other water revenues of \$220, and adjusted operating revenue from water sales of \$128,907, an increase in annual revenue of \$24,065 from water sales will be necessary.

East Clark indicated that the requested increase was based upon the total of all expenses plus principal payments.<sup>17</sup> However, this method ignores the impact of the new debt principal payment which will begin in 1989. The Commission is of the

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<sup>16</sup> Staff Adjusted Test-Year Operating Expense	\$116,566
Add: 1.2X (5-Year Average Principle and Interest Requirements)	<u>41,492</u>
	<u>\$158,058</u>

<sup>17</sup> Response to the Commission's First Information Request, Item No. 37, page 21, filed May 23, 1986.

opinion and finds that the revenue granted herein will produce gross annual revenues sufficient to pay East Clark's operation expenses, service its debt and provide a reasonable surplus.

WATER PURCHASE AGREEMENT

East Clark purchases water from WMU pursuant to a water purchase agreement entered into on March 25, 1982. The current rate charged by WMU is \$1.12 per 1,000 gallons.<sup>18</sup> The contract includes a provision whereby WMU may repurchase water from East Clark in order to improve pressures in portions of its system. Item 11, paragraph 4, of the contract further provides that the rate to be charged by East Clark for the water resold to WMU shall be increased or decreased at the same time and in the same proportion as the price paid by East Clark to WMU. The current rate charged by East Clark for water resold to WMU is \$1.45 per 1,000 gallons.

Based upon calculations contained in an attachment to a letter from James W. Clay, Attorney for East Clark, filed September 10, 1986, the cost incurred by East Clark in delivering the water resold to WMU is \$1.38 per 1,000 gallons (\$1.12 purchased water cost plus \$.26 proportional expense). The Commission is of the opinion that the \$1.45 per 1,000 gallon rate presently charged by East Clark is adequate and should be approved at this time. However, though WMU is East Clark's wholesale supplier of water for

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<sup>18</sup> Exhibit H to the Application.

purposes of East Clark's resale of water to WMU, the municipal utility is a customer of East Clark.

East Clark did not consider an increase in this rate within its application for the reason that the rate has been fixed by contractual agreement.<sup>19</sup> KRS 278.200 confers power upon the Commission to "originate, establish, change, promulgate and enforce any rate or service standard of any utility that has been or may be fixed by any contract, franchise or agreement between the utility and any city..." The Kentucky Court of Appeals has held that the Commission's authority to regulate the rates and service standards of public utilities cannot be limited by contractual provisions.<sup>20</sup> Thus, the Commission has both the authority and the duty to regulate the rates charged by East Clark to WMU.

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<sup>19</sup> Response to Commission's First Information Request, Item No. 46, filed May 23, 1986.

<sup>20</sup> Southern Bell Telephone & Telegraph Co. v. City of Louisville, Ky., 96 S.W.2d 695 (1936).

Fern Lake Company v. Public Service Commission, Ky., 357 S.W.2d 701 (1962).

Peoples Gas Co. of Kentucky v. City of Barbourville, Ky., 165 S.W.2d 567 (1942).

Louisville Water Company v. Public Service Commission, Ky., 318 S.W.2d 537 (1958).

Bd. of Ed. of Jefferson County v. William Dohrman, Inc., Ky. App., 620 S.W.2d 328 (1981).

KRS 278.015 and 807 KAR 5:068 prescribe the manner by which increases in the cost of purchased water may be passed on the customers of a water district. Thus, any future increases in purchased water costs incurred by East Clark must be applied to the rate established for water resold to WMU in the manner prescribed by KRS 278.015 and 807 KAR 5:068. This rate must also be considered in any general rate case filed by East Clark.

East Clark filed a supplement to the water purchase agreement with its amended petition<sup>21</sup> for which it requested approval. The supplement provides for the sale to WMU of all equipment presently owned and being used by East Clark for bulk water sales in Clark County for \$4,253, payable in 10 annual installments of \$633.82 each, including interest. In addition, numerical paragraph 6, page 3, provides that at any time WMU determines that enlargements, revisions, replacements, or extensions should be made to East Clark's facilities, it may do so at its expense subject to permission from East Clark, which permission may not be unreasonably withheld. The purpose of such revisions, replacements or extensions, as stated in numerical paragraph 5 is "for the benefit of WMU's water system and to insure the integrity of the ECCWD system as it affects WMU's system...". Numerical paragraph 8 grants to WMU the right to increase or decrease the number of bulk stations, to relocate the stations and connect to East Clark's system so long as it does not impair the service to East Clark's customers.

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<sup>21</sup> Amended Petition filed May 23, 1986.



The total contract appears to relate primarily to bulk loading stations; however, no limitations are placed on the number of bulk stations which may be connected to East Clark's system or the location of such stations within the system. Likewise, the contract does not specify the nature and extent of the enlargements, revisions, replacements or extensions of East Clark's facilities which might be necessary in order to accommodate relocations or increases or decreases in the number of bulk stations, ownership of such facilities other than the bulk stations themselves, or responsibility for maintenance of such other facilities, all of which could affect East Clark's customers.

