

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE MOUNTAIN WATER)
DISTRICT, OF PIKE COUNTY, KENTUCKY,)
FOR APPROVAL OF CONSTRUCTION, FINANCING) CASE NO. 9864
AND INCREASED RATES)

INTERIM ORDER

Mountain Water District ("Mountain") by application filed February 17, 1987, is seeking approval of adjustments to its water service rates, authorization to construct a \$4,225,000 waterworks improvement project and approval of its plan of financing for this project. The project funding includes a \$500,000 loan from the Farmers Home Administration ("FmHA"), a \$300,000 grant from the FmHA, a \$700,000 grant from the Appalachian Regional Commission ("ARC"), a \$750,000 Housing and Urban Development Community Development Block Grant ("CDBG"), a \$50,000 grant from Area Development Funds ("ADF"), a \$1,300,000 grant from the Abandoned Mine Lands Program ("AML"), Private Investment Funds of \$500,000, \$100,000 from the City of Pikeville and contributions of \$25,000 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 5 percent per annum.

The proposed construction will be capable of providing water service to 475 new customers. Drawings and specifications for the proposed improvements by Kenvirons, Inc., of Frankfort, 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 Mountain'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.

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 3 water storage tanks, (500,000-gallon, 200,000-gallon, 100,000-gallon), 6 booster pumping stations, approximately 39 miles of 10-, 8-, 6-, 4-inch, and 3-inch diameter pipelines, and related appurtenances. The construction is estimated to cost \$3,301,498 which will require about \$4,255,000 after allowances are made for fees, contingencies, and other indirect costs.

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. Mountain 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. Mountain'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. Mountain 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 Mountain 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 Mountain for this project will be needed to pay for the work herein approved. Mountain's financing plan should, therefore, be approved.

9. If under new FmHA loan conditions Mountain is notified and granted the option of accepting a lower interest rate at the date of closing, Mountain 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. Mountain should file a statement of the interest rate accepted from FmHA within 30 days of the date of closing.

11. If Mountain 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 Mountain 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.

IT IS THEREFORE ORDERED that:

1. Mountain 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.

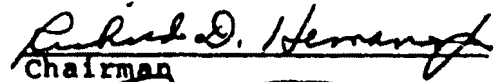
2. Mountain's financing plan consisting of an FmHA loan of \$500,000, an FmHA grant of \$300,000, \$700,000 in ARC funds, \$750,000 in CDBG funds, \$50,000 in ADF funds, an AML grant of \$1,300,000, \$500,000 in Private Investment Funds, \$100,000 from the City of Pikeville, and customer connection fees of \$25,000 be and it hereby is approved.

3. Mountain shall comply with all matters set out in Findings 3 through 7 and 9 through 12 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 23th day of April, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director