

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE GARRISON-)
QUINCY-KY-O-HEIGHTS WATER DISTRICT)
OF LEWIS COUNTY, KENTUCKY, FOR) CASE NO. 9658
APPROVAL OF CONSTRUCTION, FINANCING)
AND INCREASED WATER RATES)

O R D E R

Garrison-Quincy-Ky-O-Heights Water District ("Garrison") by application filed July 30, 1986, is seeking a certificate of public convenience and necessity to construct a \$550,000 water-works improvements project, approval of its \$550,000 plan of financing composed of a Farmers Home Administration ("FmHA") grant in the amount of \$250,000 and an FmHA loan in the amount of \$300,000 and approval of an increase in rates. The amortization period of the loan will be 40 years and the annual interest rate will be 5.875 percent.

On August 8, 1986, Father H. Paul Osborne filed a Motion for limited intervention in this proceeding. On September 30, 1986, the Commission granted the Motion.

The construction plans and specifications prepared by Kenco Associates, Inc., of Ashland, Kentucky, ("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 Commission on January 27, 1987. Though the intervenor was not present, concerns

which the intervenor had raised by letter prior to the hearing were adequately addressed during the hearing.

The rates requested by Garrison will produce additional revenue of \$46,754 on an annual basis. In this Order, the Commission has approved the full amount of the requested increase.

TEST PERIOD

Garrison proposed the 12-month period ending December 31, 1984, as the test period in this matter. The Commission, based on its concerns as to the reasonableness of some of the expenses incurred by Garrison in 1984 and the availability of Garrison's financial reports for calendar year 1985, has adopted the 12-month period ending December 31, 1985, as the representative test period.

REVENUE REQUIREMENTS

Garrison requested additional annual revenues of \$46,754 in its original application. The Commission staff, in its report dated November 11, 1986, recommended an increase of \$42,308. Neither of these proposals included the recovery of depreciation on contributed property. This issue, as well as the question of the appropriate level of pumping expense, is addressed below:

Depreciation on Contributed Property

According to a recent decision of the Supreme Court of Kentucky, Public Service Commission of Kentucky v. DeWitt Water District, Ky., 720 S.W. 2d 725 (1986), the Commission is required to consider depreciation expense on contributed property as an expense for rate-making purposes in this case. Based on Garrison's original application the amount of depreciation on

contributed property, including the proposed construction, would be \$14,993. The staff, by letter dated January 9, 1987, and at the public hearing, inquired as to whether Garrison would seek rate recovery of this expense. Garrison indicated it did not intend to request recovery of this expense through its water rates.

Pumping Expense

In its report the staff recommended an adjustment of \$2,657 to increase Garrison's test year pumping expense. This adjustment reflected Garrison's test year usage of electricity at the current rates of its electric supplier. In its revised financial exhibit Garrison proposed an adjustment of \$10,367 which included the increased electric usage caused by the additional pumping required after completion of the proposed construction. The Commission is of the opinion the \$10,367 adjustment is reasonable and should be accepted for rate-making purposes.

Updated Construction Costs

The increase of \$50,000 in construction costs above the original estimate results in the following adjustments, which the Commission will accept for rate-making purposes:

Depreciation expense on non-contributed property increases by \$1,630 above the amount of \$16,458 included in the staff report, for a total of \$18,088.

Debt service increases from \$32,200 to \$32,495 as the result of the increased borrowing and the reduction of the interest rate from 7.25 percent to 5.875 percent.

The effects of these adjustments, and the other adjustments recommended in the staff report, are as follows:

	Test Year Actual	Adjustments	Test Year Adjusted
Operating Revenues	\$53,507	\$ <59>	\$ 53,448
Operating Expenses	43,415	23,591	67,006
Other Income	1,468	<918>	550
Income Available For Debt Service	<u>\$11,560</u>	<u>\$<24,568></u>	<u>\$<13,008></u>

Garrison's adjusted debt service coverage ("DSC") is -.40X. The Commission is of the opinion that this coverage is inadequate and that Garrison requires a coverage within a range of 1.0X to 1.2X in order to meet its operating expenses, service its debt and provide for reasonable equity growth. Based on the test period level of water sales, Garrison's proposed rates will generate \$104,150 in annual revenues which results in a DSC of 1.15X.¹ The Commission, therefore, is of the opinion that the full amount of the requested increase should be approved.

