

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE CALDWELL)
COUNTY WATER DISTRICT, A WATER)
DISTRICT ORGANIZED PURSUANT TO)
CHAPTER 74 OF THE KENTUCKY REVISED) CASE NO. 9513
STATUTES, OF CALDWELL COUNTY,)
KENTUCKY, FOR APPROVAL OF CON-)
STRUCTION, FINANCING, AND RATES)

O R D E R

Caldwell County Water District ("Caldwell"), by application filed February 10, 1986, is seeking a certificate of public convenience and necessity for a \$553,000 waterworks improvements project, the establishment of initial water service rates, and approval of a \$553,000 plan of financing composed of \$429,000 Farmers Home Administration ("FmHA") funds (\$233,000 loan and \$196,000 grant), an Area Development District Grant of \$100,000 and \$24,000 from applicants for water service.

The proposed construction will provide water service to 80 applicants located along US 62 and intersecting roads eastward from the City of Princeton. The construction plans and specifications prepared by J. T. Blankenship & Associates, Consulting Engineers of Murphysboro, Illinois, ("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 in Frankfort, Kentucky, on July 10, 1986. No intervenors

appeared at the hearing and no objections to the proposed construction were received.

TEST PERIOD

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

PROJECTED REVENUES AND EXPENSES

Caldwell projected operating expenses to provide service to approximately 80 customers. The Commission is of the opinion that the projected operating expenses are generally proper and they have therefore been accepted with the following exception:

Depreciation Expense

Caldwell proposed a depreciation expense of \$7,200.¹ In calculating its depreciation expense Caldwell included both the reserve fund requirements in its bond ordinance and depreciation on the capital expenditures. The bond ordinance depreciation reserve fund should be funded from the depreciation allowed on the capital expenditure and not included again as an addition to this expense. Therefore, the Commission has reduced Caldwell's pro forma depreciation expense by \$1,560 to \$5,640.

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

¹ Response to Commission Information request filed May 29, 1986. Exhibit A, Section IVB.

	Caldwell's Proposed Operation	Commission Adjustment	Commission Adjusted
Operating Revenues	\$34,668	\$ -0-	\$34,668
Operating Expenses	16,153	<1,560>	14,593
Operating Income	\$18,515	\$1,560	\$20,075

REVENUE REQUIREMENTS

Caldwell's annual debt service based on debt proposed in this proceeding is \$15,291.² Caldwell's adjusted net operating revenues provide a debt service coverage ("DSC") of 1.3X. Historically the Commission allows only a 1.2X DSC in determining a utility's revenue requirement. However, since Caldwell is a new system it is difficult to estimate or project operating revenues and expense until the system has some actual operation results. Therefore in this instance the 1.3X DSC does not appear unreasonable and the Commission approves Caldwell's estimated revenue requirement.

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 includes the construction of about 9.75 miles of distribution system pipeline (7.54 miles of 6-inch,

²	Principal on \$226,500 at 6.125% =	\$ 1,603
	Interest	13,688
	Debt Service (5 yr. Avg.)	\$15,291

2.20 miles of 4-inch, 0.02 miles of 3-inch); 80 new service connections; a booster-pumping station; a 50,000-gallon elevated water storage tank, 4 pressure control stations, 10 fire hydrants, 6 post hydrants, a water meter vault and other appurtenances.

3. The low bids totaled \$426,784 (\$317,172 for distribution system construction and \$109,612 for the elevated storage tank). The funding required for this work will be approximately \$553,000 including engineering design fees, legal fees, resident inspection, interest during construction and a construction contingency of about 4.2 percent. The \$553,000 funded for Caldwell's construction should, therefore, be adequate for completion of the proposed construction.

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. Caldwell should furnish duly verified documentation of the total costs of this construction including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

6. Caldwell's contract with its Engineer should require 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. Caldwell 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. The \$553,000 financing plan proposed by Caldwell is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its services to the public and will not impair its ability to perform these services, is reasonably necessary and appropriate for such purposes and should, therefore, be approved.

9. The rates in Appendix A are the fair, just and reasonable rates for Caldwell in that they should produce gross annual revenue from water sales of \$34,688. These revenues will be sufficient to meet Caldwell's operating expenses, service its debt and provide a reasonable surplus.

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. Caldwell's initial service connection fee of \$300 should be approved and should remain in effect for all residential service connections until the date a new fee is approved by the Commission. Caldwell is reminded that any proposal for a new fee as was mentioned during the hearing must be fully substantiated by

detailed cost information before Commission approval can be granted.

IT IS THEREFORE ORDERED that:

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

2. Caldwell's plan of financing consisting of applicant contributions in the amount of \$24,000, an Area Development Fund Grant of \$100,000, two loans from the FmHA in the amounts of \$197,000 and \$36,000 with an interest rate of 6.375 percent and a 40-year term, and a grant from the FmHA in the amount of \$196,000 be and it hereby is approved.

3. The rates and charges in Appendix A are approved for services rendered by Caldwell on and after the date of this Order.

4. If under new FmHA loan conditions Caldwell is notified and granted an option to accept a lower interest rate on the date of closing, Caldwell shall file the following with the Commission within 30 days of the date of closing: (1) the FmHA notification of the lower interest rate and all correspondence from and to FmHA concerning this notification; (2) a statement of the interest rate accepted from FmHA; (3) amended pages to its bond resolution and an amended amortization schedule based on the different interest rate if a different rate is accepted; and (4) full documentation of why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over the loan's repayment

period in the event the option to accept the lower rate is not taken by Caldwell.

5. Caldwell shall comply with all matters set out in Findings 4 through 7 and Findings 10 and 11 as if the same were individually so ordered.

6. Within 30 days of the date of this Order, Caldwell shall file its tariffs with the Commission in accordance with Commission Regulations 807 KAR 5:011 and the schedule of rates approved herein.

7. Within 60 days of the date of this Order, Caldwell shall file its "Rules and Regulations" with the Commission.

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 12th day of August, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Neman, Jr.
Chairman

[Signature]
Vice Chairman

[Signature]
Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9513 DATED AUGUST 12, 1986

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

Rates: Monthly

First 1,000 gallons	\$14.50 Minimum Bill
Next 2,000 gallons	6.00 per 1,000 gallons
Next 7,000 gallons	4.50 per 1,000 gallons
Next 20,000 gallons	3.00 per 1,000 gallons
Over 30,000 gallons	1.80 per 1,000 gallons
Connection Fee	\$300