

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HANCOCK COUNTY PUBLIC )  
IMPROVEMENT CORPORATION AND THE COUNTY )  
OF HANCOCK, (1) FOR A CERTIFICATE THAT )  
PUBLIC CONVENIENCE AND NECESSITY REQUIRES )  
THE CONSTRUCTION OF WATER DISTRIBUTION )  
FACILITIES IN A PORTION OF HANCOCK )  
COUNTY; AND (2) SEEKING APPROVAL OF THE )  
ISSUANCE OF CERTAIN SECURITIES; AND (3) )  
FOR AN ORDER AUTHORIZING PROPOSED WATER )  
SERVICE RATES AND CHARGES )

CASE NO.  
9931

O R D E R

Hancock County Public Improvement Corporation and the County of Hancock ("Hancock County") by joint application filed May 12, 1987, are seeking the establishment of initial water service rates, authorization to construct an \$831,000 waterworks improvement project and approval of its plan of financing for this project. The project funding includes a \$475,000 loan from the Farmers Home Administration ("FmHA"), a \$150,000 Community Development Block Grant ("CDBG"), a \$150,000 Hancock County Fiscal Court Grant ("HCFCG"), and a \$30,000 Area Development Fund Grant ("ADFG"). The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 7 5/8 percent per annum.

The proposed construction will provide service to approximately 165 customers. Drawings and specifications for the proposed improvements prepared by Johnson, Depp and Quisenberry,

Consulting Engineers, of Owensboro, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Neither Hancock County nor the Commission sought a hearing in this matter. There were no intervenors and all requested information has been filed.

#### ESTABLISHMENT OF A NEW WATER UTILITY

Hancock County has made use of an existing public improvement corporation to channel funds for construction of a water system to serve some 165 residences in the county. The Commission is well aware of the critical need for safe and reliable drinking water for the rural residents of the Commonwealth and supports the expansion of existing water systems to meet this need. However, the Commission also shares the concern expressed by the General Assembly regarding the proliferation of water systems in the Commonwealth.

Hancock County has proposed that East Daviess County Water Association ("East Daviess") operate and manage the new water system proposed in this case. The Commission will approve the proposed construction with the expressed understanding that East Daviess will operate and manage the water system after construction. Any change in the operation and management of the water system must receive the prior approval of this Commission. The Commission strongly hopes that, after the water system's construction, Hancock County will transfer it to East Daviess as soon as this can be appropriately arranged.

### FIRE HYDRANT INSTALLATION

Hancock County has proposed the installation of five conventional fire hydrants as part of this construction project. It has not been demonstrated that these fire hydrant installations are 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. "The Recommended Standards for Water Works" explicitly states that water mains not designed to carry fire-flows shall not have fire hydrants connected to them.

The Commission cannot approve the installation of five conventional fire hydrants that have not been shown to be in compliance with both state regulations and accepted engineering criteria. There are other pieces of water system equipment which can be used for routine operation and maintenance procedures instead of fire hydrants. The installation of conventional fire hydrants may mislead the customers of Hancock County into believing that the water distribution system is capable of providing adequate and reliable volumes of water for fire protection purposes. Under the existing circumstances the proposed conventional fire hydrants should not be installed.

### TEST PERIOD

This is a new rather than an existing utility, and accordingly, test period information does not exist. Therefore, staff was

unable to perform a field review to determine Hancock County's revenue requirement and thus relied upon estimated pro forma revenues and expenses.

PROJECTED REVENUES AND EXPENSES

Hancock County projected operating revenues and expenses of \$62,340 and \$18,740, respectively, based on providing service to approximately 165 customers. The Commission is of the opinion that the projected operating expenses are generally proper and they have therefore been accepted with the following exceptions:

Depreciation Expense

Hancock County neglected to include depreciation expense in its projected operating expenses. The Commission is of the opinion that Hancock County's projected expenses should reflect an appropriate amount of depreciation expense. The Commission has calculated depreciation expense of \$20,525 based on a 40-year life<sup>1</sup> and the entire construction cost of \$831,000 inclusive of contributions totaling \$356,000.<sup>2</sup> Therefore, operating expenses have been increased by \$20,525.

Billing and Administrative

Hancock County has estimated annual billing and administrative expenses of \$574 and \$1,000, respectively. Hancock County

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<sup>1</sup> The life of the bonds.

<sup>2</sup>

Fiscal Court Grant	\$150,000
CDBG	176,000
Area Development District Grant	30,000
Total Contributions	<u>\$356,000</u>

has entered into an agreement with East Daviess<sup>3</sup> whereby East Daviess has agreed to supply Hancock County the following services:

- 1) Water
- 2) Meter Reading
- 3) Billing
- 4) Operation Services
- 5) Maintenance

The Commission is of the opinion that estimated billing and administrative expenses are included in the contracted services, and therefore, has reduced operating expenses by \$1,574.

