

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WOOD CREEK WATER)
DISTRICT, OF LAUREL COUNTY, KENTUCKY,)
FOR APPROVAL OF CONSTRUCTION,) CASE NO. 9594
FINANCING, AND INCREASED WATER RATES)

O R D E R

Wood Creek Water District ("Wood Creek") by application filed on May 28, 1986, sought approval of adjustments to its water service rates, authorization to construct a \$1,271,200 waterworks improvement project and approval of its plan of financing for the proposed project. The project funding included a \$600,000 loan from the Farmers Home Administration ("FmHA") and a \$671,200 Community Development Block Grant ("CDBG") administered by the Department of Local Government. The FmHA loan would be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 8 5/8 percent per annum. The requested rate increase would generate additional annual revenues of \$86,359.

Drawings and specifications for the proposed improvements by Robert G. Campbell & Associates, Inc., of Knoxville, Tennessee, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

On December 23, 1986, an Order was entered denying Wood Creek's application because of its failure to demonstrate the appropriateness of the proposed construction.

Wood Creek filed a motion for rehearing in this case on January 6, 1987. Wood Creek filed additional exhibits on January 23, 1987. On January 26, 1987, the Commission granted the motion for the purpose of extending the time for review of the information filed.

On February 24, 1987, the Commission granted the rehearing to allow Wood Creek to respond to the Commission's concerns. The Order entered on February 24, 1987, required Wood Creek to offer testimony and written exhibits on identifying and quantifying the existing water usage on a county-wide basis. In addition, information was requested on the ability of the county's existing water utilities to serve the present and future water demands. The February 24, 1987, Order also required Wood Creek to identify and quantify specific improvements and possible alternatives on a county-wide basis needed to satisfy the present and future water usage. Information concerning the appropriateness of the proposed rate design was also requested.

Wood Creek responded to the February 24, 1987, Order at the rehearing held April 7, 1987. Ralph Johanson, P.E., of GRW Engineers, Lexington, Kentucky, presented testimony and exhibits to support Wood Creek's proposed construction project. The testimony and exhibits demonstrated that the proposed construction is a necessary part of the considerable improvements required to satisfactorily meet the immediate and future comprehensive water needs of Laurel County.

REVENUE REQUIREMENTS

The report of the Commission staff dated September 16, 1986, recommended that Wood Creek be granted the full amount of its requested increase, assuming approval of the proposed construction. In accordance with the Commission's established rate-making practices, the recommendation did not include recovery of depreciation on contributed property.

In its Order of December 23, 1986, the Commission raised the issue of the recovery, through rates, of depreciation on contributed property as mandated by the Supreme Court of Kentucky. At the rehearing of April 7, 1987, Wood Creek addressed this issue and requested that depreciation on contributed property be included by the Commission in its determination of Wood Creek's revenue requirements.

The increase recommended in the staff's report excluded \$54,467 of depreciation on contributed property included as part of Wood Creek's existing plant in service. The staff report also excluded \$13,420 of depreciation on the \$671,200 grant portion of the proposed construction project. The addition of these amounts to Wood Creek's requested increase results in a total required increase of \$154,246. This will result in a Debt Service Coverage ("DSC") of 1.12X which is the same DSC produced by Wood Creek's requested increase when depreciation on contributed property was excluded. Based on the finding herein that the proposed construction should be approved the Commission is of the opinion that Wood Creek should increase its rates in order to generate additional annual revenue of \$154,246.

RATE DESIGN

Wood Creek's initial proposal spread the rate increase based on the revenue requirement over those rate steps utilized by wholesalers and large quantity users. The justification for this design was that these classifications of users would benefit the greatest from the construction. Commission staff concurred with that proposal and the Commission agrees with the position of the staff. However, in addition to an increase in revenue for construction purposes, Wood Creek should be permitted to increase its revenues due to depreciation expense on contributed property allowed herein. This expense is attributable to the development of the entire system. Thus, the revenue requirement should be spread to all customer classifications.

The rates in Appendix A have been developed on the basis that the increase in the revenue requirement has two distinct sources, the construction project and depreciation expense. An amount of \$67,887 for depreciation expense has been spread over all classifications in the rate base. An amount of \$86,359 for construction expenses has been spread over the wholesale rate and large user classifications.

FINDINGS AND ORDERS

The Commission, after consideration of the 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 be performed and that a certificate of public convenience and necessity be granted.

2. The proposed construction consists of a water level monitoring system, approximately 4.7 miles of 20-, and 10-inch diameter pipelines, and related appurtenances. The low bids totaled \$928,900 which will require about \$1,271,200 after allowances are made for fees, contingencies, other indirect costs, high service pump modification or replacement as well as other construction being considered as a result of receiving bids lower than the final estimate.

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

4. Wood Creek should furnish duly verified documentation of the total cost 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 the Commission.

5. Wood Creek'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 ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

6. Wood Creek 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.

7. The financing plan proposed by Wood Creek is for the lawful objects within the corporate purpose of its utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform that service and should, therefore, be approved.

8. The financing secured by Wood Creek for this project will be needed to pay for the work herein approved. Wood Creek's financing plan should, therefore, be approved.

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

10. Wood Creek should file a statement of the interest rate accepted from FmHA within 30 days of the date of closing.

11. If Wood Creek accepts an interest rate different from the rate approved herein, it should file amended pages to its bond resolution and an amended amortization schedule.

12. If Wood Creek is eligible but does not take advantage of a lower interest rate at the time of closing, it should fully

document why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over its life.

13. The rates proposed by Wood Creek would not produce the revenues found reasonable herein and should be denied pursuant to KRS 278.030.

14. The rates in Appendix A are fair, just and reasonable and should produce gross annual operating revenues of \$919,302.

IT IS THEREFORE ORDERED that:

1. Wood Creek 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. Wood Creek's financing plan consisting of an 8.625 percent FmHA loan of \$600,000 and \$671,200 in CDBG funds be and it hereby is approved.

3. Wood Creek shall comply with all matters set out in Findings 3 through 6 and 9 through 12 as if the same were individually so ordered.

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

5. Within 30 days from the date of this Order Wood Creek 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 22nd day of April, 1987.

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. 9594 DATED APRIL 22, 1987.

The following rates and charges are prescribed for the customers in the area served by Wood Creek 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.

<u>Number of Gallons of Water Per Month</u>	<u>Monthly Charge per 1,000 Gallons Per Month</u>
First 2,000 gallons or less	\$8.60 Minimum Bill
Next 1,500 gallons	2.70 per 1,000 gallons
Next 1,500 gallons	2.40 per 1,000 gallons
Next 2,500 gallons	2.00 per 1,000 gallons
All over 7,500 gallons	1.55 per 1,000 gallons
Wholesale rate	1.05 per 1,000 gallons