

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION AND NOTICE OF KENTON COUNTY	)	
WATER DISTRICT NO. 1: (A) TO ISSUE	)	
REVENUE BONDS IN THE APPROXIMATE	)	
PRINCIPAL AMOUNT OF \$16,160,000 (A	)	
PORTION FOR REFUNDING OF BOND ANTICIPATION	)	
NOTES); (B) TO CONSTRUCT ADDITIONAL PLANT	)	CASE NO. 91-046
FACILITIES OF APPROXIMATELY \$8,317,000;	)	
(C) NOTICE OF ADJUSTMENT OF RATES	)	
EFFECTIVE MAY 1, 1991; AND (D) APPROVAL,	)	
IF NECESSARY, OF CONTINUING MISCELLANEOUS	)	
LONG-TERM INDEBTEDNESS	)	

O R D E R

On April 11, 1991 Kenton County Water District No. 1 ("Kenton District") filed an application with the Commission requesting a Certificate of Public Convenience and Necessity to construct certain facilities, authority to issue \$16.16 million in revenue bonds and miscellaneous indebtedness, and authority to increase its rates for water service rendered on and after May 1, 1991. The proposed rates would increase normalized annual water revenues of \$8,627,609 by approximately \$3.5 million, an increase of 40.6 percent. This Order grants the requested Certificate, authorizes the proposed bond issuance, and grants an increase in annual water revenues of \$3,038,744, an increase of 35.2 percent.

The Commission permitted the following parties to intervene: Boone County Water and Sewer District ("Boone District"), city of Covington ("Covington"), city of Florence ("Florence"), city of Fort Wright ("Fort Wright"), city of Newport ("Newport"), city of

Taylor Mill Utilities Commission ("Taylor Mill"), and city of Walton ("Walton").

The Commission suspended the proposed rates until October 11, 1991 to investigate their reasonableness. A public hearing on Kenton District's application was held on August 23, 1991. Parties submitted written briefs following the hearing. By Order dated September 6, 1991, the Commission granted a Certificate of Public Convenience and Necessity for two of the proposed facilities.

#### COMMENTARY

Kenton District is a water district organized pursuant to the provisions—of KRS Chapter 74. Founded in 1926, it is the oldest and largest water district in the Commonwealth. It serves approximately 65,000 customers in a three county area. It provides retail water service to the residents of Kenton County and wholesale water service to Boone District, Campbell County Kentucky Water District ("Campbell District"), and the cities of Bromley, Florence, Ludlow, Taylor Mill, Walton, Wilder, and Winston Park.

PROPOSED CONSTRUCTION

Kenton District seeks a Certificate of Public Convenience and Necessity to construct \$7.894 million in new facilities.<sup>1</sup> These facilities are: 1) a 19,500 foot 24-inch water transmission main ("Project AA") to serve a recently constructed 2 million gallon elevated storage tank near Devon, Kentucky; 2) a sludge handling facility ("Project BB") to treat and dispose the waste generated by Kenton District's Fort Thomas Water Treatment Plant; 3) a travelling screen ("Project CC") to prevent large river debris from entering Kenton District's Ohio River Pumping Station; and 4) a 42-inch raw water main ("Project DD") to transport water from Kenton District's Ohio River Pumping Station to its Fort Thomas Water Treatment Plant. The Commission has already reviewed and approved Projects BB and DD.<sup>2</sup>

The Commission finds that a Certificate of Public Convenience and Necessity should be granted for Projects AA and CC. The drawings and specifications for each project have been reviewed and approved by the Division of Water, Natural Resources and

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1	Project AA	\$2,273,000
	Project BB	3,260,000
	Project CC	528,000
	Project DD	<u>1,833,000</u>
	Total Cost	<u>\$7,894,000</u>

Total cost is based upon final bids submitted to Kenton District and includes administrative fees and contingencies.

<sup>2</sup> Case No. 91-046, Order dated September 6, 1991.

