

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LAUREL COUNTY WATER)	
DISTRICT NO. 2 FOR A CERTIFICATE OF)	CASE NO.
PUBLIC CONVENIENCE AND NECESSITY TO)	2017-00397
CONSTRUCT AND FINANCE A PROJECT PURSUANT)	
TO KRS 278.023)	

ORDER

On September 29, 2017, Laurel County Water District No. 2 ("Laurel County") submitted an application, pursuant to KRS 278.023, for a Certificate of Public Convenience and Necessity ("CPCN") to construct a waterworks improvement project and approval of financing of the proposed project. Laurel County did not request approval of revised water rates. By letter dated October 3, 2017, the Commission notified Laurel County that minimum filing requirements had been met and that the application had been accepted for filing. No person has sought intervention in this matter, and Laurel County has not requested a hearing. The record for this case is complete, and the matter stands ready for decision.

The Commission notes that in its 2016 Annual Report, Laurel County reported a water loss of 17.1936 percent. Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Laurel County to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Laurel County to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Laurel County, a water district organized under KRS Chapter 74, provides retail water service to approximately 5,997 customers in Knox and Laurel counties, Kentucky.¹

Laurel County's application for a CPCN proposes the installation of approximately 8,000 linear feet of 6-inch, 6,000 linear feet of 4-inch, and 2,000 linear feet of 3-inch water line and appurtenances to replace existing aging and undersized lines in the Byrley Road, Cherry Avenue, Bakersfield Lane, and North Court Road areas of the system. In addition, approximately 13,100 linear feet of 12-inch water main and appurtenances will be installed to serve the proposed Fariston Industrial Park. The proposed water transmission main will extend from the existing 500,000-gallon storage tank located in the Lily community to the intersection of Hammock and Fariston Roads.²

Within the existing distribution system, there are various aging, undersized, or inadequate water mains which are in need of upgrade or replacement. These existing lines struggle to meet system demand during periods of peak usage. Additionally, these existing lines are subject to frequent breaks, leaks and other emergency repair situations.

¹ *Annual Report of Laurel County Water District No. 2, Water Utilities Report to the Kentucky Public Service Commission for the Year Ended December 31, 2016* at 12 and 48.

² Application, Exhibit A.

In addition, the London–Laurel County Industrial Development Authority is developing a new 98-acre industrial park which will be located within the distribution system. Existing infrastructure serving the site is not of adequate capacity to meet new demands on the system. Accordingly, implementation of this project is required for development of this facility.

The initial total estimated cost of the proposed project, including legal, administrative, development, and engineering, plus interest and contingencies costs, is \$1,950,000.³ Laurel County proposes to finance the proposed construction with the proceeds of the issuance of \$1,365,000 of Waterworks Revenue Bonds to be purchased by the United States Department of Agriculture (“USDA”) Rural Development (“RD”) for a 40-year period at an interest rate not to exceed 2.75 percent annum, as well as a grant from the USDA acting through RD in the amount of \$585,000.⁴

The Commission finds that Laurel County’s current schedule of water rates⁵ meets the schedule of minimum water rates required as a condition of the approval by USDA acting through RD. The Commission further finds that Laurel County does not request an increase in rates as part of its application.⁶ The Commission finds that implementing the terms of the agreement does not require the authorization of new rates in the instant case.

Laurel County has submitted its application pursuant to KRS 278.023. Notwithstanding KRS 278.020(1), KRS 278.190, and KRS 278.300, KRS 278.023

³ Application, Exhibit B, Letter of Conditions, Paragraph 28.

⁴ Application, Paragraph 5.

⁵ Application, Exhibit B, RD Letter of Conditions at 32.

⁶ *Id.*, Exhibit D.

requires the Commission to accept agreements between water districts and RD regarding construction projects, and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between RD and Laurel County, or to defer the issuance of all necessary orders to implement the terms of the agreement. It further denies the Commission any authority to reject an application when the evidence of record indicates that a water district's proposed facilities will result in the wasteful duplication of facilities or excessive investment or its proposed water rates are unfair, unjust or unreasonable. The Commission, therefore, is not able to review this application using the same standards that are used for applications that are not filed pursuant to KRS 278.023.

IT IS THEREFORE ORDERED that:

1. Laurel County is granted a CPCN for the proposed project as submitted.
2. Laurel County's proposed plan of financing is approved. Laurel County is authorized to enter into a promissory note with RD in the amount of \$1,365,000, maturing over a 40-year period, at an interest rate not to exceed 2.75 percent per annum.
3. The proceeds from the promissory note shall be used only for the purposes specified in Laurel County's application.
4. Laurel County shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
5. Notwithstanding ordering paragraphs 3 and 4, if surplus funds remain after the approved construction has been completed, Laurel County may use such surplus to construct additional plant facilities if RD approves of the use and the additional

construction will not result in a change in Laurel County's rates for service. Laurel County shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

6. Laurel County 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, and 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.

7. Laurel County shall file a copy of the "as-built" drawings and a certified statement from the engineer that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of substantial completion of the construction certified herein.

8. Laurel County shall require the construction to be inspected 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. Laurel County shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

10. Any documents filed in the future pursuant to ordering paragraphs 6, 7, 8, and 9 of this Order shall reference this case number and shall be retained in the utility's post case correspondence file.

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

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

By the Commission

ENTERED
OCT 26 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

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