

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE ADAIR COUNTY WATER)	
DISTRICT FOR A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY TO)	CASE NO.
CONSTRUCT A WATER IMPROVEMENTS)	2014-00020
PROJECT AND TO ISSUE SECURITIES IN THE)	
APPROXIMATE AMOUNT OF \$1,085,000 TO)	
FINANCE SAID PROJECT PURSUANT TO KRS)	
278.020 AND 278.300)	

ORDER

On January 22, 2014, Adair County Water District (“Adair District”) applied for a Certificate of Public Convenience and Necessity (“CPCN”) to construct a water improvements project and for authority to execute an assistance agreement with Kentucky Infrastructure Authority (“KIA”). The Commission accepted the application for filing on February 4, 2014, after granting Adair District’s motion to deviate from 807 KAR 5:001, Section 12. Adair District amended its application on February 20, 2014, correcting its request for a CPCN for a project costing \$2,000,000. The original application requested a CPCN for a project costing \$1,085,000.

Having reviewed the application, as amended, and being otherwise sufficiently advised, the Commission finds that:

1. Adair District, a water district organized under KRS Chapter 74, owns and operates water distribution facilities that serve approximately 7,681 customers in Adair County, Kentucky.¹

¹ Annual Report of Adair County Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2012 at 5, 27, and 30.

2. Adair District proposes to construct approximately 5,700² linear feet of 6-inch polyvinyl chloride (“PVC”) water line and approximately 6,900³ linear feet of 8-inch PVC water line and appurtenances to replace aging and undersized water lines in the Downtown and the Longhunters areas of the city of Columbia, Kentucky, that experience frequent leaks, low pressure, and undesirable water quality.

3. The proposed construction will improve water service to the city of Columbia’s Downtown and Longhunters areas.

4. The estimated total cost of the proposed project, including construction cost, development cost, contingency cost, engineering and inspection costs, and legal and administrative costs, is approximately \$2,000,000.⁴

5. Monarch Engineering, Inc. of Lawrenceburg, Kentucky, prepared the plans and specifications for the proposed project.

6. The Division of Water of the Kentucky Energy and Environmental Cabinet has approved the plans and specifications for the proposed project.⁵

7. The proposed construction will not result in wasteful duplication of existing facilities or excessive investment.

8. The proposed construction will not compete or conflict with the facilities of other jurisdictional utilities operating in the same area.

² Application tendered Jan. 22, 2014, Exhibit B.

³ *Id.*

⁴ Amended Application filed Feb. 20, 2014.

⁵ Letter from Mark Rasche, Professional Engineer, Supervisor, Engineering Section, Water Infrastructure Branch, Division of Water, to Lennon Stone, Columbia/Adair Utilities District (May 17, 2013).

9. The proposed construction is part of the Phase 1 of the Downtown Water System Improvements Project. This project involves the installation of approximately 6,900⁶ linear feet of eight-inch and 38,000 linear feet of six-inch water lines to replace existing undersized and asbestos-cement water lines in the Tutt Street Area, the Longhunters Subdivision in the KY Highway 80 East Area and other areas in downtown Columbia. These replacements will affect approximately 1,200 existing customers of which approximately 420 will also have their meters replaced with radio read meters.⁷

10. Estimated total cost of Phase 1 of the Downtown Water System Improvements Project is \$4,000,000.

11. Adair District proposes to finance Phase 1 of the Downtown Water System Improvements Project through a \$4,000,000 loan from KIA.

12. On November 1, 2012, KIA approved a loan of \$4,000,000 from the Drinking Water State Revolving Fund to finance Phase 1 of the Downtown Water System Improvements Project. KIA offered to provide a loan to be repaid over a 30-year term at an interest rate of 0.75 percent per annum. Under the terms of this Agreement, approximately 35 percent of the principal amount, or \$1,400,000, will be forgiven.⁸

13. KIA has placed as a condition to the loan that Adair District execute an Assistance Agreement with KIA no later than November 2, 2013.⁹

⁶ Feb. 20, 2014 Response to Staff's First Request for Information, Item 3.