Environmental Protection Cabinet. No party has opposed either project. Project AA is necessary to the operation of the Devon water storage tank. Project CC is needed to protect and extend the useful life of the utility's Ohio River Pumping Station. Both facilities are necessary for the provision of adequate and reliable service to Kenton District customers.

#### PROPOSED FINANCING

Kenton District seeks authorization to issue \$16.16 million in revenue bonds. The proceeds of this bond issuance will finance the proposed construction projects and retire bond anticipation notes in the amount of \$5.5 million, the proceeds of which have been used to finance previously approved construction.<sup>3</sup> The Commission finds that the imposed bond issuance is consistent with the proper provision of utility service and should be authorized.

Kenton District has also sought Commission approval of two evidences of indebtedness - a mortgage for its office building and a 5-year lease agreement on a backhoe. Both documents were executed without prior Commission approval as KRS 278.300 requires.<sup>4</sup> As no purpose would be served by the post-execution approval of these documents, the Commission will not stamp its imprimatur upon these documents.

#### TEST PERIOD

Kenton District proposed and the Commission has accepted the 12-month period ending December 31, 1990 as the test period for

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<sup>3</sup> Application of Kenton District, Exhibit I at 13.

<sup>4</sup> The mortgage was executed in April 1974. Kenton District entered the lease agreement in May 1988.

determining the reasonableness of the proposed rates. In using this historic test period, the Commission has given full consideration to appropriate known and measurable changes.

#### REVENUES AND EXPENSES

Kenton District reported test-period income before debt service of \$2,425,360.<sup>5</sup> It has proposed several adjustments to test-year operations to normalize current operating conditions. The Commission finds that, with the exceptions noted below, these adjustments are reasonable and in accordance with accepted rate-making principles.

#### Revenue from Water Sales

Kenton District has proposed to adjust its water revenues to reflect Campbell District purchasing 14 percent of its total water requirements from it. During the test period, Campbell District purchased only 2.6 percent of its total water requirements from Kenton District. Kenton District officials concede that Campbell District has yet to contact them about increasing its water purchases.<sup>6</sup> The Commission is, however, aware that in the most recent 5-year period, Campbell District has purchased approximately 8 percent of its total requirements from Kenton District. In light of this history and the Commission's recent

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<sup>5</sup> Application of Kenton District, Exhibit L-Corrected, Schedule 29.

<sup>6</sup> Transcript of Evidence ("T.E.") at 83.

decision in Case No. 91-039,<sup>7</sup> the Commission finds that Kenton District's revenues should be calculated based upon the assumption that Campbell District will purchase 8 percent of its total water requirements from Kenton District. An increase of \$83,074 has been made in normalized revenues from water sales to reflect this adjustment.<sup>8</sup>

Kenton District also proposed an increase of \$73,585 to meter revenues based on a projected increase in water sales of 47,581,776 gallons. The Commission accepts this proposed adjustment. The Commission finds that revenues should be adjusted to reflect the net increase in revenue of \$3,609 produced by Kenton District's final acquisition of the city of Wilder's water distribution system. Fire and hydrant usage of \$34,729 and water hauling revenues of \$3,283 should also be included.

Based on these adjustments, test-year operating revenues from sales of water reported by Kenton District should be increased by \$117,111. Total normalized operating revenues from water sales are \$8,496,707.

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<sup>7</sup> Case No. 91-039, Application and Notice of Campbell County Kentucky Water District to Adjust Rates Effective May 1, 1991, Order dated October 4, 1991 at 3-6.

<sup>8</sup>

158,426,008 gals.	x	.7754/1,000 gals.	=	\$122,844
51,289,600 gals.	x	.7754/1,000 gals.	=	- 39,770
Net Increase in Revenue				<u>\$ 83,074</u>

### Rents From Water Property

Kenton District has proposed an adjustment to reflect a decrease in revenues from rental income.<sup>9</sup> Kenton District rented a portion of its office and shop space during the test period. Kenton District has ceased this practice. The Commission, therefore, has decreased rents from water property by \$18,277.

