

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MAGOFFIN COUNTY )  
WATER DISTRICT, OF MAGOFFIN COUNTY, )  
KENTUCKY, FOR APPROVAL OF CON- ) CASE NO. 9919  
STRUCTION AND FINANCING )

O R D E R

On April 21, 1987, Magoffin County Water District ("Magoffin Water") filed an application for a certificate of public convenience and necessity to construct a \$1,340,000 waterworks improvement project and for approval of its plan of financing. Project funding includes a \$335,000 loan from the Farmers Home Administration ("FmHA"), a \$280,400 grant from the FmHA, a \$292,200 Appalachian Regional Commission ("ARC") grant, a \$417,800 Community Development Block Grant ("CDBG") and \$14,600 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 367 additional customers. Drawings and specifications for the proposed improvements prepared by Mayes, Sudderth, & Etheredge, 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. In several areas of the system, however, service pressure could exceed 150 psig, a violation of 807 KAR 5:066, Section 6(1).

The Commission reminds Magoffin Water of its obligation to provide adequate and reliable service to all of its customers. Magoffin Water should monitor the adequacy of the expanded water distribution system after construction. If the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 6(1), Magoffin Water should take immediate action to maintain a level of service which conforms with Commission regulations.

### FIRE HYDRANT INSTALLATION

Magoffin Water proposes to install six conventional fire hydrants as part of this construction project. These fire hydrants are not intended to be used for fire protection, but would serve as end-of-line blow-off valves. The installation of these fire hydrants, however, does not comply with Standard 24 of the National Fire Protection Association as adopted by 815 KAR 10:020 or the "Recommended Standards for Water Works" of the Great Lakes-Upper Mississippi River Board of Sanitary Engineers as adopted by 401 KAR 6:200. The Recommended Standards for Water Works expressly states that fire hydrants shall not be connected to water mains which are not designed to carry fire-flows.

The Commission in good conscience cannot approve an installation of conventional fire hydrants which would be contrary to state regulations and accepted engineering standards. Other water system equipment can be used for the purposes which the fire hydrants were intended. Furthermore, the installation of conventional fire hydrants may mislead Magoffin Water's customers 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.

#### 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 the construction proposed in Magoffin Water's application. A certificate of public convenience and necessity should be granted.

2. The proposed construction consists of approximately 25 miles of 6-, 4-, and 3-inch diameter pipelines, two booster pumping stations, two 100,000-gallon water storage tanks, 367 residential service connections, and related appurtenances. The low bids totaled \$1,066,615. After allowances are made for fees, contingencies and other indirect costs, the proposed construction will require \$1,340,000.

3. Magoffin Water should monitor the adequacy of the expanded water distribution system after construction. If the

level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 6(1), Magoffin Water should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

4. Magoffin Water should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

5. 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.

6. Magoffin Water should furnish proof 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. Magoffin Water'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. Magoffin Water should require the Engineer to furnish within 60 days of the date of substantial completion of this

construction 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.

9. The financing plan proposed by Magoffin Water 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 the FmHA grants Magoffin Water an option to accept a lower interest rate on the date of closing, Magoffin Water 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 with the FmHA concerning this notification; (2) a statement of the interest rate accepted from FmHA; (3) any 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) a detailed explanation for refusing the lower interest rate including an analysis of the higher costs associated with the loan over the loan's repayment period, if the option for the lower interest rate is not accepted by Magoffin Water.

IT IS THEREFORE ORDERED that:

1. Magoffin Water 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. Magoffin Water's financing plan consisting of an FmHA loan of \$335,000, an FmHA grant of \$280,400, an ARC grant of \$292,200, \$417,800 in CDBG funds and \$14,600 in contributions from applicants for service be and it hereby is approved.

3. The proceeds from the FmHA loan shall be used only for the purposes stated within Magoffin Water's application.

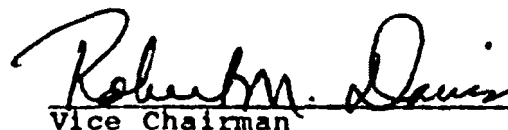
4. Magoffin Water shall comply with all matters set out in Findings 3 through 8 and Finding 10 as if the same were individually so ordered.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky, or any agency thereof.

Done at Frankfort, Kentucky, this 7th day of March, 1988.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

Executive Director