

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BULLOCK PEN WATER)
DISTRICT, OF GRANT, BOONE, PENDLETON,)
AND GALLATIN COUNTIES, KENTUCKY, FOR)
APPROVAL OF CONSTRUCTION, FINANCING) CASE NO. 9720
AND INCREASED WATER RATES)

INTERIM ORDER

Bullock Pen Water District ("Bullock Pen") by application filed October 20, 1986, and revised during the proceedings in this matter, is seeking approval of adjustments to its water service rates, authorization to construct a \$742,000 waterworks improvement project and approval of its plan of financing for this project. The project funding includes a \$408,000 loan from the Farmers Home Administration ("FmHA"), a \$326,000 grant from the Economic Development Administration ("EDA") and \$8,000 from Bullock Pen funds. The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 8 5/8 percent per annum for \$240,000 and 6 1/2 percent per annum for \$168,000.

The proposed construction will make water treatment plant improvements and add water storage facilities. Drawings and specifications for the proposed improvements by Proctor/Davis/Ray, Architects, Engineers, Planners of Lexington, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

This Interim Order will address the construction and financing portion of the application. A subsequent Order will address Bullock Pen's rate adjustment proposals. In the final Order in this case, the Commission will set rates necessary to provide the utility with an opportunity to recover its reasonable operating costs, service its debt and provide a reasonable surplus for equity growth.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

The evidence indicates that reliable and adequate service can be maintained throughout the expanded system after completion of the proposed construction. However, there is one existing area near the Verona water storage tank which could have residual pressure below 30 psig, in violation of 807 KAR 5:066, Section 6 (1). The Engineer has provided information that the proposed construction will have no effect on the potential low pressure area.

The Commission reminds Bullock Pen of its obligation to provide adequate and reliable service to all of its customers. Bullock Pen should monitor the adequacy of the expanded water distribution system after construction. If this monitoring indicates that the level of service is inadequate or declining, Bullock Pen must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record, and being advised, is of the opinion and finds that:

1. With the appropriate monitoring of service to potential low pressure areas, 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 150,000-gallon elevated water storage tank, an altitude valve control pit and piping, renovation of the water treatment plant, approximately 132 feet of 8-, and 4-inch diameter pipelines, and related appurtenances. The low bids totaled \$591,500 which will require about \$742,000 after allowances are made for fees, contingencies, and other indirect costs.

3. Bullock Pen should monitor the adequacy of the expanded water distribution system after construction. If the level of service is inadequate or declining, Bullock Pen should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

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 the Commission.

5. Bullock Pen 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.

6. Bullock Pen'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.

7. Bullock Pen 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 financing plan proposed by Bullock Pen 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.

9. The financing secured by Bullock Pen for this project will be needed to pay for the work herein approved. Bullock Pen's financing plan should, therefore, be approved.

10. If under new FmHA loan conditions Bullock Pen is notified and granted the option of accepting a lower interest rate at the date of closing, Bullock Pen 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.

11. Bullock Pen shall file a statement of the interest rate accepted from FmHA within 30 days of the date of closing.

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

13. If Bullock Pen 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.

IT IS THEREFORE ORDERED that:

1. Bullock Pen 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 the potential low pressure areas be monitored and corrective action taken in accordance with Finding Number 1 and Finding Number 3 of this Order.


2. Bullock Pen's financing plan consisting of a FmHA loan of \$408,000, an EDA grant of \$326,000 and \$8,000 in Bullock Pen funds be and it hereby is approved.


3. Bullock Pen shall comply with all matters set out in Findings 3 through 7 and 10 through 13 as if the same were individually so ordered.

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