### Tank Painting Expense

Kenton District proposed an adjustment of \$65,000 to test-period expenses to reflect the average annual cost of painting its storage tanks on a scheduled basis.<sup>10</sup> The Commission finds that this adjustment is not known and measurable and should be denied.

Several reasons support the denial of this adjustment. First, Kenton District painted no water storage tanks in the test period or in the two prior years.<sup>11</sup> Second, it failed to produce sufficient evidence to support the cost of its painting program. Third, in light of recent history, there is no assurance that the proposed painting program will be conducted. The Commission notes that in proceedings on Kenton District's last application for rate adjustment, Kenton District assured this Commission that a storage tank painting program had been initiated. Based upon its

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<sup>9</sup> Application of Kenton District, Exhibit L - Corrected, Schedule 29.

<sup>10</sup> Application of Kenton District, Exhibit L-Corrected, Schedule 4.

<sup>11</sup> Application of Kenton District, Exhibit L-Corrected, Schedule 4; Kenton District's Response to the Commission's Order of June 27, 1991, Item 2.

representations, the Commission made certain adjustments to Kenton District's rates to reflect the cost of this program.<sup>12</sup> That program was never implemented.

The Commission supports the establishment of a scheduled tank painting program. When expenses for such a program are actually incurred, Kenton District's rates should be adjusted to reflect those expenses. Until then, however, the ratepayers should not be required to pay for a speculative expense.

#### Operation and Maintenance Expenses for Proposed Facilities

Kenton District proposed to increase test-year operation and maintenance expenses by \$72,700 to reflect expenditures which will be incurred from the operation of Project BB, the sludge dewatering facilities at the Fort Thomas Water Treatment Plant. Kenton District's general manager testified that the facilities will not be completed, and the proposed operation and maintenance expenses not incurred, until 1993.<sup>13</sup> As these expenses will not be incurred to provide current service, it is not appropriate that they be reflected in rates for current service. Until they are actually incurred, the Commission finds that these expenses should be disallowed.

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<sup>12</sup> Case No. 9846, Application of Kenton County Water District No. 1 (A) To Issue Revenue Bonds in the Approximate Amount of \$21,930,000 (B) To Construct Additional Plant Facilities of Approximately \$19,214,000; and (C) Notice of Adjustment of Rates Effective May 1, 1987, Order dated October 7, 1987, at 13.

<sup>13</sup> T.E. at 69-73.



Operation and Maintenance Expenses for Customers Added During the Test Year

In its application, Kenton District proposed to adjust operation and maintenance expenses by \$76,950 to reflect the additional costs incurred for 513 customers added to the system during the test period.<sup>14</sup> This adjustment was calculated on the assumption that each customer causes operation and maintenance expenses of \$150. Kenton District has presented no evidence to show that operation and maintenance expenses vary in direct proportion to customer levels. Furthermore, acceptance of this adjustment would result in double counting of expenses as some operation and maintenance expenses for the 513 customers in question have already been reflected in test-year expenses. The proposed adjustment, therefore, should be disallowed.

Operation and Maintenance Expense for Additional Costs Associated with Producing Projected Increased Water Purchases by Campbell District

Kenton District proposed to adjust operation and maintenance expense by \$25,091 to reflect expenses incurred if Campbell District purchased 14 percent of its total water requirements from Kenton District instead of its test-year level of 2.6 percent. The Commission accepts the methodology used to calculate this adjustment but, as previously discussed,<sup>15</sup> finds the adjustment

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<sup>14</sup> Application of Kenton District, Exhibit L - Corrected, Schedule 24.

<sup>15</sup> See text accompanying notes 5 and 6.

should be based on sales equal to 8 percent of Campbell District's total water requirements. The increased cost of supplying this volume to Campbell District's total water requirements is \$11,921 and has been included for rate-making purposes.