The Commission is of the opinion that the sale of the existing bulk sales stations to WMU should be approved. However, the additional provisions of the supplemental agreement cannot be approved as written. East Clark should, therefore, negotiate an amendment to this agreement with WMU addressing the issues mentioned herein and giving ample consideration to the statutes and regulations which may have a bearing on such agreement. Within 90 days of the date of this Order, the amendment to the contract or a report discussing the status of negotiations between East Clark and WMU should be submitted to the Commission for its consideration pursuant to 807 KAR 5:011, Section 13.

#### TAP FEES

In its amended application, East Clark proposed to increase its tap fee for 5/8-inch X 3/4-inch meters to \$400 and provided cost justification therefor. The Commission is of the opinion the

proposed tap fee is fair, just and reasonable and should be approved.

#### 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. The rates proposed by East Clark would produce revenue in excess of that found reasonable herein and, therefore, should be denied upon application of KRS 278.030.

2. The rates in Appendix A are the fair, just and reasonable rates for East Clark in that they are calculated to produce gross annual revenues from water sales of \$160,070. These revenues will be sufficient to meet East Clark's operating expenses found reasonable for rate-making purposes, service its debt and provide a reasonable surplus.

3. The portion of the supplement to the water purchase contract specifically relating to the sale of existing bulk water stations to WMU should be approved. Other terms of the contract should be denied for the reasons stated herein.

4. East Clark should negotiate an amendment to the supplement to the water purchase contract addressing the issues raised herein and other pertinent statutes and regulations. East Clark should file with the Commission within 90 days of the date of this Order the amended contract or a report discussing the status of negotiations between East Clark and WMU for consideration pursuant to 807 KAR 5:011, Section 13.

5. The proposed tap fee is fair, just and reasonable and should be approved.

6. 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.

7. The proposed project for the East Clark water system includes 151 service connections, about 20 miles of 10-, 8-, 6-, 4- and 3-inch water main, a 100,000-gallon water storage tank and miscellaneous appurtenances. The low bids received for the proposed construction totaled \$945,856 which will require about \$1,169,300 in project funding after allowances are made for fees, contingencies, and other indirect costs.

8. East Clark should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

9. 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.

10. East Clark 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.

11. East Clark'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.

12. East Clark 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.

13. 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.

14. The financing plan proposed by East Clark 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.

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

IT IS THEREFORE ORDERED that:

1. The rates proposed by East Clark are denied.

2. The rates and charges in Appendix A are approved for service rendered by East Clark on and after the date of this Order.

3. The portion of the supplement to the water purchase contract relating specifically to the sale of the existing bulk water stations to WMU is approved. Other terms of the contract are denied.

4. East Clark shall negotiate an amendment to the supplement to the water purchase contract and shall file the amended contract with the Commission in accordance with Finding No. 4 herein.

5. The proposed tap fee is approved effective on and after the date of this Order.

6. East Clark 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.

7. East Clark's plan of financing consisting of loans from the FmHA in the amounts of \$84,000 with an interest rate of 11 3/8 percent, \$36,000 with an interest rate of 9 1/8 percent and \$104,000 with an interest rate of 7 5/8 percent and 40-year terms, a grant from the FmHA in the amount of \$552,000, an ADF grant of \$30,000, \$126,000 from the ARC, \$192,000 from CDBG funds, and \$45,300 from applicants for service be and it hereby is approved.

8. If under new FmHA loan conditions, East Clark is notified and granted the option of accepting a lower interest rate at the date of closing, East Clark shall file with the Commission the

FmHA notification of the lower interest rate and shall provide all correspondence from and to the FmHA concerning this notification within 30 days of the closing date.

9. East Clark shall file a statement of the interest rate accepted from the FmHA within 30 days of the date of closing.

10. If East Clark accepts an interest rate different from the rate approved herein, it shall file amended pages to its bond resolution and an amended amortization schedule.

11. If East Clark is eligible but does not take advantage of a lower interest rate at the time of closing, it shall fully document why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over its life.

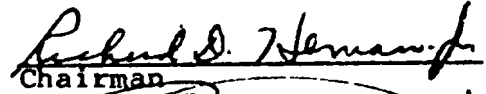
12. East Clark shall comply with all matters set out in Finding Nos. 8 through 13 as if the same were individually so ordered.

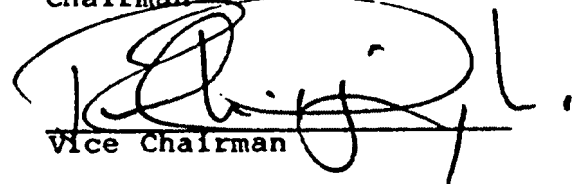
13. Within 30 days from the date of this Order, East Clark shall file with this Commission its revised tariff sheets setting out the rates and charges approved herein.

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 30th day of September, 1986.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 9512 DATED 9/30/86

The following rates and charges are prescribed for the customers in the area served by East Clark 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.

GENERAL CUSTOMERS

<u>Usage Blocks</u>	<u>Monthly Rate</u>
First 2,000 Gallons	\$10.80 Minimum Bill
Next 2,000 Gallons	4.55 Per 1,000 Gallons
Next 3,000 Gallons	3.90 Per 1,000 Gallons
Next 3,000 Gallons	3.15 Per 1,000 Gallons
Over 10,000 Gallons	2.30 Per 1,000 Gallons
Winchester Municipal Utilities All Usage	1.45 Per 1,000 Gallons

TAP FEE

5/8 - Inch X 3/4 - Inch Meter	\$400.00
All Other Size Meters	Actual Cost