

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WOODLAWN, OAKDALE AND )  
HUSBANDS ROAD WATER DISTRICT (SANITATION )  
DISTRICT NO. 4) OF MCCRACKEN COUNTY, KENTUCKY, )  
FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE )  
AND NECESSITY, AUTHORIZING AND PERMITTING SAID )  
DISTRICT TO CONSTRUCT SEWAGE TREATMENT )  
FACILITY IMPROVEMENTS, CONSISTING OF )  
EXTENSIONS, ADDITIONS, AND IMPROVEMENTS TO THE )  
EXISTING SEWER SYSTEM OF THE DISTRICT; (2) )  
APPROVAL OF THE PROPOSED PLAN OF FINANCING OF )  
SAID PROJECT; AND (3) APPROVAL OF THE )  
INCREASED SEWER RATES PROPOSED TO BE CHARGED )  
BY THE DISTRICT TO CUSTOMERS OF THE DISTRICT )

CASE NO.  
10280

O R D E R

Woodlawn, Oakdale and Husbands Road Water District (Sanitation District No. 4) ("Woodlawn") filed an application on June 6, 1988 for a certificate of public convenience and necessity authorizing the construction of a \$2,399,000 sewage treatment facility improvement, consisting of extensions, additions, and improvements to the existing sewer system, and for approval of financing and rate increase. The project is funded by Kentucky Infrastructure Authority ("KIA"). The KIA loan will be secured by the issuance of revenue bonds maturing over a 20-year period at an interest rate of 8 1/4 percent per annum.

The proposed construction will provide service to approximately 110 additional customers. Drawings and specifications for the proposed improvements prepared by Hunter H. Martin and Associates, Consulting Engineers of Paducah, Kentucky ("Engineers"),

have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

On June 6, 1988, the Commission Staff ("Staff") conducted a field review of Woodlawn's test period financial records and issued its report on August 9, 1988 containing Staff's recommendations. No comments were filed by Woodlawn in response to the Staff Report.

REVENUE REQUIREMENT

On October 18, 1988, Woodlawn filed its final engineering report which resulted in several changes as compared to the Staff Report issued August 9, 1988. Woodlawn's proposed construction cost was decreased from \$2,988,000 to \$2,399,000. As a result, the annual debt service requirement was decreased from \$422,445 to \$361,316. Based on these revisions, Woodlawn also reduced its proposed revenue increase from \$336,260 to \$322,452.

In its Report, Staff calculated test year Adjusted Operations of \$71,656. Based on the aforementioned changes, Woodlawn's proposed increase would result in a debt service coverage ("DSC") of 1.09<sup>1</sup> and a net cash flow of \$115,310.<sup>2</sup> The Commission is of

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1	Adjusted Operations	\$ 71,656
	Proposed Increase	<u>322,452</u>
		<u>\$394,108</u>
	Average Debt Service	<u>÷361,316</u>
	DSC	<u>1.09</u>
2	Adjusted Operations	\$ 71,656
	Add: Proposed Increase	322,452
	Depreciation Expense	82,518
	Less: Average Annual Debt Service	<u>361,316</u>
	Net Cash Flow	<u>\$115,310</u>

the opinion that the net cash flow generated by Woodlawn is sufficient to meet its actual debt service requirements.

After careful consideration of the recommendations made by Staff and the aforementioned adjustments, the Commission is of the opinion that the proposed rates will allow Woodlawn sufficient revenue to meet current obligations, service its debt, and provide for future equity growth. Therefore, the Commission accepts Staff's recommendations adjusted for the decrease in the proposed construction cost and is of the opinion that Woodlawn's revenues from rates should be increased by \$322,452 annually.

#### Rate Design

In its application Woodlawn proposed a new rate design consisting of four steps. This design is beneficial in that it will provide cost savings by simplifying the usage calculation and billing process, thus benefiting both Woodlawn and its customers. It will also allow a more equitable distribution of the remaining revenue requirements, thereby balancing the impact of the rate adjustment on customers at all usage levels.

The rates have been designed to produce \$574,335 annually for Woodlawn, an adequate amount to cover its annual expenses and service its debt. Therefore, the Commission is of the opinion that the rates in Appendix A should be approved for services herein.

#### FINDINGS AND ORDERS

Based on the evidence of record, the Commission 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 construction project proposed by Woodlawn consists of approximately 11.45 miles of 2-1/2-, 6, 8, 10, and 12-inch diameter sanitary sewer lines, second stage lagoon, new discharge point, upgrading several pump stations, and related appurtenances. The low bids received for the proposed construction totaled \$1,569,228 which will require about \$2,399,000 after allowances are made for fees, contingencies, land, and other indirect costs.

3. Any deviations from the construction drawings and specifications herein approved which could adversely affect service to any customer should be subject to the prior approval of the Commission.

4. Woodlawn'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 insure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

5. Woodlawn should furnish duly verified documentation of the total cost of this project including the cost of construction and 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 Sewer Utilities prescribed by the Commission.

6. Woodlawn should furnish to the Commission 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 Woodlawn is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of services to the public and will not impair its ability to perform these services, is reasonably necessary and appropriate for such purposes and should, therefore, be approved.

8. Within 30 days from the date of this Order, Woodlawn should file its tariff sheets setting out the rates approved herein.

**IT IS THEREFORE ORDERED that:**

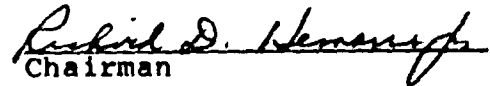
1. Woodlawn be and hereby is granted a certificate of public convenience and necessity to proceed with the construction of the sewage treatment and collection system set forth in the drawings and specifications herein approved.

2. Woodlawn shall comply with all matters set out in Findings 2, 3, 4, 5, and 6 as if the same were individually so ordered.

3. Within 30 days from the date of this Order, Woodlawn shall file its tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 30th day of November, 1988.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 10280 DATED 11/30/88

The following rates and charges are prescribed for the customers in the area served by Woodlawn, Oakdale and Husbands Road 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>Gallage Block</u>	<u>Rate</u>
First 2,000 gallons	\$9.75 Minimum Bill
Next 3,000 gallons	4.10 per 1,000 gallons
Next 15,000 gallons	3.90 per 1,000 gallons
Next 20,000 gallons	3.55 per 1,000 gallons