#### Professional Services

Kenton District included in test-year expenses payments to Richardson & Associates totaling \$2,726, for public relations services. Kenton District's general manager testified that no contract for such services is currently in effect or under consideration and that no such services are being provided to the utility.<sup>16</sup> Therefore, the Commission has disallowed this expense as non-recurring and has decreased operating expenses by \$2,726.

#### Rate Case Expense

In its application Kenton District proposed an adjustment to amortize estimated rate case expenses of \$55,000 over a period of three years. The actual rate case expenses incurred by Kenton District as a result of this proceeding totaled \$104,440.<sup>17</sup> The Commission finds that this expense should be amortized over a period of 3 years and that rate case expense should be increased by \$33,480.

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<sup>16</sup> T.E. at 82.

<sup>17</sup> Letter from G. Wayne Bridges to Lee M. MacCracken (Oct. 3, 1991) (providing invoices to support actual rate case expenses).

## Depreciation Expense

Kenton District proposed to increase depreciation expense by \$375,283 to include depreciation expense on its proposed construction projects and on utility plant completed but not included in test-year depreciation. The final bids submitted by Kenton District would support an increase of \$368,466.

The record indicates that construction projects completed during the test year were not included in the calculation of test-year depreciation.<sup>18</sup> Accordingly, the Commission has increased depreciation expense by \$264,273 to reflect depreciation on projects completed and in service as of the hearing date.

Construction projects proposed in this case are not expected to be completed and placed in service until 18 months after the issuance of a certificate. Kenton District contends that depreciation expense should be allowed as construction costs are known and the projects will be completed in the near future. Referring to the debt service provisions of its general bond resolution, it contends that "unlike privately owned companies, . . . there must be a recognition of pro forma expenses for the district to maintain its [debt service] coverage levels."<sup>19</sup>

Acceptance of the proposed adjustment would require the ratepayers to pay for an expense which the utility has not yet incurred and which it does not expect to incur for 18 months.

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<sup>18</sup> Kenton District's Response to the Commission's Order of June 27, 1991, Item 30.

<sup>19</sup> Brief of Kenton District at 14-15.

Kenton District's general bond resolution, furthermore, does not require the immediate inclusion of this expense. Kenton District's debt service coverage is based upon actually incurred expenses. Kenton District's witnesses testified that depreciation expense for a new project is not incurred and considered in debt service calculations until the plant is placed in service.<sup>20</sup> The Commission finds that the proposed increase to depreciation expense related to construction projects AA, BB, CC, and DD, in the amount of \$104,193, should be disallowed for rate-making purposes.<sup>21</sup>

#### Employee Benefits

Kenton District sought to include in test-period operations miscellaneous expenses totaling \$5,661 for its annual company picnic, Christmas bonuses, and a management Christmas party. Kenton contends that these benefits boost employee morale, lead to a more efficient work force, and benefit ratepayers by making district employees more conscientious and committed to their jobs.<sup>22</sup> The Commission finds that these expenses are not related to the provision of utility service and that Kenton District's ratepayers receive no material benefit from such expenditures. In

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<sup>20</sup> T.E. at 27, 157-158.

<sup>21</sup> This decision does not preclude Kenton District from applying for a rate adjustment to reflect higher depreciation expenses when the projects are completed and placed into service.

<sup>22</sup> T.E. at 84-85, 87-89.

accordance with past Commission precedent,<sup>23</sup> the Commission has disallowed these expenses and decreased test year operating expenses by \$5,661.

#### Payroll Tax Expense

Kenton District proposed increases to payroll tax expense and pension expense in the amounts of \$7,070 and \$37,060, respectively, as a result of the 4 percent wage increase proposed. The Commission finds that these adjustments should be included but only at the level of the non-capitalized portion. Kenton District's capitalization rate for salaries during the test year was .0225.<sup>24</sup> Accordingly, the Commission has increased operating expenses by the amount of \$43,137.<sup>25</sup>

#### Other Deductions

In its calculation of proposed revenue requirements, Kenton District failed to include the amortization of debt discount in the amount of \$44,496 as an expense. The Commission finds that this expense should be included and has adjusted test-year expenses for rate-making purposes accordingly.

