

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF REIDLAND WATER AND)	
SEWER DISTRICT FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY,)	CASE NO.
AUTHORIZING APPLICANT TO CONSTRUCT AN)	91-042
ELEVATED WATER STORAGE TANK AND)	
ASSOCIATED WATER LINES)	

O R D E R

On February 7, 1991, Reidland Water and Sewer District ("Reidland") filed an application with the Commission requesting a Certificate of Public Convenience and Necessity to construct a 500,000 gallon elevated water storage tank and associated water lines. Reidland also requested interim approval of financing for the proposed construction, although it stated in its application that it was unable at the time of filing to secure a construction loan because bids had not been received and contracts for performing the construction had not been executed.

On March 7, 1991, Reidland filed an amended application clarifying that it was requesting interim approval of the proposed construction, rather than of the financing. Reidland reiterated that, for the reasons set forth in its original application, it did not have sufficient information regarding the terms of the financing to request approval at that time, and requested the Commission to hold in abeyance its consideration of the financing for the proposed construction. Reidland stated that it would

submit the necessary information to the Commission when it was obtained, and incorporated by reference all other portions of its original application. By Order of May 3, 1991, the Commission found good cause to continue Reidland's financing application beyond the 60-day period specified in KRS 278.300(2), and granted Reidland's request to hold in abeyance the Commission's consideration of the financing for its proposed construction.

On June 25, 1991, Reidland filed a Second Amended Application in this proceeding. This Second Amended Application incorporated Reidland's previous request for approval of its proposed construction and financing, and added a request for approval of an adjustment of rates and surcharges necessary to pay the indebtedness incurred. Reidland stated in its Second Amended Application that the Kentucky Infrastructure Authority ("KIA") had conditionally approved a 20-year loan to Reidland to finance the construction, and that an adjustment of its rates was required in order to obtain final approval of the loan. Reidland requested an increase in its general rates and adjustments to its two existing surcharges, and filed an exhibit which reflected its proposed increased general rates and decreased surcharges. The proposed rates would not generate additional income for Reidland, but would simply reallocate Reidland's revenues from surcharge collections to allow Reidland to finance its proposed debt over a period of 20 years rather than the 5-year period for the surcharge authorized

in Case No. 89-150.¹ Reidland also requested in its Second Amended Application that it be granted a deviation from the requirement of publication to its customers of the proposed increase in rates, since Reidland's proposed increase in its general rates would not result in an overall increase in charges to customers, due to the proposed corresponding decrease in surcharge amounts.

By Order of July 17, 1991, the Commission denied Reidland's request for a deviation from 807 KAR 5:011, Section 8, but granted Reidland's request for a deviation from the requirement that its financial exhibit cover operations for a 12-month period ending not more than 90 days prior to the filing of its application. (807 KAR 5:001, Sections 10 and 6). The Commission found that the information previously filed by Reidland, including monthly financial reports for the period of January through May 1991, was sufficient to enable the Commission to adequately review Reidland's rate application. The Commission ordered Reidland to publish notice of its proposed increase in rates by August 26, 1991, and directed Reidland to file further information with the Commission concerning its proposed rate adjustment and its

¹ Case No. 89-150; The Application of Reidland Water and Sewer District for (1) A Certificate of Public Convenience and Necessity, Authorizing Applicant to Construct Major Improvements to its Existing Water System; (2) Approval of Funding of the Proposed Construction and Improvements Through the Kentucky Infrastructure Authority Established Under KRS 224A.011, Et Seq., and a Conventional Loan Through a Local Lending Institution; and (3) Approval of the Proposed Increased Rates and Surcharges Necessary to Pay the Loans Obtained for the Proposed Construction and Improvements.

proposed construction. The Commission's Order also scheduled an informal conference with Commission Staff for July 30, 1991.

On July 24, 1991, Reidland filed its response to the Commission's Order of July 17, 1991, and on July 30, 1991, Staff met with representatives of Reidland at an informal conference. After discussing various rate-making options, Reidland determined to seek approval of a general rate increase, with a corresponding decrease in Reidland's two existing surcharges. Reidland subsequently filed proof of publication of notice to its customers, as well as additional information requested by Staff.

