

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN WATER DISTRICT )  
FOR A CERTIFICATE OF PUBLIC CONVENIENCE )  
AND NECESSITY TO CONSTRUCT AND FINANCE ) CASE NO. 2016-00356  
A SYSTEM IMPROVEMENTS PROJECT PURSUANT )  
TO THE PROVISIONS OF KRS 278.020, KRS 278.300, )  
AND 807 KAR 5:001 )

**ATTORNEY GENERAL'S COMMENTS**

Comes now the Intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits the following Comments in the above-referenced case.

Mountain Water District ("Mountain Water" or the "District") provides water service to approximately 17,200 customers, and sewer service to more than 2,400 customers.<sup>1</sup> The District has filed an Application for a Certificate of Public Convenience and Necessity to Construct and Finance a System Improvements Project ("CPCN").<sup>2</sup> The District filed the CPCN with the Commission on October 3, 2016, and requested authorization to construct a sewer project that will be funded by a \$3,472,921 Kentucky Infrastructure Authority ("KIA") Federally Assisted Wastewater Revolving Loan Fund, as well as two grants amounting to approximately \$597,079.<sup>3</sup>

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<sup>1</sup> Mountain Water District's KIA Conditional Commitment Letter, Attachment A, Project Review, Section I Project Description.

<sup>2</sup> Application of Mountain Water District for a Certificate of Public Convenience and Necessity to Construct and Finance a System Improvements Project Pursuant to the Provisions of KRS 278.020, KRS 278.300, and 807 KAR 5:001 (hereinafter "CPCN").

<sup>3</sup> CPCN, SRF Project Cost Summary.

Mountain Water asserted that the loan will be secured by and payable from the gross revenues of the District's *water and sewer system*.<sup>4</sup> In response to the Attorney General's discovery, Mountain Water stated that even though all of the costs for the project will be for sewer services, per bond guidelines the District is required to pledge 100% of all water and sewer revenue to secure the loan.<sup>5</sup>

The Attorney General encourages the District to ensure that its water customers are not forced to subsidize the proposed sewer system upgrade, since they will not receive any benefit from the sewer project. In fact, the large majority of the District's water customers do not have access to Mountain Water's sewer system, but instead must financially maintain independent septic systems for their homes and/or businesses.<sup>6</sup> Subsidization issues were discussed in Mountain Water Case No. 2014-00342, where the Commission stated in the Final Order that it was structuring the approved increased rates to "gradually reduce the long-standing subsidization of sewer service through water rates."<sup>7</sup> The Commission further held that the new rates would more closely reflect the actual cost of providing the water and sewer services.<sup>8</sup> Thus, based upon prior Commission precedent, and in order to afford equitable treatment to the Mountain Water customers, the costs of the proposed sewer project should not be borne by the District's water customers.

WHEREFORE, the Attorney General defers to the Commission, based upon the evidentiary record, to make a well-reasoned decision regarding Mountain Water's request for a

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<sup>4</sup> CPCN, page 5, paragraph 8(iii) (emphasis added).

<sup>5</sup> Mountain Water District's Supplemental Responses to the Attorney General's Initial Data Request, Question 1.

<sup>6</sup> Mountain Water District's KIA Conditional Commitment Letter, Attachment A, Project Review, Section I Project Description.

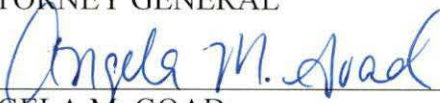
<sup>7</sup> Case No. 2014-00342, Order, pages 1-2 (October 9, 2015).

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

CPCN, and respectfully requests that the District's water customers not be forced to subsidize the proposed sewer improvements project.

Respectfully submitted,

ANDY BESHEAR  
ATTORNEY GENERAL

  
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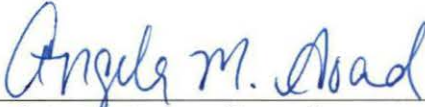
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*Certificate of Service and Filing*

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Dr. Talina R. Mathews, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail to:

Honorable W. Randall Jones  
Attorney at Law  
Rubin & Hays  
Kentucky Home Trust Building  
450 South Third Street  
Louisville, Kentucky 40202

this 18<sup>th</sup> day of January, 2017.

  
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Assistant Attorney General