

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE MADISON COUNTY)	
UTILITIES DISTRICT FOR A CERTIFICATE OF)	CASE NO.
PUBLIC CONVENIENCE AND NECESSITY TO)	2014-00132
CONSTRUCT AND FINANCE A WATER LINES)	
REPLACEMENT PROJECT)	

ORDER

Madison County Utilities District ("Madison District") has applied for a Certificate of Public Convenience and Necessity ("CPCN") to construct a water lines replacement project, known as the Phase 4 Improvement Project, and for approval of its plan to finance the proposed project.

Having reviewed the application and being otherwise sufficiently advised,¹ the Commission finds that:

1. Madison District, a water district organized under KRS Chapter 74, owns and operates water distribution facilities that serve approximately 11,244 customers in Madison County, Kentucky.²

¹ Madison District's initial application, which was received on April 7, 2014, was supplemented and considered filed with the Commission on May 8, 2014. No person has sought intervention in this matter. Madison District has not requested a hearing in this matter. The Commission has received no requests for hearing and finds the record complete.

² *Annual Report of Madison County Utility District to the Kentucky Public Service Commission for the Year Ended December 31, 2012* at 12 and 48.

2. Madison District proposes to construct approximately 15,550 linear feet of eight-inch water main, approximately 10,705 linear feet of six-inch water main, and approximately 300 linear feet of four-inch water main and appurtenances.³

3. The proposed construction is intended to replace aging and undersized ductile iron and galvanized pipe damaged by highly-acidic clay in the water line areas of the project that experience numerous leaks, service outages, and potentially undesirable water quality.

4. Madison District states that the proposed construction will improve water service to customers in the areas of Cedar View Hills Subdivision, Charles Norris Road, Bumstark Road, Hackett Pike, Wild Goose Subdivision, Hi-Lane, and Heron Landing Plaza. There are no new customers added due to this project.

5. Total cost of the proposed project, including administrative cost, legal cost, engineering cost, construction cost, miscellaneous and contingencies costs, is approximately \$962,181.⁴

6. CMW, Inc. of Lexington, Kentucky, prepared the plans and specifications for the proposed project.

7. The Kentucky Division of Water ("DOW") has approved the plans and specifications for the proposed project.⁵

8. The proposed construction will not result in wasteful duplication of existing facilities.

³ Application at Exhibit C, p. 1.

⁴ Application at paragraph 8, p. 2.

⁵ Letter from Mark Rasche, P.E., Supervisor, Engineering Section, Water Infrastructure Branch, DOW, to John Clark, Madison County Utilities District (Jan. 16, 2014). Application at Exhibit E.

9. The proposed construction does not conflict with any existing certificates or the service of any other utility operating in the area.

10. Public convenience and necessity require the proposed construction which allows Madison District to continue to provide reliable and adequate water service to its customers.

11. Madison District intends to finance the proposed construction project with \$105,653 of its internally-generated funds and a State Revolving Fund loan from the Kentucky Infrastructure Authority (“KIA”) in the amount of \$856,528.⁶

12. On February 8, 2013, KIA approved a loan of \$856,528 from the Drinking Water Revolving Loan Fund to finance Madison District’s Phase 4 Improvement Project. KIA provided an interest rate of 2.75 percent per annum to be repaid over a 20-year term.⁷

13. KIA originally placed as a condition to the loan that Madison District execute an Assistance Agreement with KIA no later than February 8, 2014.⁸

14. KIA subsequently extended the time period for executing the Assistance Agreement to August 8, 2014.⁹

15. Madison District’s failure to execute the proposed Assistance Agreement with KIA by August 8, 2014 will result in the rescission of KIA’s commitment to fund the said project.

⁶ Application at paragraph 14, p. 4.

⁷ Letter from John LeFevre, Financial Analyst, Kentucky Infrastructure Authority, to James Carr, Chairman, Madison County Utility District (Feb. 8, 2013). Application at Exhibit D.

⁸ *Id.*

⁹ Letter from John E. Covington, III, Executive Director, Kentucky Infrastructure Authority, to James Carr, Chairman, Madison County Utility District (Feb. 8, 2013) [sic].

16. Pursuant to 807 KAR 5:001, et seq., Madison District requested that it not be required to file financial data for a 12-month period ending within 90 days of the filing of the application.¹⁰

17. A utility having less than \$5,000,000 in gross annual revenues is no longer required to provide financial data for a 12-month period ending within 90 days of the filing of the application if the utility's most recent annual report is on file with the Commission, and if the application contains information regarding any changes that have occurred since the period covered in the annual report.^{11,12} For the calendar year ended December 31, 2012, Madison District had total operating revenues of \$4,243,932.00.¹³ Madison District stated in its application that there has been no material change in its financial condition or operation since December 31, 2012.¹⁴

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

¹⁰ Application at paragraph 12, p. 3.

¹¹ 807 KAR 5:001, Section 12(1)(b).

¹² Madison District has filed its 2013 Gross Operation Revenue Report showing gross operating revenues of \$4,131,714. The Commission granted two extensions to Madison District on March 28, 2014, and May 2, 2014, respectively, to allow Madison District additional time to file its annual report for the year ended on December 31, 2013. Therefore, Madison District properly relies on its 2012 annual report as it is the most recent annual report on file with the Commission, pursuant to 807 KAR 5:001, Section 12(1)(b).

¹³ *Annual Report of Madison County Utility District to the Kentucky Public Service Commission for the Year Ended December 31, 2012* at 19 and 49.

¹⁴ Application at paragraph 12, p. 3.

IT IS THEREFORE ORDERED that:

1. Madison District is granted a CPCN to proceed with the proposed construction as set forth in its application.

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

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

4. Madison District's request for a deviation from the requirement to submit financial exhibit covering a 12-month period ending not more than 90 days prior to the date the application is filed is denied as moot because Madison District had less than \$5,000,000 in gross annual revenues and therefore a deviation is not necessary.

5. Madison District shall file with the Commission documentation of the total cost 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.

6. Madison 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.

7. Madison 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.

8. Madison District is authorized to enter the proposed Assistance Agreement with KIA and, under the terms of that Agreement, to borrow from the KIA an amount not to exceed \$856,528 to be repaid over a 20-year period at an interest rate of 2.75 percent per annum.

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

10. Madison District shall use the proceeds from the proposed Assistance Agreement with KIA only for the lawful purposes set forth in its application. None of the proceeds, however, shall be used for the construction of any other improvements or projects except those clearly identified in Madison District's application in this proceeding, unless and until Madison District is granted a CPCN to construct such improvements.

11. Any documents filed in the future pursuant to ordering paragraphs 2, 5, 6, and 9 shall reference this case number and shall be retained in the post case referenced correspondence file.

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

By the Commission

ENTERED
MAY 21 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

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