On August 12-13, 1991, Commission Staff conducted a field review of Reidland's operations for the test period, calendar year ending December 31, 1990. Based upon this review, Staff issued its report on August 30, 1991, recommending that Reidland be authorized to increase its annual revenue from water sales by \$121,144, an increase of 44 percent over normalized test-year revenues of \$275,218. Staff also recommended that Reidland be allowed to continue collecting annual revenues of \$42,144 from Surcharge I and to decrease revenues collected from Surcharge II to a level of \$55,452.

By letter dated September 3, 1991, the Commission advised Reidland that comments on the Staff Report and/or a request for a public hearing must be filed no later than September 10, 1991, or this case would stand submitted to the Commission for decision. By letter dated September 11, 1991, counsel for Reidland informed

the Commission that it accepted the rates proposed in the Staff Report.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Plans and specifications for the proposed construction of the elevated water storage tank and water line extension have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

2. Public convenience and necessity require the construction proposed in the application be performed and that a Certificate of Public Convenience and Necessity be granted.

3. The proposed construction consists of a 500,000 gallon water storage tank, approximately 1,700 lineal feet of 12-inch diameter pipeline, and related appurtenances. The low bids for the water storage tank totaled \$427,600. The project will require funding of approximately \$573,850 after allowances are made for the cost of waterlines, fees, contingencies, and other indirect costs.

4. Reidland 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), Reidland should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

5. Reidland should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

6. 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.

7. Reidland should furnish duly verified documentation of the total costs 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.

8. Reidland 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.

9. Reidland should 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.

10. The financing plan proposed by Reidland is for lawful objects within the purpose of its utility operations, is necessary and appropriate for and consistent with the proper performance of the utility's service to the public and will not impair its

ability to perform that service, and is reasonably necessary and appropriate for such purpose. It should, therefore, be approved.

11. The rates and surcharges in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates for service provided by Reidland and will produce annual revenues of approximately \$396,362 from metered water sales, \$42,144 from Surcharge I, and \$55,452 from Surcharge II. These rates and surcharges will allow Reidland sufficient revenue to meet its operating expenses and debt service requirements.

12. The rates and surcharges proposed by Reidland would produce revenue increases which are unreasonable and thus inconsistent with KRS 278.030.

IT IS THEREFORE ORDERED that:

1. Reidland is hereby granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction project set forth in the drawings and specifications of record herein, on the condition that service levels be monitored and corrective action taken, if necessary, in accordance with Commission regulations.

2. Reidland's financing plan consisting of a loan from KIA not to exceed \$751,000 over a term of 20 years at an interest rate of 8 percent per annum is hereby approved. The financing herein approved shall be used only for the lawful purposes specified in Reidland's application.

3. Within 60 days of the date of this Order, Reidland shall file with the Commission the final loan documents evidencing the terms and conditions of its loan from KIA.

4. Reidland shall comply with all matters set out in findings 3 through 9 as if the same were individually so ordered.

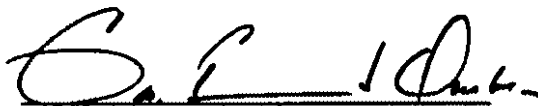
5. The rates and surcharges proposed by Reidland in its application are hereby denied.


6. The rates and surcharges contained in Appendix A are approved for service rendered by Reidland on and after the date of this Order.

7. Within 30 days of the date of this Order, Reidland shall file with the Commission its revised tariff setting out the rates and surcharges approved herein.

Done at Frankfort, Kentucky, this 30th day of September, 1991.

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. 91-042 DATED 9/30/91

The following rates and charges are prescribed for the customers in the area served by Reidland Water and Sewer 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.

Rate Increments

First 3,000 gallons
Next 7,000 gallons
Next 10,000 gallons
Next 50,000 gallons
Over 70,000 gallons

Monthly Rates

\$6.25 Minimum Bill
1.88 per 1,000 gallons
1.43 per 1,000 gallons
1.30 per 1,000 gallons
1.08 per 1,000 gallons

Surcharge #1

First 3,000 gallons
Over 3,000 gallons

\$0.78 Minimum Bill
0.15 per 1,000 gallons

This surcharge expires in February 1998.

Surcharge #2

First 3,000 gallons
Over 3,000 gallons

\$1.06 Minimum Bill
0.19 per 1,000 gallons

This surcharge ends when total receipts reach \$267,000 or no later than January 1995.

Total Surcharge on Water Rates

First 3,000 gallons
Over 3,000 gallons

\$1.84 Minimum Bill
0.34 per 1,000 gallons