Debt Service and Reserve Account

Hancock County has estimated debt service and reserve account outlay of \$38,583 and \$3,900, respectively. Costs such as debt service and payments to reserve accounts are not normally classified as operating expenses and, therefore, the Commission has reduced operating expenses by \$42,483. Although debt service is not considered as operating expense, it is used in the final determination of required revenue.

After consideration of the aforementioned adjustment, projected revenues and expenses are as follows:

	<u>Hancock County's Proposed Operations</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$62,340	-0-	\$62,340
Operating Expenses	61,196	<23,532>	37,664
Operating Income	<u>\$ 1,144</u>	<u>\$23,532</u>	<u>\$24,676</u>

<sup>3</sup> Projected Contract Cost \$17,140 (Final Engineering Report).

REVENUE REQUIREMENTS

Hancock County's annual debt service based on debt proposed in this proceeding is \$38,587.<sup>4</sup> Hancock County's requested net operating revenues of \$62,340 provide a debt service coverage ("DSC") of only 0.639. In a case such as this where Hancock County is a new system yet to begin operations it is difficult to estimate or project operating revenues and expenses until the system has some actual operating results. The Commission is concerned that the rates requested may not provide an adequate surplus necessary for equity growth; however, the Commission restates that the financial data is only projections and estimates provided by Hancock County. The Commission therefore has granted the amount of revenues requested by Hancock County, but advises that Hancock County should review its financial position after one year of operating its system and take the appropriate action as it deems necessary. The Commission will also monitor Hancock County's financial condition through review of Hancock County's annual reports for the purpose of determining what, if any, future rate adjustments might be required.

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	<u>Amount</u>	<u>Amortization Factor</u>	<u>Annual Debt Service</u>
Bonds	\$475,000	0.081235	\$38,587

### RATE DESIGN

In its application, Hancock County filed with the Commission an initial rate schedule and proposed tap-on fees. In response to an information request, Hancock County filed a billing analysis for the proposed system and cost justification for its non-recurring charges. Based on the information filed, the Commission is of the opinion that the rates and charges proposed by Hancock County, and as set out in Appendix A, should be approved for services rendered.

### 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 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 29.3 miles of 6-, 4- and 3-inch diameter pipelines, two booster pumping stations, a 147,000-gallon standpipe, a 157,000-gallon standpipe, a hydropneumatic station and related appurtenances. The low bids totaled \$629,296 which will require about \$831,000 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. Hancock County should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

5. Hancock County should obtain approval from the Commission prior to modifying, changing or cancelling its operation and management agreement with East Daviess.

6. Hancock County 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. Hancock County'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. Hancock County 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 Hancock County 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 Hancock County is notified and granted an option to accept a lower interest rate on the date of closing, Hancock County 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 Hancock County.

11. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by Hancock County and should produce gross metered water revenues of \$62,340.

IT IS THEREFORE ORDERED that:

1. Hancock County 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 proposed conventional fire hydrants be deleted.

2. Hancock County's financing plan consisting of an FmHA loan of \$475,000, \$150,000 in CDBG funds, \$150,000 in HCFCG funds and \$30,000 in ADFG funds be and it hereby is approved.

3. Hancock County shall comply with all matters set out in Findings 3 through 8 and Finding 10 as if the same were individually so ordered.

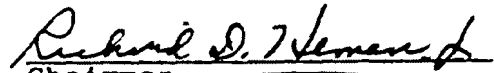
4. The rates and charges in Appendix A be and they hereby are approved for service rendered on and after the date of this Order.

5. Within 30 days from the date of this Order, Hancock County shall file with the Commission its tariff sheets setting out the rates approved herein.

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 2nd day of October, 1987.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

ATTEST:

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Executive Director

  
Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 9931 DATED 10/2/87

The following rates and charges are prescribed for the customers in the area served by Hancock County Public Improvement Corporation. 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.

<u>Gallonage Block</u>	<u>Rate</u>
First 2,000 gallons	\$ 19.50 Minimum Bill
Next 2,000 gallons	9.00 per 1,000 gallons
Next 6,000 gallons	6.25 per 1,000 gallons
Over 10,000 gallons	2.60 per 1,000 gallons

Connection Charges

5/8" x 3/4" meter	\$250.00
3/4" meter	300.00
1" meter	350.00
1 1/2" meter	500.00
2" meter	750.00