

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE POWELL'S VALLEY WATER	)	
DISTRICT FOR A CERTIFICATE OF PUBLIC	)	CASE NO.
CONVENIENCE AND NECESSITY TO CONSTRUCT,	)	2017-00392
FINANCE AND INCREASE RATES PURSUANT TO	)	
KRS 278.023	)	

ORDER

On October 3, 2017, Powell's Valley Water District ("Powell's Valley") filed an application pursuant to KRS 278.023 for a Certificate of Public Convenience and Necessity ("CPCN") to construct a waterworks improvement project, for approval of its plan to finance the proposed project, and for an increase in its water and sewer rates. No person has sought intervention in this matter, and Powell's Valley has not requested a hearing. The record for this case is complete, and the matter stands ready for decision.

The Commission notes that in its 2016 Annual Report, Powell's Valley reported a water loss of 21.5458 percent. Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Powell's Valley to pursue reasonable actions to reduce its unaccounted-for

water loss. Failure by Powell's Valley to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Powell's Valley, a water district organized under KRS Chapter 74, provides retail water service to approximately 2,355 customers in Estill, Montgomery, and Powell counties of Kentucky, and sewer service to 104 customers in Powell and Wolfe counties, Kentucky.<sup>1</sup>

The proposed project consists of the installation of approximately 2,000 feet of 3-inch polyvinyl chloride ("PVC") water line, two pump station renovations, construction of a new booster pump station, maintenance of a ground storage tank, and renovations that require installing internal piping and valves on three tanks. The proposed project will improve water quality, maintain a consistent disinfection approach throughout the distribution system, and meet existing and future system demands.<sup>2</sup>

The total cost of the project, including legal, administrative, development, and engineering, plus interest and contingencies, is \$864,200. The project is to be financed with a \$520,000 promissory note to the United States Department of Agriculture (USDA), Rural Utilities Service, Rural Development ("RD") and with a grant from the USDA, acting through RD, in the amount of \$344,200. Powell's Valley has a commitment from RD to purchase the \$520,000 promissory note. As set out in the RD Letter of Conditions as amended,<sup>3</sup> the \$520,000 promissory note will mature over a 40-year period at an interest

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<sup>1</sup> *Annual Report of Powell's Valley District, Water Utilities Report to the Kentucky Public Service Commission for the Year Ended December 31, 2016* at 12 and 48.

<sup>2</sup> Application at Exhibit E, MSE Engineering, Inc., Final Engineering Report and Addendum.

<sup>3</sup> Application at Exhibit A.

rate equal to the lower of the rate in effect at the time of loan approval, or the rate in effect at the time of closing, but not to exceed 2.75 percent per annum.<sup>4</sup>

Under the proposed rates, the monthly bill of a residential water customer using 5,000 gallons of water will increase from \$47.57 to \$52.51, or approximately 10.39 percent. Under the proposed rates, the monthly bill of a residential sewer customer using 5,000 gallons of water will increase from \$62.80 to \$68.91, or approximately 9.73 percent.

Powell's Valley has submitted its application pursuant to KRS 278.023 and 807 KAR 5:069. Notwithstanding KRS 278.020(1), KRS 278.190, and KRS 278.300, KRS 278.023 requires the Commission to accept agreements between water districts 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 Powell's Valley, 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 district's proposed facilities will result in the wasteful duplication of facilities or 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. Powell's Valley is granted a CPCN for the proposed project as submitted.
2. Powell's Valley's proposed plan of financing is approved.

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<sup>4</sup> *Id.* at Exhibit A.

3. Powell's Valley is authorized to enter into a promissory note with RD in the amount of \$520,000, 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 per annum.

4. The proceeds from the promissory note shall be used only for the purposes specified in Powell's Valley's application.

5. Powell's Valley 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, Powell's Valley 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 Powell's Valley's rates for service. Powell's Valley shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

7. Powell's Valley 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. Powell's Valley 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. Powell's Valley 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. Powell's Valley 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 Powell's Valley renders on and after the date of this Order.

12. Within 20 days of the date of this Order, Powell's Valley 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 in the future 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 Powell's Valley'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  
OCT 26 2017  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2017-00392

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2017-00392 DATED **OCT 26 2017**

The following rates and charges are prescribed for the customers in the area served by Powell's Valley Water District. 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

First	2,000	Gallons	\$ 23.22	Minimum bill
Next	2,000	Gallons	10.06	per 1,000 Gallons
Next	2,000	Gallons	9.07	per 1,000 Gallons
All Over	6,000	Gallons	8.48	per 1,000 Gallons

Sewer rates

First	2,000	Gallons	\$ 27.57	Minimum bill
All Over	2,000	Gallons	13.78	per 1,000 Gallons

\*Powell's Valley Water District  
31 Adams Ridge Road  
P. O. Box 550  
Clay City, KY 40312

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