

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE SOUTH )  
CUMBERLAND WATER DISTRICT, OF )  
CUMBERLAND COUNTY, KENTUCKY, ) CASE NO. 9862  
FOR APPROVAL OF CONSTRUCTION AND )  
FINANCING )

O R D E R

South Cumberland Water District ("South Cumberland") by application filed February 9, 1987, is seeking authorization to construct a \$498,000 waterworks improvement project and approval of its plan of financing for this project. The project funding includes a \$121,000 loan from the Farmers Home Administration ("FmHA"), a \$368,600 grant from the FmHA and \$8,400 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 5 percent per annum.

The proposed construction will provide service to approximately 56 additional customers. Drawings and specifications for the proposed improvements prepared by W. F. Grier & Associates, Inc., of Lexington, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

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, in its last construction case before the Commission South Cumberland's unaccounted for water was nearly 40 percent. In this case the Engineer has estimated the unaccounted for water to be approximately 50 percent. Unaccounted for water of this magnitude is considered indicative of serious operational problems. The Engineer also stated that the pumps, which were installed in 1971, are being manually controlled. Besides being very inefficient, this type operation could be contributing to South Cumberland's unaccounted for water problem. The Engineer filed information with the Commission which states that South Cumberland intends to correct these operational deficiencies with contingency money from this case.

The Commission reminds South Cumberland of its obligation to provide adequate and reliable service to all of its customers. South Cumberland 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, South Cumberland must take necessary actions to maintain the level of service in conformance with the regulations of the Commission. South Cumberland should also begin planning corrective action to resolve its significant unaccounted for water problem.

#### FIRE HYDRANT INSTALLATION

South Cumberland is proposing to install a conventional fire hydrant as part of this construction project. This fire hydrant installation is 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.

South Cumberland was requested by the Commission to document that the proposed conventional fire hydrant was capable of providing fire protection. The Engineer responded that the fire hydrant, if installed, would be utilized as a blowoff device. The Engineer also responded that South Cumberland does not offer to provide fire protection.

The Commission in good conscience cannot approve the installation of a conventional fire hydrant 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 South Cumberland 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 hydrant should not be installed.

#### 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, the corrective action planned to alleviate the operational deficiencies, and the deletion of the proposed conventional fire hydrant, 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 17.3 miles of 6- and 4-inch diameter pipelines, and related appurtenances. The low bids totaled \$335,270 which will require about \$498,000 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.

3. South Cumberland should monitor the adequacy of the expanded water distribution system after construction. If the level of service is inadequate or declining, South Cumberland 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. South Cumberland intends to extend water service to a portion of Clinton County, and is in the process of annexing the applicable area. South Cumberland should comply with KRS 74.110 and KRS 74.115 as it pertains to annexing the area of Clinton County to be served. Prior to constructing any improvements in or serving the annexed area in Clinton County, South Cumberland should file the appropriate Clinton County Fiscal Court Order with the Commission.

6. South Cumberland 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. South Cumberland'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. South Cumberland 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 South Cumberland 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.

10. The financing secured by South Cumberland for this project will be needed to pay for the work herein approved. South Cumberland's financing plan should, therefore, be approved.

11. If under FmHA loan conditions South Cumberland is notified and granted an option to accept a lower interest rate on the date of closing, South Cumberland 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 South Cumberland.

IT IS THEREFORE ORDERED that:

1. South Cumberland 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 hydrant be deleted.

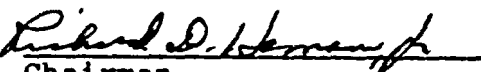
2. South Cumberland's financing plan consisting of an FmHA loan of \$121,000, an FmHA grant of \$368,600, and \$8,400 in contributions from applicants for service be and it hereby is approved.

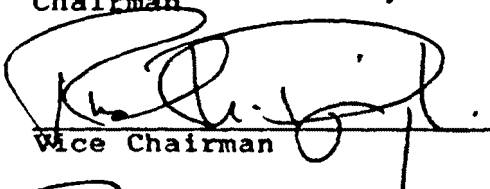
3. South Cumberland shall comply with all matters set out in Findings 3 through 8 and Finding 11 as if the same were individually so ordered.

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 5th day of June, 1987.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director