

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|--|---|------------|
| APPLICATION OF WEST LAUREL WATER |) | |
| ASSOCIATION, INC. FOR A CERTIFICATE OF |) | CASE NO. |
| PUBLIC CONVENIENCE AND NECESSITY TO |) | 2017-00473 |
| CONSTRUCT, FINANCE, AND INCREASE RATES |) | |
| PURSUANT TO KRS 278.023. |) | |

ORDER

On December 21, 2017, West Laurel Water Association, Inc. (“West Laurel”) submitted an application, pursuant to KRS 278.023, for a Certificate of Public Convenience and Necessity (“CPCN”) to construct an improvement project, for approval of financing of the proposed project, and to increase rates. No person has sought intervention in this matter, and West Laurel has not requested a hearing. The record for this case is complete, and the matter stands ready for decision.

West Laurel, a water association organized under KRS Chapter 273, provides retail water service to approximately 5,148 customers in Laurel County, Kentucky.¹

West Laurel’s application for a CPCN proposes: the construction and replacement of approximately 7,000 linear feet of 6-inch water line along KY Highway 552; the construction and installation of an 8-inch water line and appurtenances along City Dam Road; a new underground booster pump station; and painting and rehabilitating a 200,000-gallon elevated water storage tank located on KY Highway 363.²

¹ *Annual Report of West Laurel Water Association, Inc., Water Utilities Report to the Kentucky Public Service Commission for the Year Ended December 31, 2016* at 12 and 48.

² Application, Exhibit 1, Revised Preliminary Engineering Report, Introduction, at 1.

West Laurel states that the project is needed because the current facilities are outdated, have reached the end of their useful life and, due to leakage, both surface and subsurface contaminants can infiltrate the piping and enter the water that is distributed to customers. In addition, the larger lines will meet increased water demand. This project replaces the listed items with new components, helping to minimize the possibility that there is a health or sanitation hazard due to failing lines.

West Laurel states that the County Farm Road underground pump station has been in service since 1983, and that over time the structure of the pump chamber has been compromised, allowing water infiltration. This condition subjects the chamber to the possibility of flooding during high water conditions. As the County Road Pump Station is reaching the end of its useful life, replacing it at this time is warranted.

West Laurel additionally states that the water line on KY-552 that connects the pump station to the existing system has been in service since approximately 1990, and is approaching the end of its useful life. This water line currently is a 3-inch water line and was an acceptable size at the time it was installed. However, due to higher demand and because of its inadequate capacity, the line has required increased maintenance.

The total cost of the project, including legal, administrative, development, and engineering expenses, plus interest and contingencies cost, is \$1,800,000. West Laurel proposes to finance construction of the project with a \$1,260,000 loan from 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 per annum, and a grant from the USDA, acting through RD, of \$540,000.³

³ *Id.* Exhibit 2, Item 27 and Form RD 1040-1.

West Laurel's proposed rates meet the total revenue requirements recommended in the engineering reports.⁴ The monthly bill of an average residential water customer using 5,000 gallons of water will increase from \$42.00 to \$49.93, or by approximately 18.88 percent.

West Laurel has submitted its application pursuant to KRS 278.023. Notwithstanding KRS 278.020(1), KRS 278.190, and KRS 278.300, KRS 278.023 requires the Commission to accept agreements between water associations 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 West Laurel, 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 association's proposed facilities will result in the wasteful duplication of facilities or excessive investment. or that 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.

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

1. The record for this case is complete.

⁴ *Id.* Item 31.

2. West Laurel is an entity authorized to submit an application for Commission approval of a federally funded construction project pursuant to KRS 278.023.

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

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

5. Public convenience and necessity require the proposed construction, which will allow West Laurel to continue providing reliable and adequate water service to its customers.

6. The project will be financed through a loan with RD and a grant from RD.

7. The proposed rates contained in the application are the minimum rates and charges required under the agreement with RD.

IT IS THEREFORE ORDERED that:

1. West Laurel is granted a CPCN for the proposed project as submitted.

2. West Laurel's proposed plan of financing is approved.

3. West Laurel is authorized to enter into a loan not to exceed \$1,260,000 with RD, maturing over a 40-year period, at an interest rate equal to the lower of the rate in effect at the time of loan approval, or the interest rate in effect at the time of closing, but not to exceed 2.75 percent per annum.

4. The proceeds from the loan shall be used only for the purposes specified in West Laurel's application.

5. West Laurel shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

6. Notwithstanding ordering paragraphs 4 and 5, if surplus funds remain after the approved construction has been completed, West Laurel 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 West Laurel's rates for service. West Laurel shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

7. West Laurel 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 cost shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

8. West Laurel 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.

9. West Laurel 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.

10. West Laurel shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent-completion point.

11. The rates set forth in the Appendix to this Order are approved for service that West Laurel renders on and after the date of this Order.

12. Within 20 days of the date of entry of this Order, West Laurel 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.

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

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

15. 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
JAN 19 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2017-00473

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00473 DATED **JAN 19 2018**

The following rates and charges are prescribed for the customers in the area served by West Laurel Water Association, Inc. 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.

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

| | | | |
|-------|----------------|---------|-------------------|
| First | 1,000 Gallons | \$14.79 | Minimum bill |
| Next | 2,000 Gallons | 9.00 | per 1,000 Gallons |
| Next | 2,000 Gallons | 8.57 | per 1,000 Gallons |
| Next | 5,000 Gallons | 8.04 | per 1,000 Gallons |
| Over | 10,000 Gallons | 6.64 | per 1,000 Gallons |

1-Inch Meter

| | | | |
|-------|----------------|---------|-------------------|
| First | 5,000 Gallons | \$49.92 | Minimum bill |
| Next | 5,000 Gallons | 8.04 | per 1,000 Gallons |
| Over | 10,000 Gallons | 6.64 | per 1,000 Gallons |

2-Inch Meter

| | | | |
|-------|----------------|----------|-------------------|
| First | 20,000 Gallons | \$156.54 | Minimum bill |
| Over | 20,000 Gallons | 6.64 | per 1,000 Gallons |

3-Inch Meter

| | | | |
|-------|----------------|----------|-------------------|
| First | 30,000 Gallons | \$222.99 | Minimum bill |
| Over | 30,000 Gallons | 6.64 | per 1,000 Gallons |

| | | | |
|----------------|--|------|-------------------|
| Wholesale Rate | | 6.13 | per 1,000 Gallons |
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