

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SOUTH ANDERSON)
WATER DISTRICT, INC., ORGANIZED)
PURSUANT TO CHAPTER 74, OF THE)
KENTUCKY REVISED STATUTES, FOR (1))
A CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY, AUTHORIZING AND)
PERMITTING SAID WATER DISTRICT TO)
CONSTRUCT A WATER WORKS CONSTRUCTION) CASE NO. 10135
PROJECT, CONSISTING OF EXTENSIONS TO)
THE EXISTING WATER WORKS SYSTEM; (2))
APPROVAL OF THE PROPOSED PLAN OF)
FINANCING AND THE APPROVAL OF THE)
ISSUANCE OF CERTAIN SECURITIES; (3))
APPROVAL OF THE INCREASED WATER)
RATES PROPOSED TO BE CHARGED BY THE)
DISTRICT TO CUSTOMERS OF THE DISTRICT)

O R D E R

On January 19, 1988, South Anderson Water District ("South Anderson") filed an application for a certificate of public convenience and necessity to construct a \$1,465,200 waterworks improvement project, for approval of its plan of financing for this project, and for approval of adjustments to its water service rates. Project funding includes a \$787,000 loan from the Farmers Home Administration ("FmHA"), a \$441,000 Community Development Block Grant ("CDBG"), \$15,000 from the Anderson County Fiscal Court, \$12,000 from the Anderson County Board of Education, \$135,800 in South Anderson funds, and \$74,400 from applicants for

service in the proposed project area. The loan will be for a 40-year period at interest rates of 6 7/8 percent per annum for \$650,000 and 6 1/2 percent per annum for \$137,000.

The proposed construction will provide service to approximately 186 additional customers. Drawings and specifications for the proposed improvements prepared by GRW Engineers, Inc., of Lexington, Kentucky ("Engineer"), have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

REVENUE REQUIREMENT

Staff recommended in its report that South Anderson be granted an increase of \$71,302 which would generate a DSC of 1.06 and a net cash flow of \$53,636. On June 13, 1988, South Anderson filed comments indicating that the rates recommended by Staff were too high and requesting that the original rates proposed in the application be adopted. The proposed rates should generate revenues of \$175,671 annually.

On July 28, 1988, South Anderson filed its final engineering report in which it indicated a new annual debt service requirement for the proposed debt in this case of \$57,735. This represents an increase of \$833 over the annual debt service proposed in the preliminary engineering report of \$56,902.

Based on South Anderson's requested rates and the revised debt service requirement, South Anderson would realize a DSC of

.72x¹ and a net cash flow of \$29,556.² Since the cash flow generated by the proposed rates is sufficient to meet South Anderson's actual debt service requirement Staff amends its report to recommend that the proposed rates be accepted.

After careful review of the recommendations made by Staff, the Commission is of the opinion that South Anderson will have adequate cash flow to meet its obligations and provide for future equity growth. Therefore, the Commission, affirms the Staff's amended recommended annual increase of \$47,222.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

The Engineer states that reliable and adequate service can be maintained throughout the expanded system after completion of the proposed construction. The Commission reminds South Anderson of its obligation to provide adequate and reliable service to all of its customers. South Anderson 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

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|-------|--|-----------------|
| <hr/> | | |
| 1 | Average Annual Debt Service per Staff Report | \$72,277 |
| | Increase in Debt Service - Proposed Debt | 833 |
| | Adjusted Average Annual Debt Service | <u>\$73,110</u> |
| | Adjusted Operations | \$ 5,483 |
| | Requested Increase | <u>47,222</u> |
| | | 52,705 |
| | Average Debt Service | <u>+73,110</u> |
| | Debt Service Coverage | <u>.72</u> |
| 2 | Adjusted Operations | \$ 5,483 |
| | Add: Revenue Increase | 47,222 |
| | Depreciation Expense | 48,778 |
| | Less: 1988 Principal & Interest | <u>71,927</u> |
| | Net Cash Flow | <u>\$29,556</u> |

any customer is outside the requirements of 807 KAR 5:066, Section 6(1), South Anderson must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

FIRE HYDRANT INSTALLATION

South Anderson proposed to install one conventional fire hydrant as part of this construction project. The installation of this fire hydrant, however, does not comply 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 expressly states that fire hydrants shall not be connected to water mains which are not designed to carry fire flows.

South Anderson was requested by the Commission to document that the proposed conventional fire hydrant was capable of providing fire protection. The Engineer responded that the conventional fire hydrant would be deleted.

The Commission in good conscience cannot approve the installation of conventional fire hydrants which would be contrary to state regulations and accepted engineering standards. Furthermore, the installation of conventional fire hydrants may mislead South Anderson's customers into believing that the water distribution system is capable of providing adequate and reliable

volumes of water for fire protection purposes. The Commission accepts South Anderson's proposal to delete the proposed conventional fire hydrant.

RATE DESIGN

In its application South Anderson proposed a schedule of rates and proposed to add new customers. Staff recommended that the rates proposed by South Anderson be accepted. Therefore, the Commission is of the opinion that the rates in Appendix A will produce revenues sufficient to cover operating expenses and 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 appropriate monitoring of service system-wide, and the deletion of the proposed conventional fire hydrant, public convenience and necessity require the construction proposed in South Anderson's application. A certificate of public convenience and necessity should be granted.

2. The proposed construction consists of approximately 28.6 miles of 6- and 4-inch diameter pipelines, 3 booster pump stations, 2 water storage tanks, and related appurtenances. The low bids totaled \$1,228,400 which will require about \$1,465,200 after allowances are made for fees, contingencies, and other indirect costs.

3. South Anderson 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). South Anderson 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 Anderson should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

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

11. The rates and charges in Appendix A are the fair, just, and reasonable rates to be charged by South Anderson in that they should produce annual revenues of \$175,671.

12. Within 30 days of the date of this Order, South Anderson should file with the Commission its revised tariff sheets setting out the rates approved herein.

IT IS THEREFORE ORDERED that:

1. South Anderson 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 1 and Finding 3 of this Order, and that the proposed conventional fire hydrant be deleted.

2. South Anderson's financing plan consisting of a \$787,000 FMHA loan, \$441,000 in CDBG funds, \$15,000 from the Anderson County Fiscal Court, \$12,000 from the Anderson County Board of Education, \$135,800 in South Anderson funds, and \$74,400 in contributions from applicants for service be and it hereby is approved.

3. The rates and charges in Appendix A are the fair, just, and reasonable rates to be charged by South Anderson in that they should produce annual revenues of \$175,671.

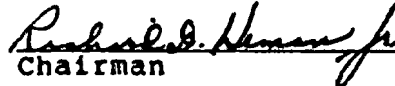
4. Within 30 days of the date of this Order, South Anderson should file with the Commission its revised tariff sheets setting out the rates approved herein.

5. South Anderson 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 12th day of August, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 10135 DATED 8/12/88

The following rates and charges are prescribed for the customers in the area served by South Anderson 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.

| <u>Gallonage Block</u> | <u>Rate</u> |
|------------------------|------------------------|
| First 2,000 gallons | \$9.50 (Minimum Bill) |
| Next 1,000 gallons | 4.50 per 1,000 gallons |
| Next 2,000 gallons | 3.75 per 1,000 gallons |
| Next 2,000 gallons | 3.00 per 1,000 gallons |
| Next 3,000 gallons | 2.25 per 1,000 gallons |
| Over 10,000 gallons | 2.00 per 1,000 gallons |