⁷ Application tendered Jan. 22, 2014, Exhibit D.

⁸ Letter from Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority to Robert Flowers, Chairman, Adair County Water District (Nov. 29, 2012).

⁹ *Id.*

14. KIA extended the time period for executing the Assistance Agreement to May 2, 2014.¹⁰

15. Adair District's failure to execute the proposed Assistance Agreement with KIA by May 2, 2014 will result in the rescission of KIA's commitment to fund the Downtown Water System Improvements Project.

16. Except for the portion of Phase 1 of the Downtown Water System Improvements Project set forth in its current application, as amended, Adair District has not yet applied for a CPCN for the remaining portions of that Project.

17. The proposed Assistance Agreement with KIA is for lawful objects within Adair District's corporate purpose, is necessary, appropriate for, and consistent with the proper performance of Adair District's service to the public, will not impair Adair District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

18. No determination is made in this Order regarding the need for or reasonableness of those portions of Phase 1 of the Downtown Water System Improvements Project that are not included in this Application, as amended, nor is use of any proceeds from Adair District's proposed KIA loan for those improvements authorized until and unless Adair District is granted a CPCN to construct such improvements.

¹⁰ Letter from John E. Covington, III, Executive Director, Kentucky Infrastructure Authority to Robert Flowers, Chairman, Adair County Water District (Oct. 28, 2013).

IT IS THEREFORE ORDERED that:

1. Adair District is granted a CPCN to proceed with the proposed construction as set forth in the plans and specifications filed with the Commission in this case.

2. Adair District shall notify the Commission prior to performing any additional construction not expressly authorized by this Order.

3. Any deviation from the construction approved shall be undertaken only with the prior approval of the Commission.

4. Adair District shall file with the Commission documentation of the total costs of this project including the cost of construction and all other capitalized costs, (e.g., engineering, legal, administrative) within 60 days of the date that construction is substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

5. Adair District shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

6. Adair District shall require construction to be inspected under the general supervision of a licensed 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.

7. Adair District is authorized to enter the proposed Assistance Agreement with KIA and, under the terms of that Agreement, to borrow from KIA an amount not to exceed \$4,000,000, 35 percent of the principal to be forgiven over the life of the loan and the remaining portion to be repaid over a 30-year period at an interest rate of 0.75 percent per annum.

8. Within 30 days of executing its proposed Assistance Agreement with KIA, Adair District shall file with the Commission an executed copy of the Assistance Agreement.

9. Adair District shall use the proceeds from the proposed Assistance Agreement with KIA only for the lawful purposes set forth in its application, as amended. None of the proceeds, however, shall be used for the construction of any of the improvements that are part of the Downtown Water System Improvements Project-Phase 1, except those clearly identified in Adair District's Application, as amended, in this proceeding for a project costing \$2,00,000, unless and until Adair District is granted a CPCN to construct such improvements.

10. Any documents filed in the future pursuant to ordering paragraphs 2, 4, 5, and 8 shall reference this case number and shall be retained in the utility's general correspondence file.

11. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon Adair District's showing of good cause for such extension.

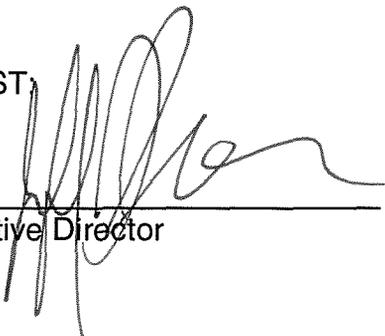
12. The Executive Director shall serve a copy of this Order upon KIA.

Nothing contained herein shall be deemed a warranty or guarantee of the Commonwealth of Kentucky, or an agency thereof, of the evidences authorized herein.

By the Commission

ENTERED
MAR 04 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST



Executive Director

Case No. 2014-00020

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