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<sup>23</sup> See, e.g., Case No. 89-348, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order dated June 28, 1990, at 14; Case No. 90-013, Rate Adjustment of Western Kentucky Gas Company, Order dated September 13, 1990, at 30-31; Case No. 90-041, An Adjustment of Gas and Electric Rates of The Union Light, Heat and Power, Order dated October 2, 1990, at 28; Case No. 90-152, Green River Electric Corporation's Notice of Increase in Rates for Retail Electric Service, Order dated December 21, 1990, at 13.

<sup>24</sup> Application, Exhibit L-Corrected, Schedule 4.

<sup>25</sup>  $(\$7,070 + \$37,060) \times .9775 = \$43,137.$

## Summary

Based on the aforementioned adjustments, Kenton District's test-year operations appear as follows:

	<u>Test Year</u>	<u>Commission Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenue	\$8,528,775	\$ 98,834	\$8,627,609
Operating Expenses	<u>6,639,613</u>	<u>553,396</u>	<u>7,193,009</u>
Operating Income	\$1,889,162	< \$454,562 >	\$ 1,434,600
Other Income	\$ 536,198	(\$ 27,577)	\$ 508,621
Other Deductions	<u>-0-</u>	<u>44,496</u>	<u>44,496</u>
Income Available for Debt Service	<u>\$2,425,360</u>	<u>&lt;\$ 526,635&gt;</u>	<u>\$1,898,725</u>

### REVENUE REQUIREMENTS DETERMINATION

The Commission finds Kenton District's annual revenue requirement to be \$12,174,974.<sup>26</sup> To achieve a level of income sufficient to meet its reasonable expenses and debt service, the Commission further finds that Kenton District's rates should be adjusted to produce additional revenues of \$3,038,744.<sup>27</sup>

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26	Adjusted Operating Expenses	\$ 7,193,009
	Average Annual Debt Service	4,322,474
	20% Debt Service Coverage	864,495
	Less: Bond Procurement Income	(249,500)
	Other Expenses	<u>44,496</u>
	Total Revenue Requirement	<u>\$12,174,974</u>
27	Total Revenue Requirement	\$12,174,974
	Less: Adjusted Operating Revenues	8,627,609
	Other Income	<u>508,621</u>
	Revenue Increase Required	<u>\$ 3,038,744</u>

## COST-OF-SERVICE STUDY

Kenton District submitted a cost-of-service study which allocates system costs to its eight wholesale customers.<sup>28</sup> Based on the results of that study, Kenton District recommended significant rate changes for its wholesale customers. The study did not examine the costs associated with retail water service.

Urging the Commission to reject the study, Newport contends that it has three fundamental errors. First, it does not use a methodology sanctioned by the American Water Works Association ("AWWA")<sup>29</sup> or other modern authorities. Second, the allocation of costs among wholesale customers gives little consideration to the impact of each wholesale customer on maximum day demand. Finally, tests for accuracy and sensitivity were not performed.

As to methodology, AWWA identifies only two methods of cost allocation. There are, however, at least 20 different methods of allocating costs.<sup>30</sup> Additionally, the AWWA's manual on water rates states that it is not intended, nor should it be considered, as a specific test of specific rate-making. Cost allocation is

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<sup>28</sup> Kenton District's cost-of-service study is contained in Exhibit L - Corrected of its application. During the course of these proceedings, Kenton District made several revisions to its study. The final revisions here submitted at hearing. See T.E., Exhibit 16.

<sup>29</sup> See American Water Works Association, Water Rates-AWWA Manual M1 (3d ed.).

<sup>30</sup> See, e.g., P. Garfield and W. Lovejoy, Public Utility Economics, 159 (1964).

inexact. This Commission has recognized that no single correct approach or method for the preparation of a cost-of-service study exists.<sup>31</sup> The method used by Kenton District is consistent with other cost-of-service studies which the Commission has accepted and used.

