

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE WHITE HALL)
WATER DISTRICT, OF MADISON COUNTY,)
KENTUCKY, FOR APPROVAL OF CONSTRUCTION,) CASE NO. 9722
FINANCING, AND INCREASED WATER RATES)

O R D E R

White Hall Water District ("White Hall") by application filed October 29, 1986, is seeking approval of adjustments to its water service rates, authorization to construct a \$1,401,000 waterworks improvement project and approval of its plan of financing for this project. The project funding includes a \$1,200,000 loan from the Farmers Home Administration ("FmHA"), a \$157,000 Community Development Block Grant ("CDBG") and \$44,000 from applicants for service in the proposed project area. 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.

The proposed construction will make hydraulic improvements and will provide service to approximately 250 additional customers. Drawings and specifications for the proposed improvements prepared by Chrisman, Miller, Woodford, Inc., of Lexington, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Intervenors in this case were Mae Whicker and Alberta Dunahue. An informal conference was held on July 15, 1987, at

which members of the Commission staff and representatives of White Hall met with the intervenors and discussed various issues and questions that had been raised during the course of this proceeding.

A hearing was not held in this case as none of the parties requested a public hearing. Therefore, the Commission's decision is based on the evidence of record consisting of the application, the staff's report on White Hall's financial operations and the responses to the staff's data requests.

The rates requested by White Hall will produce additional revenue of \$179,239 on an annual basis. In this Order, the Commission has approved the full amount of the requested increase.

TEST PERIOD

White Hall proposed and the Commission has accepted the 12-month period ending July 31, 1986, as the test period in this matter.

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, the Engineer has filed information that indicates that Tank and Pump Station No. 1 may not be needed after construction is complete. The Engineer has also stated that if this equipment is no longer needed it will be isolated or removed from the water distribution system.

The Commission reminds White Hall of its obligation to provide adequate and reliable service to all of its customers. White Hall 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, or that equipment needs to be isolated, removed or replaced, White Hall must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

FIRE HYDRANT INSTALLATION

White Hall originally proposed installing 16 conventional fire hydrants as part of this construction project. These fire hydrant installations are not in compliance with Standard 24 of the National Fire Protection Association as adopted by 815 KAR 10:020 and the "Recommended Standards For Water Works" by the Great Lakes-Upper Mississippi River Board of State Sanitary Engineers as adopted by 401 KAR 6:200.

White Hall was requested by the Commission to document that the proposed conventional fire hydrants were capable of providing fire protection. The Engineer responded that the fire hydrants would be utilized for maintenance purposes as well as to refill fire department tank trucks.

White Hall was also requested by the Commission to state whether other equipment was considered instead of conventional fire hydrants. The Engineer responded that 13 conventional fire hydrants were proposed to be changed to flush hydrants and 3 conventional fire hydrants were still proposed. No mention was made of the fire flow capability of these hydrants. The Recommended Standards for Water Works explicitly states that water mains not designated to carry fire-flows shall not have fire hydrants connected to them.

The Commission in good conscience cannot approve the installation of three conventional fire hydrants that cannot provide fire protection in compliance with both state regulations and accepted engineering criteria. There are other pieces of water system equipment which can be used for the intended operation and maintenance procedures instead of fire hydrants. The installation of conventional fire hydrants may mislead the customers of White Hall into believing that the water distribution system is capable of providing adequate and reliable volumes of water for fire protection purposes. Under these circumstances the proposed conventional fire hydrants should not be installed.

REVENUE REQUIREMENTS

White Hall requested additional annual revenues of \$179,239. The Commission staff, in its report dated April 9, 1987, recommended that White Hall be granted the full amount of the requested increase. The Commission has reviewed the report and is of the opinion that the staff's recommendation should be accepted.

Based on the adjustments proposed by White Hall and accepted herein together with the adjustments proposed by the staff, White Hall's adjusted test period operations are as follows:

	<u>Applicant's Pro Forma</u>	<u>Commission Adjustments</u>	<u>Adjusted Pro Forma</u>
Operating Revenues	\$241,676	\$ -0-	\$241,676
Operating Expenses	302,457	(8,547)	293,910
Operating Income	<u>\$(60,781)</u>	<u>\$ 8,547</u>	<u>\$(52,234)</u>

White Hall's adjusted debt service coverage ("DSC") is -.42X. The Commission is of the opinion that this coverage is inadequate

and that White Hall requires a DSC 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 adjusted water sales, White Hall's proposed rates will generate \$420,915 in annual revenues which results in a DSC of 1.02X.¹ Therefore, the Commission is of the opinion that the full amount of the requested increase should be approved.

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 system-wide, and the deletion of the proposed conventional fire hydrants, 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 approximately 18.8 miles of 10- and 4-inch diameter pipelines, a booster pumping station, a 300,000 gallon elevated water storage tank, and related appurtenances. The low bids totaled \$1,041,535 which will require about \$1,401,000 after allowances are made for fees, contingencies, other indirect costs, and additional construction being considered as a result of receiving bids under the final estimate.

<p>¹</p> <p>Operating Revenues</p> <p>Operating Expenses</p> <p>Income for DSC</p> <p>Divided by: Debt Service</p> <p>Equals</p>	<p>\$420,915</p> <p>293,910</p> <p><u>\$127,005</u></p> <p>123,547</p> <p><u><u>1.02X</u></u></p>
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3. White Hall should monitor the adequacy of the expanded water distribution system after construction. If the level of service is inadequate or declining, or equipment needs to be isolated, or removed from service, White Hall 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. White Hall should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

6. White Hall 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.

7. White Hall'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.

8. White Hall 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. The financing plan proposed by White Hall is for lawful objects within its corporate purpose, 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 these services. The financing plan is reasonably necessary and appropriate for such purposes and should, therefore be approved.

10. If under FmHA loan conditions White Hall is notified and granted an option to accept a lower interest rate on the date of closing, White Hall should 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 White Hall.

11. The rates in Appendix A are fair, just and reasonable for White Hall and should produce gross annual revenues of \$420,915.

IT IS THEREFORE ORDERED that:

1. White Hall 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 service levels be monitored, corrective action taken in accordance with Finding Number 1 and Finding Number 3 of this Order, and that the proposed conventional fire hydrants be deleted.

2. White Hall's financing plan consisting of an FmHA loan of \$1,200,000, \$157,000 in CDBG funds, and \$44,000 in contributions from applicants for service be and it hereby is approved.

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

4. Within 30 days from the date of this Order White Hall shall file with the Commission its revised tariff sheets setting out the rates approved herein.

5. White Hall shall comply with all matters set out in Findings 3 through 8 and Finding 10 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

24th day of August, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Wynn
Chairman

[Signature]
Vice Chairman

[Signature]
Commissioner

ATTEST:

Forrest M. Stogge
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9722 DATED August 24, 1987.

The following rates and charges are prescribed for the customers in the area served by White Hall 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.

USAGE BLOCKS (GALLONS)

First 2,100 gallons
Next 3,000 gallons
Next 3,750 gallons
Over 8,850 gallons

MONTHLY RATES

\$9.50 Minimum
4.60 per 1,000 gallons
3.50 per 1,000 gallons
2.50 per 1,000 gallons

USAGE BLOCKS (CUBIC FEET)

First 280 cubic feet
Next 400 cubic feet
Next 500 cubic feet
Over 1,180 cubic feet

MONTHLY RATES

\$9.50 Minimum
3.44 per 100 cubic feet
2.62 per 100 cubic feet
1.87 per 100 cubic feet