

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF SOUTH EASTERN WATER	)	
ASSOCIATION, INC. FOR A CERTIFICATE OF	)	CASE NO.
PUBLIC CONVENIENCE AND NECESSITY,	)	2020-00049
FINANCING, AND ADJUSTMENT OF RATES	)	
PURSUANT TO KRS 278.023	)	

ORDER

On February 21, 2020, South Eastern Water Association Inc. (South Eastern Water) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a water system improvements project, as described below, and approval of the proposed plan of financing the project. On February 27, 2020, in response to a request from Commission Staff, South Eastern Water filed its flushing logs and flushing reports for stage two compliance from 2018. In addition, South Eastern Water responded to one written request for information. No party has sought intervention in this matter. The record for this case is complete, and the matter stands ready for decision.

South Eastern Water, a water association organized under KRS Chapter 273, provides retail water service to approximately 7,582 water customers<sup>1</sup> in Pulaski County, Kentucky.<sup>2</sup>

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<sup>1</sup> *Annual Report of South Eastern Water Association Inc. for the Year Ended December 31, 2018*, at 49.

<sup>2</sup> *Id.* at 12.

The Commission notes that its records indicate South Eastern Water, since its formation in 1993, has not sought a general adjustment in base rates by any other means than through financing approval in conjunction with an application for a CPCN pursuant to KRS 278.023, or as a Purchased Water Adjustment (PWA). South Eastern Water's last adjustment of rates in 2012 was due to a PWA.<sup>3</sup> South Eastern Water has increased its rates as part of financing cases like this one through the United States Department of Agriculture Rural Development (USDA/RD). As explained below, the Commission's review of records in a USDA/RD financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. The Commission recently noted that utilities use this practice intentionally to avoid a review of their financial records.<sup>4</sup> The lack of insight into South Eastern Water's financial records indicates to the Commission that South Eastern Water should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of this Order to ensure its financial situation is sufficient.

The proposed project has three components: 43,000 feet of waterline replacement, three pump station replacements, and one pump station rehabilitation.<sup>5</sup> The upgrade of waterlines is necessary because the current lines are inefficient and can lead to breaks and leaks that affect the customers' health. Also, replacement of the lines ensures that

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<sup>3</sup> Case No. 2012-00204, *Purchased Water Adjustment Filing of South Eastern Water Association* (Ky. PSC. Aug. 1, 2012).

<sup>4</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019).

<sup>5</sup> Preliminary Engineering Report at 8.

South Eastern Water will remain in compliance with federal regulations.<sup>6</sup> The project involves replacing and upgrading from 4" PVC, SDR-26 pipe to 8" PVC, SDR-17 and 8" D.I., CL350 pipe along KY 192 and to 6" D.I., CL 350 along KY 1003.<sup>7</sup>

The existing KY 192, Sandy Gap, and Dixie Bend booster pump stations are in need of replacement due to the increased demand across the system in recent years, therefore causing the end of their usable lives.<sup>8</sup> The existing Dahl Pump Station that was built in 1998 no longer has the capacity to meet current demands without rehabilitation.<sup>9</sup>

The total cost of the proposed project, including but not limited to engineering, development, legal and administrative, interest, plus contingencies, is \$3,355,000.<sup>10</sup> This project will be financed with the issuance of a Rural Development (RD) Grant of \$549,000, and a RD Loan of \$2,196,000 with an interest rate of 3.125 percent for a 40-year term.<sup>11</sup> The terms and conditions of the financing also provide for a subsequent RD Loan of \$500,000 with an interest rate of 2.375 percent for a 40-year term and a subsequent RD Grant of \$110,000. This is considered to be additional funding beyond the original project budget as contained in the Letter of Conditions from RD and the revised project budget.<sup>12</sup>

The proposed rates contained in the application are the minimum rates and charges required under the agreement with RD. South Eastern Water's proposed rates

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<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at 15.

<sup>8</sup> *Id.* at 8

<sup>9</sup> *Id.*

<sup>10</sup> Application, Exhibit 2 at 2; Final Engineering Report at 2.

