

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCCREARY)	
COUNTY WATER DISTRICT FOR)	
AUTHORIZATION TO EXECUTE AN)	
ASSISTANCE AGREEMENT WITH THE)	
KENTUCKY INFRASTRUCTURE AUTHORITY)	CASE NO.
AND FOR A CERTIFICATE OF PUBLIC)	2020-00399
CONVENIENCE AND NECESSITY TO)	
CONSTRUCT THE SANITARY SEWER)	
COLLECTION SYSTEM EXPANSION PHASE)	
1 PROJECT)	

ORDER

On January 16, 2021, McCreary County Water District (McCreary District) filed an electronic application, pursuant to KRS 278.020 and KRS 278.300, for the issuance of a Certificate of Public Convenience and Necessity (CPCN) to construct extensions to its sewer collection system and for approval of its plan to finance the proposed project. McCreary District proposes to finance the project by requesting to borrow \$3,224,500 from the Kentucky Infrastructure Authority (KIA). McCreary District responded to one round of discovery. No party has sought intervention in this matter. McCreary District has not requested a hearing. The record for this case is complete, and the matter stands ready for a decision.

McCreary District, a water district organized under KRS Chapter 74, provides retail water service to approximately 6,148¹ water customers in McCreary County, Kentucky.²

¹ *Annual Report of McCreary County Water District for the Year Ended December 31, 2019* at 49.

² *Id.* at 12.

McCreary District also provides sewer collection service to approximately 1,142 customers in McCreary County, Kentucky.³

McCreary District is requesting a CPCN to extend its existing sewer system from Stearns, Kentucky, northwest along Kentucky Highway 92 to the Smithtown area of McCreary County, through the installation of 28,750 linear feet of 1.5-inch high density polyethylene force main; 28,286 linear feet of 2-inch polyvinyl chloride (PVC) force main; 7,185 linear feet of 3-inch PVC force main; 10,399 linear feet of 4-inch PVC force main; 17,300 linear feet of 4-inch PVC gravity sewer main; and 240 grinder pump stations.⁴ McCreary District states that construction of the proposed facilities will provide a more reliable, sustainable sewer system for the southern industrial and residential section of McCreary County.⁵ McCreary District also avers the construction will serve to protect the local environment and improve public health conditions through the elimination of straight pipes and deteriorating septic systems, as well as provide the infrastructural foundation for later expansions of the collections system and increase the economic viability of the sewer operations by the addition of approximately 305 customers.⁶

The total capital cost of the proposed project is approximately \$3,224,500.⁷ McCreary District states that it will finance the proposed project with a \$3,224,500 loan from KIA. The proposed KIA loan will mature over a 30-year term, at an interest rate of

³ *Annual Report of McCreary County Water District for Sewer Operations for the Year Ended December 31, 2019* at 36.

⁴ Application at 3–4.

⁵ *Id.* at 4.

⁶ *Id.*

⁷ Application, Exhibit 11 (Final Engineering Report).

0.5 percent per annum commencing with the first draw of funds.⁸ KIA will forgive approximately \$450,000 of the principal amount of the loan upon release all of the contractor liens and upon the final disbursement of the assistance funds.⁹

In Case No. 2020-00151,¹⁰ the Commission ordered McCreary District to file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 by June 25, 2021, to ensure its revenue is sufficient to support adequate and reliable service.¹¹ In its response to Commission Staff's First Request for Information, Item 3, McCreary District provided an Excel spreadsheet that provided the debt service coverage using the coverage method most commonly accepted by the Commission for the calendar years 2017 through 2019 for its sewer operations, which revealed a negative debt service for all three years regardless of the inclusion of depreciation.¹² McCreary District additionally stated in its response that compliance with the debt resolutions for its lenders regarding the debt service is based upon the combined performance of both McCreary District's water and sewer divisions.¹³ The Commission is concerned that while McCreary District may be in compliance with the debt requirements of its lenders, cross subsidization of

⁸ *Id.* at 7.

⁹ *Id.*

¹⁰ Case No. 2020-00151, *Electronic Application of the McCreary County Water District to Issue Securities in the Approximate Principal Amount of \$1,702,000 for the Purpose of Refunding Certain Outstanding Obligations of the District and Refinancing of a Short Term Obligation Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC June 26, 2020).

¹¹ *Id.* at 6.

¹² McCreary District's Response to Commission Staff's First Request for Information (filed Feb. 19, 2021), Item 3.

¹³ *Id.*

rates may be occurring between its sewer and water operating divisions. Pursuant to the Order entered in Case No. 2020-00151, the Commission finds that McCreary District should still file an application for a general rate adjustment which includes financial data for both the sewer and water division pursuant to KRS 278.190 and 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 by June 25, 2021.

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The proposed construction will not result in wasteful duplication of existing facilities.
2. The proposed construction does not conflict with any existing certificates or services of any other utility operating in the area.
3. Public convenience and necessity require the proposed construction, which will allow McCreary District to provide reliable and adequate sewer collection service to its customers.
4. Kentucky Department of Water has approved the plans and specifications for this proposed project.
5. The proposed loan with KIA is necessary, is appropriate for, and consistent with the proper performance of McCreary District's service to the public and will not impair McCreary District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.
6. The project will be funded by a KIA Loan of \$3,224,500.

7. McCreary District should be authorized to utilize \$3,224,500 of the Assistance Agreement on the project approved herein.

8. McCreary District's application does not include a proposal to adjust rates.

IT IS THEREFORE ORDERED that:

1. McCreary District is granted a CPCN to construct the proposed project as set forth in the application.

2. McCreary District's proposed plan for obtaining financing is approved.

3. McCreary District shall obtain approval from the Commission prior to performing any additional construction not expressly approved by this Order.

4. McCreary District shall require construction to be inspected under 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 best practices of the construction trades involved in the project.

5. McCreary District is authorized to enter the proposed Assistance Agreement with KIA and, under the terms of the Assistance Agreement, to borrow an amount not to exceed \$3,224,500 to be repaid over 30 years from the date of the last draw of funds at the rate of 0.5 percent per annum commencing with the first draw of funds.

6. The proceeds of the KIA Loan shall be used only for the purposes specified in McCreary District's application.

7. McCreary District shall file with the Commission documentation of the total cost of the project within 60 days of the date that construction authorized under this CPCN

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.

8. McCreary 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 authorized under this CPCN.

9. Any documents filed in the future pursuant to ordering paragraphs 3, 7, and 8 shall reference this case number and shall be retained in the post-case correspondence file.

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

11. This case is closed and removed from the Commission’s docket.

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.

By the Commission



ATTEST:

A handwritten signature in blue ink, appearing to read "Linda C. Bidwell". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

Case No. 2020-00399

*Gerald E Wuetcher
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Kathy Troxell
McCreary County Water District
P.O. Box 488
Whitley City, KY 42653

*McCreary County Water District
Highway 27
P. O. Box 488
Whitley City, KY 42653

*Stephen Whitaker
Superintendent
McCreary County Water District
P.O. Box 488
Whitley City, KY 42653