

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE OHIO COUNTY)
WATER DISTRICT, A WATER DISTRICT)
ORGANIZED PURSUANT TO CHAPTER 74 OF)
THE KENTUCKY REVISED STATUTES, OF)
OHIO COUNTY, KENTUCKY, FOR (1) A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY, AUTHORIZING AND PERMITTING)
SAID WATER DISTRICT TO CONSTRUCT A)
NEW WATERWORKS DISTRIBUTION SYSTEM,) CASE NO. 9559
CONSISTING OF A PUMPING STATION AND)
THE NECESSARY DISTRIBUTION SYSTEM AND)
LINES NEEDED TO SERVE WATER TO SAID)
DISTRICT; (2) APPROVAL OF THE PROPOSED)
PLAN OF FINANCING OF SAID PROJECT; AND)
(3) APPROVAL OF THE WATER RATES)
PROPOSED TO BE CHARGED BY THE DISTRICT)
TO CUSTOMERS OF THE DISTRICT)

O R D E R

Ohio County Water District ("Ohio Water"), by application filed April 4, 1986, as revised, is seeking approval of an adjustment to its water service rates, authorization to construct a \$2,030,400 waterworks project, and approval of its financing for the proposed project. The project is to be financed by a loan of \$2,010,000 from Farmers Home Administration ("FmHA"), and \$20,400 from applicants for service. The loan will be secured by revenue bonds maturing over a 40-year period at an interest rate of 10 1/2 percent per annum.

The proposed construction will provide water service to about 52 new customers and improve the hydraulic capacity of the system. Plans and specifications prepared by Morton Lyne and Associates,

Inc., Nashville, Tennessee, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

On July 21-22, 1986, the Commission's staff performed a limited financial audit of Ohio Water's operations for calendar year 1985, the test year in this proceeding, and issued its report on August 1, 1986.

A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on August 12, 1986. There were no intervenors and no protests were entered.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

The Engineer has provided information which indicates that reliable and adequate service can be maintained throughout most of Ohio Water's system after completion of the proposed construction. However, the information indicates that there are several areas on its existing system where the residual pressure falls below 30 psig. Pressures below 30 psig are in violation of 807 KAR 5:066, Section 6 (1). The Engineer has also indicated that the proposed project will not significantly affect these existing conditions.

The Commission reminds Ohio Water of its obligation to provide adequate and reliable service to all of its customers, and it should study these low pressure areas and determine the best method for improving the pressure in these areas.

REVENUE REQUIREMENTS

The staff audit report contained recommendations concerning the rate-making treatment of Ohio Water's pro forma operating expenses and determined that the requested increase of \$255,404 be

granted. The recommendations were accepted by Ohio Water with one exception.

Ohio Water did not respond to the staff audit report, but at the hearing challenged the staff's \$10,000 reduction in proposed salary and wage expense. Staff could not reconcile the proposed expense with the data available, and concluded that this was an error. At the hearing, Ohio Water's witness testified that an additional employee was needed due to the continuing growth of the system, but was unable to specify a hiring date. The Commission generally does not allow adjustments for post-test-period wage and salary expenses unless they are known and measurable. Here the hiring date of the proposed employee is speculative. Therefore, Ohio Water's wage and salary expenses have been reduced by \$10,000 for rate-making purposes. Of course, this does not preclude Ohio Water from hiring this employee as the need arises.

The Commission, therefore, finds the staff report recommendations to be reasonable and agrees that a debt service coverage ("DSC") of 1.03X will produce sufficient revenues to enable Ohio Water to meet its operating expenses, service its debt and provide funds for reasonable equity growth. This coverage is based on a 10.5 percent rate of interest on its new loan of \$2,010,000 and if the rate at the time of closing falls between 7 to 8 percent as it has in the recent past, Ohio Water's DSC will be approximate 1.20X even with the additional employee. Thus the Commission grants Ohio Water an increase in its rates sufficient to produce additional revenue of \$255,404 on an annual basis.

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. Ohio Water should immediately have a competent engineering consultant review its water distribution system and recommend improvements to upgrade its service capabilities to the low pressure areas in its service area. Within 120 days of the date of this Order, Ohio Water should file with the Commission a copy of the consultant's engineering report outlining the investigation and recommendations. Ohio Water should also file a schedule of projected target dates for the completion of the improvements necessary to upgrade its water distribution system. This schedule should include all phases, from initial planning to actual completion and operation. Ohio Water should also file quarterly reports with this Commission outlining the progress being made in meeting its target dates.

2. With the anticipated filing of the report as outlined in Finding Number 1 herein 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.

3. The proposed project for the Ohio Water system includes 52 service connections, about 21 miles of 10-, 8-, 6-, and 4-inch water main, a 300,000-gallon water storage tank, 3 booster pumping stations, and miscellaneous appurtenances. The low bids received for the proposed construction totaled \$1,571,461 which will

require about \$2,030,400 in project funding after allowances are made for fees, contingencies, and other indirect costs.

4. Ohio Water should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

5. 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.

6. Ohio Water 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.

7. Ohio Water'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.

8. Ohio Water 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.

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. The financing plan proposed by Ohio Water 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.

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

12. The rates proposed by Ohio Water will produce additional revenue of \$255,404 on an annual basis.

IT IS THEREFORE ORDERED that:

1. Ohio Water 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 on the condition that Ohio Water file the information as outlined in Finding Number 1.

2. Ohio Water's plan of financing consisting of a loan from the FmHA in the amount of \$2,010,000 with an interest rate of 10 1/2 percent and a 40-year term, and \$20,400 from applicants for service be and it hereby is approved.

3. If under new FmHA loan conditions Ohio Water is notified and granted the option of accepting a lower interest rate at the date of closing, Ohio Water shall file with the Commission the FmHA notification of the lower interest rate and shall provide all correspondence from and to FmHA concerning this notification within 30 days of the closing date.

4. Ohio Water shall file a statement of the interest rate accepted from FmHA within 30 days of the date of closing.

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

6. If Ohio Water 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.

7. Ohio Water shall comply with all matters set out in Findings 4 through 9 as if the same were individually so ordered.

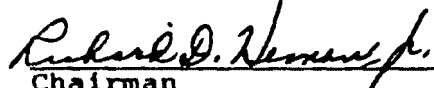
8. The rates and charges in Appendix A as proposed by Ohio Water be and they hereby are approved as the fair, just and reasonable rates and charges to be charged by Ohio Water for service rendered on and after the date of this Order.

9. Within 30 days from the date of this Order Ohio Water shall file with the Commission its 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 16th day of September, 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. 9559 DATED SEPTEMBER 16, 1986

The following rates and charges are prescribed for the customers in the area served by Ohio 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	\$10.60 Minimum Bill
Next	8,000 gallons	2.70 per 1,000 gallons
Next	10,000 gallons	2.35 per 1,000 gallons
Next	30,000 gallons	2.00 per 1,000 gallons
Next	50,000 gallons	1.60 per 1,000 gallons
Over	100,000 gallons	1.10 per 1,000 gallons