<sup>11</sup> Final Engineering Report at 3.

<sup>12</sup> Application, Exhibit 2 at 2.

meet the total revenue requirements recommended in the engineering reports. The monthly bill of an average residential water customer who uses 4,430 gallons<sup>13</sup> will increase from \$51.64 to \$53.11, an increase of \$1.47 or approximately 2.85 percent.

South Eastern Water has submitted its application pursuant to KRS 278.020 and KRS 278.023. Notwithstanding KRS 278.020(1), KRS 278.190, and KRS 278.300, the Commission is required, pursuant to KRS 278.023, to accept agreements between water associations and the USDA/RD, regarding construction projects, and to issue the necessary orders to implement the terms of such agreements no later than 30 days after filing the application with the Commission. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between the USDA/RD and South Eastern Water or to defer the issuance of all necessary orders to implement the terms of that agreement. It further denies the Commission any authority to reject an application when the evidence of record indicates that a water utility's proposed facilities will result in the wasteful duplication of facilities, result in an excessive investment, or its proposed 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. South Eastern Water is granted a CPCN for the proposed project as submitted.
2. South Eastern Water's proposed plan of financing is approved.

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<sup>13</sup> Average Usage for a Customer with a 5/8 x 3/4-Inch Meter, as stated in the public notice in the Application.

3. South Eastern Water is authorized to enter into a loan agreement for a Rural Development loan not to exceed \$2,696,000 (\$2,196,000 initial and \$500,000 subsequent) from USDA/RD.

4. The proceeds from the loan agreement shall be used only for the purposes specified in South Eastern Water's application.

5. South Eastern Water is authorized to obtain a grant not to exceed \$659,000 (\$549,000 initial and \$110,000 subsequent) from the USDA/RD.

6. South Eastern Water shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

7. Notwithstanding ordering paragraphs 4 and 6, if surplus funds remain after the approved construction has been completed, South Eastern Water may use such surplus to construct additional plant facilities if USDA/RD approves of the use and the additional construction, and it will not result in a change in South Eastern Water's rates for service. South Eastern Water shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

8. South Eastern Water 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.

9. South Eastern Water 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.

10. South Eastern Water 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.

11. South Eastern Water shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

12. Any documents filed in the future pursuant to ordering paragraphs 6, 7, 8, 9, and 11 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

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

14. The rates set forth in the Appendix to this Order are approved for service that South Eastern Water renders on and after the date of this Order.

15. Within 20 days of the date of this Order, South Eastern Water shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in the Appendix to this Order.

16. South Eastern Water shall file for an adjustment in its base rates or file an alternative rate filing within one year of the date of this Order.

17. This case is closed and removed from the Commission's docket.

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

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By the Commission

ENTERED  
MAR 16 2020 rCS  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:



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Executive Director

Case No. 2020-00049



## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00049 DATED MAR 16 2020

The following rates and charges are prescribed for the customers in the area served by South Eastern Water Association. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

#### Monthly Water Rates

##### 5/8-Inch x 3/4-Inch Meter

First	2,000 gallons	\$25.87	Minimum bill
Over	2,000 gallons	11.21	per 1,000 gallons

##### 1-Inch Meter

First	5,000 gallons	\$59.49	Minimum bill
Over	5,000 gallons	11.21	per 1,000 gallons

##### 1 1/2-Inch Meter

First	10,000 gallons	\$115.54	Minimum bill
Over	10,000 gallons	11.21	per 1,000 gallons

##### 2-Inch Meter

First	20,000 gallons	\$227.64	Minimum bill
Over	20,000 gallons	11.21	per 1,000 gallons

##### 3-Inch Meter

First	30,000 gallons	\$339.74	Minimum bill
Over	30,000 gallons	11.21	per 1,000 gallons

##### 4-Inch Meter

First	50,000 gallons	\$563.94	Minimum bill
Over	50,000 gallons	11.21	per 1,000 gallons

##### 6-Inch Meter

First	100,000 gallons	\$1,124.44	Minimum bill
Over	100,000 gallons	11.21	per 1,000 gallons

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