As to the other concerns, the Commission finds that they are not sufficient to justify rejection of Kenton District's cost-of-service study. In our opinion, the study is an acceptable first step toward cost based rates and its results should be considered in designing rates.

The study, however, is neither as precise nor comprehensive as this Commission desires. The technique used forces retail customers to become residual cost bearers. Kenton District's system, however, was designed primarily to serve retail customers. Moreover, the allocation of costs among wholesale customers gives no consideration to the impact of each wholesale customer on maximum day demand. Maximum day demand should be considered in allocating costs.

Kenton District is hereby placed on notice that it will be expected to file a comprehensive cost-of-service study with its next application for rate adjustment. At a minimum Kenton District should consider methodologies developed by the AWWA and

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<sup>31</sup> Administrative Case No. 297, An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Customers and Suppliers, Order dated May 29, 1987, at 47.



the National Regulatory Research Institute in selecting a methodology for a comprehensive cost-of-service study. It should begin collecting maximum day demand data from its wholesale customers and evaluating alternate rate designs for all customer classes. The data and assumptions used to develop the comprehensive cost-of-service study should be provided to the Commission in a format that will allow the Commission to vary the assumptions and evaluate the results.

The results of any cost-of-service study are neither absolute nor controlling. The Commission frequently uses cost-of-service studies as a basis for making gradual changes in rates. In analyzing the results of such studies, it must consider the impact of full implementation on each customer and attempt to minimize harmful effects that may otherwise result from unquestioning acceptance of a study. In recognizing this fact, several adjustments have been made to the proposed rate design.

The Commission is aware that the rates granted to Kenton District may affect its customers' purchasing patterns and result in increased sales to wholesale customers. As this action would alter the cost allocations upon which Kenton District's rates are based, the Commission finds that Kenton District's operations should be monitored, and that Kenton District should, beginning with the quarter ending December 31, 1991, submit quarterly financial statements to the Commission.

#### RATE DESIGN

Kenton District's current retail rate design consists of five increments ranging from a minimum usage category of 600 cubic

feet to an over 2,000,000 cubic feet level. Kenton District proposed no change to its present retail rate design, only an equal percent increase to each increment. The Commission believes that in the absence of a cost-of-service study for Kenton District's retail customers, it is not in the best interest of Kenton District or its customers to initiate a new retail rate design. Slight adjustments, however, have been made to maintain approximately the same percentage of revenues in each rate increment as was present in the billing analysis.

Kenton District has proposed a substantial reallocation in revenues among the various wholesale utilities based upon its cost-of-service study.<sup>32</sup> Because of these reallocations, Kenton District has proposed rate changes that range from a reduction of 22.6 percent for Campbell District to an increase of 50.8 percent for Florence. Prior to the cost-of-service study, the wholesale customers made up approximately 23 percent of the total operating water revenues. After the reallocations due to the cost-of-service study, the wholesale customers are still paying approximately 23 percent of the system's operating revenues from water sales.

Two intervenors have proposed adjustments to the proposed rate design to correct perceived problems in the cost-of-service study. Florence maintains that an adjustment should be made in the allocation of depreciation and operating expenses for the

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<sup>32</sup> Application of Kenton District, Exhibit L - Corrected, Schedule 28.

LaFayette Pump Station. Additionally, it sought an allowance for one of its storage tanks which it contends will effectively give Kenton District greater storage capacity and enhance Kenton District's ability to serve its customers.<sup>33</sup> The rate approved for Florence takes these factors into consideration.

Taylor Mill states that the allocation of debt service and depreciation expenses for the Hands Road Pump Station and the new 5 million gallon tank should not be included in its costs. Since Taylor Mill provided Kenton District with a new customer - the city of Independence - and constructed a 12-inch water transmission line in exchange for the benefits which Taylor Mill derived from the Hands Road Pump Station and the additional storage facility, Taylor Mill argues, the costs related to the construction of such improvements should not be recovered from it again.<sup>34</sup> The Commission does not accept this argument. A customer's rates should closely reflect the costs of providing service. The expenses in question are costs incurred to serve Taylor Mill.