CONNECTION FEES

Garrison currently charges a \$300 connection fee for all size connections. Garrison proposed to establish a connection fee for each size connection to more accurately reflect its actual cost of installation. Testimony given at the hearing supports the proposed fees; however, no cost justification has been provided.

¹ Operating Revenues	\$104,150
Operating Expenses	67,006
Operating Income	<u>\$ 37,144</u>
Other Income	550
Income for DSC	<u>\$ 37,694</u>
Divided By: Debt Service	32,495
Equals	1.15X

The proposed connection fees cannot be approved until cost justification for each size connection is provided pursuant to 807 KAR 5:011, Section 6 (2)(c) Tariffs and 807 KAR 5:011, Section 10 (1)(a).

FINDINGS AND ORDERS

The Commission, after consideration of the 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 a new water treatment plant having a rated production capacity of 12,000 gallons per hour, a new production well and pump and other miscellaneous appurtenances. The existing treatment plant is of inadequate capacity and is not in compliance with labor safety requirements. Its operation was initiated in 1967. The old plant will be abandoned after start-up of the new plant.

3. The low bids totaled \$433,666 (\$416,666 for the treatment plant and \$17,000 for the new well and pump). The funds required for this work will be approximately \$550,000 including engineering design fees, resident inspection and other indirect construction costs. The available funds of \$550,000 should be adequate for completion of the work in accordance with the bids received January 8, 1987.

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. Garrison 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. Garrison should require the Engineer to provide 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 plans and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Garrison 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 \$550,000 financing plan proposed by Garrison for its proposed construction 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. Garrison should provide cost justification for its proposed connection fees before the Commission will approve the proposed changes.

10. The rates and charges in Appendix A are fair, just and reasonable for Garrison and should produce annual revenues of \$104,700.

IT IS THEREFORE ORDERED that:

1. Garrison 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. Garrison's plan of financing consisting of an FmHA grant of \$250,000 and a 5.875 percent FmHA loan in the amount of \$300,000 with a 40-year amortization period be and it hereby is approved.

3. If under new FmHA loan conditions Garrison is notified and granted an option to accept a lower interest rate on the date of closing, then it 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 shall provide copies of all correspondence from and to FmHA concerning this notification; (2) a statement of the interest rate accepted from the 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; (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 Garrison.

4. Garrison shall comply with all matters set out in Findings 4 through 8 as if the same were individually so ordered.

5. Garrison shall file cost justification for its proposed connection fees within 30 days from the date of this Order.

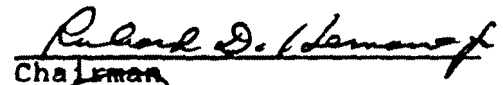
6. The rates in Appendix A be and they hereby are approved for service rendered by Garrison on and after the date of this Order.

7. Within 30 days from the date of this Order Garrison shall file with the Commission its revised tariff sheets setting out the rate approved herein.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing authorized herein.

Done at Frankfort, Kentucky, this 2nd day of April, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

ATTEST:

Executive Director


Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9658 DATED 4/02/87

The following rates and charges are prescribed for the customers in the area served by Garrison-Quincy-Ky-O-Heights 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

5/8 x 3/4 Inch Connection

First 2,000 gallons	\$10.00 Minimum Bill
Next 3,000 gallons	4.00 per 1,000 gallons
Next 5,000 gallons	3.00 per 1,000 gallons
Next 10,000 gallons	2.00 per 1,000 gallons
Over 20,000 gallons	1.50 per 1,000 gallons

3/4 Inch Connection

First 5,000 gallons	\$22.00 Minimum Bill
Next 5,000 gallons	3.00 per 1,000 gallons
Next 10,000 gallons	2.00 per 1,000 gallons
Over 20,000 gallons	1.50 per 1,000 gallons

1 Inch Connection

First 10,000 gallons	\$37.00 Minimum Bill
Next 10,000 gallons	2.00 per 1,000 gallons
Over 20,000 gallons	1.50 per 1,000 gallons

1 1/2 Inch Connection

First 30,000 gallons	\$72.00 Minimum Bill
Over 30,000 gallons	1.50 per 1,000 gallons

2 Inch Connection

First 50,000 gallons	\$102.00 Minimum Bill
Over 50,000 gallons	1.50 per 1,000 gallons