In moving toward the allocations set out in the cost-of-service study, several adjustments have been made to the wholesale rates. The Commission has added 4 to 5 cents per 1,000 gallons to the rate of Campbell District, Winston Park, Bromley, and Ludlow to minimize the impact of the increased rates for other

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<sup>33</sup> Application of Kenton District, Exhibit L - Corrected, Schedule 28.

<sup>34</sup> Brief of Taylor Mill at 2-4.

wholesale customers. Despite this adjustment, the wholesale rates granted in this case represent a significant movement toward cost based rates.

Kenton District proposed to increase its reconnection fee from \$5.00 to \$20.00 and to institute an \$8.00 returned check fee. The Commission finds that the cost justification provided by Kenton District for these services is adequate and that the aforementioned non-recurring charges should be approved.

#### SUMMARY

After review of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Public convenience and necessity require the construction of the facilities identified in Kenton District's application as Projects AA and CC.

2. The proposed issuance of \$16.16 million in revenue bonds is for the lawful objects within Kenton District's corporate purposes, is necessary and appropriate for and consistent with the proper performance by Kenton District of its service to the public, and will not impair its ability to perform that service.

3. The rates in Appendix A, which is attached hereto and incorporated herein, are the fair, just and reasonable rates for Kenton District and will produce annual revenues of \$12,174,974 based on adjusted test-year sales.

4. The rates proposed by Kenton District are unjust and unreasonable and should be denied.

IT IS THEREFORE ORDERED that:

1. Kenton District is granted a Certificate of Public Convenience and Necessity to proceed with the Project AA and Project CC as set forth in the drawings and specifications of record.

2. Kenton District shall not deviate from the construction approved herein without prior Commission approval.

3. Kenton District shall obtain prior Commission approval before commencing any additional construction not expressly approved herein.

4. Kenton District shall 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 shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

5. Kenton District shall require the provision of a construction 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 construction trades involved in the project.

6. Kenton District shall within 60 days of the date of substantial completion of this construction furnish a copy of the

"as-built" drawings and a signed statement that construction has been satisfactorily completed in accordance with the contract plans and specifications.

7. Kenton District is authorized to issue revenue bonds in the principal amount of \$16.16 million. The proceeds of this issuance shall be used only for the lawful purposes specified in Kenton District's application.

8. The rates set forth in Appendix A are approved for service rendered by Kenton District on and after the date of this Order.

9. The rates proposed by Kenton District are hereby denied.

10. Within 20 days of the date of this Order, Kenton District shall file with the Commission revised tariff sheets setting forth the rates approved herein.


11. Beginning with the 3-month period ending December 31, 1991 and continuing for each 3-month period thereafter, Kenton District No. 1 shall submit within 20 days of the close of that period a quarterly financial statement in the format set forth at Appendix B of this Order.

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 8th day of November, 1991.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

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Commissioner

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 91-046 DATED 11/08/91

The following rates and charges are prescribed for the customers in the area served by Kenton County Water District No. 1. 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.

General Service Area

First 600 cubic feet  
Next 4,400 cubic feet  
Next 495,000 cubic feet  
Next 1,500,000 cubic feet  
Over 2,000,000 cubic feet

Quarterly Rate

\$10.79 Minimum bill  
1.54 per 100 cubic feet  
1.33 per 100 cubic feet  
1.08 per 100 cubic feet  
.80 per 100 cubic feet

Wholesale Rates

Boone County Water District  
City of Bromley  
Campbell County Kentucky W. D.  
City of Florence  
City of Ludlow  
Taylor Mill Water Commission  
City of Walton  
Winston Park Water Department

\$1.12 per 1,000 gallons  
.75 per 1,000 gallons  
.65 per 1,000 gallons  
1.22 per 1,000 gallons  
.72 per 1,000 gallons  
1.02 per 1,000 gallons  
1.16 per 1,000 gallons  
.75 per 1,000 gallons

Non-Recurring Charges

Reconnection Fee  
Return Check Charge

\$20.00  
8.00

Water Hauling Station

\$ 3.50 per 1,000 gallons



\_\_\_\_\_ QUARTER \_\_\_\_\_ CALENDAR YEAR \_\_\_\_\_

OPERATING STATEMENT

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	CURRENT QUARTER (d)
	UTILITY OPERATING INCOME		
400	Operating Revenues.....	30	\$ _____
401	Operating Expenses.....	31	\$ _____
403	Depreciation Expenses.....		_____
406	Amortization of Utility Plant Acquisition Adjustment.....		_____
407	Amortization Expense.....		_____
408.1	Taxes Other Than Income.....		_____
	Utility Operating Expenses.....		\$ _____
	Utility Operating Income.....		\$ _____
413	Income From Utility Plant Leased to Others.....		_____
414	Gains (Losses) From Disposition of Utility Property.....		_____
	Total Utility Operating Income.....		\$ _____
	OTHER INCOME AND DEDUCTIONS		
415	Revenues From Merchandising, Jobbing and Contract Deductions.....		\$ _____
416	Costs and Expenses of Merchandising, Jobbing and Contract Work.....		_____
419	Interest & Dividend Income.....		_____
420	Allowance for Funds Used During Construction.....		_____
421	Nonutility Income.....		_____
426	Miscellaneous Nonutility Expenses...		_____
	Total Other Income and Deductions...		\$ _____
	TAXES APPLICABLE TO OTHER INCOME		
408.20	Taxes Other Than Income.....		\$ _____
	Total Taxes Applic. to Other Income.		\$ _____

**OPERATING STATEMENT (CONT'D)**

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	CURRENT QUARTER (d)
	<b>INTEREST EXPENSE</b>		
427	Interest Expense.....		\$ _____
428	Amortization of Debt Discount & Exp.		_____
429	Amortization of Premium on Debt.....		_____
	Total Interest Expense.....		\$ _____
	<b>EXTRAORDINARY ITEMS</b>		
433	Extraordinary Income.....		\$ _____
434	Extraordinary Deductions.....		_____
	Total Extraordinary Items.....		\$ _____
	<b>NET INCOME.....</b>		\$ _____

\_\_\_\_\_ QUARTER      CALENDAR YEAR \_\_\_\_\_

**WATER OPERATING REVENUE**

ACCT. NO. (a)	(b)	BEGINNING QTR. NO. CUSTOMERS (c)	QTR. END NUMBER CUSTOMERS (d)	AMOUNTS (e)
	Operating Revenues:			
460	Unmetered Water Revenue.....			\$
461	Metered Water Revenue:			
461.1	Sales to Residential Customers.....			\$
461.2	Sales to Commercial Customers.....			
461.3	Sales to Industrial Customers.....			
461.4	Sales to Public Authorities.....			
461.5	Sales to Multiple Family Dwellings.....			
461.6	Sales through Bulk Loading Stations....			
	Total Metered Sales.....			\$
462	Fire Protection Revenue:			
462.1	Public Fire Protection.....			\$
462.2	Private Fire Protection.....			
	Total Fire Protection Revenue.....			\$
464	Other Sales to Public Authorities.....			\$
465	Sales to Irrigation Customers.....			
466	Sales for Resale.....			
467	Interdepartmental Sales.....			
	Total Sales of Water.....			\$
	Other Water Revenues:			
470	Forfeited Discounts.....			\$
471	Miscellaneous Service Revenues.....			
472	Rents from Water Property.....			
473	Interdepartmental Rents.....			
474	Other Water Revenues.....			
475	Provision for Rate Refunds.....			
	Total Other Water Revenues.....			\$
	Total Water Operating Revenues.....			\$

