

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN)	
WATER COMPANY FOR A CERTIFICATE)	CASE NO.
OF PUBLIC CONVENIENCE AND NECESSITY)	2018-00206
FOR THE REPLACEMENT OF A WASTEWATER)	
LAGOON LINER IN OWEN COUNTY)	

ORDER

On June 20, 2018, Kentucky-American Water Company (Kentucky-American) submitted an application requesting the Commission issue a Certificate of Public Convenience and Necessity (CPCN) authorizing Kentucky-American to replace the lagoon liner at the sewer treatment facilities in Owen County, Kentucky. No person has sought intervention in this matter, and Kentucky-American has not requested a hearing. Kentucky-American responded to one request for information. The record for this case is complete.

Kentucky-American, a Kentucky corporation, owns and operates water production and distribution facilities that provide water service to 128,277 customers for compensation in Bourbon, Clark, Fayette, Gallatin, Grant, Harrison, Jessamine, Owen, Scott, and Woodford counties, Kentucky.¹ It provides wholesale water service to Jessamine-South Elkhorn Water District, Harrison County Water Association, East Clark Water District, Peaks Mill Water District, Nicholas County Water District, and the cities of

¹ *Annual Report of Kentucky-American Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2017* at 11 and 54.

Georgetown, Midway, North Middletown, Nicholasville, and Versailles.² Kentucky-American also owns and operates sewer collection and treatment facilities in Owen, Bourbon, Franklin, and Clark counties, Kentucky that provides service to 1,127 customers.³

BACKGROUND

At Kentucky-American's wastewater treatment facility in Owenton, Kentucky, the wastewater treatment process includes the use of a lagoon liner for the collection and holding of wastewater and sediment. During routine inspections in 2015, Kentucky-American observed that there was a possible leak into the surrounding ground and groundwater at the Owenton lagoon, which could negatively affect the stability of the surrounding berm.⁴ Kentucky-American commissioned an evaluation of the lagoon liner and berm to be conducted by Consulting Services Incorporated of Kentucky (CSI).⁵ On October 23, 2015, CSI issued its report concluding that the lagoon liner had significant leaks.⁶ Kentucky-American then hired GRW Engineering Firm to evaluate the lagoon and present alternatives for Kentucky-American to consider.⁷ GRW's evaluation report concluded that the existing liner required replacement.⁸

² *Id.* at 60.

³ *Annual Report of Kentucky-American Water Company aka Ky. Water, Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2017* at 9 and 25.

⁴ Application, Exhibit 1, June 2018 Project Summary at 1.

⁵ *Id.*

⁶ *Id.* at 2.

⁷ *Id.* at 1.

⁸ *Id.* at 2.

In 2016, Kentucky-American and the Kentucky Department for Environmental Protection (DOW) reviewed and evaluated GRW's studies.⁹ DOW agreed with the GRW study that the lagoon liner must be replaced, and on June 18, 2018, DOW issued its approval of Kentucky-American's plans and specifications for the liner replacement, including the use of six temporary mobile treatment tanks during the time the lagoon is out of service.¹⁰ Except for DOW's conclusion that the lagoon liner must be replaced, and DOW's related approval of Kentucky-American's replacement project, there are no other DOW "franchise or permit" required to be issued.¹¹

Kentucky-American's proposed project consists of dredging and dewatering the sludge in the lagoon, removal and disposal of the existing lagoon liner, installation of the new lagoon liner, and temporary wastewater treatment during the removal and installation period of the liner.¹² The total estimated cost of the proposed construction project, including engineering, construction, and contingencies, is approximately \$1,500,000.¹³ Initially, Kentucky-American will fund the lagoon project with available cash from operations and short-term bank borrowings that it obtains from American Water Capital Corporation (American Capital).¹⁴ Kentucky-American will permanently finance the

⁹ *Id.*

¹⁰ *Id.* at 2 and 3.

¹¹ *Id.*

¹² *Id.*, Exhibit 1, Owenton Wastewater Plant Lagoon Improvements Project Summary June 2018 (June 2018 Project Summary) at 4.

¹³ *Id.*

¹⁴ Response to the Commission Staff's First Request for Information, Item 3.

lagoon replacement utilizing a mix of long-term debt and equity, as Kentucky-American does with its entire capital construction program.¹⁵

Due to long lead requirements for securing and preparing the mobile treatment units, Kentucky-American has entered into a contract for delivery of the units by September 2, 2018. Kentucky-American estimates that with a September delivery date, the replacement of the liner will begin in October 2018 and will require six to eight weeks to complete.

DISCUSSION

As an alternative to the CPCN, Kentucky-American requests a Declaratory Order¹⁶ for the lagoon liner. Kentucky-American states the \$1,500,000 cost of this project in relation to its total Utility Plant In Service (UPIS) for both the water and sewer divisions, would not be significant enough to require a CPCN pursuant to Commission precedent.¹⁷ However, because the cost of the lagoon project is of an amount that would require a CPCN if only the relationship to the UPIS of the sewer division is considered; Kentucky-American submitted its CPCN request; a CPCN should be required for the project.¹⁸ The Commission has historically treated Kentucky-American's divisions as being two distinct entities. For these reasons, the Commission is processing the application as an application for a CPCN for Kentucky-American's sewer division project.

¹⁵ *Id.*

¹⁶ The Declaratory Order would be issued pursuant to 807 KAR 5:0021, Section 19. Kentucky-American requests that the Declaratory Order state that a CPCN is not necessary and dismissing the case.

¹⁷ Application, paragraph 17.

¹⁸ *Id.*

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

1. The record for this case is complete.
2. The proposed construction will not result in wasteful duplication of existing facilities.
3. The proposed construction does not conflict with any existing certificates or service of any other utility operating in the area.
4. Public convenience and necessity require the proposed construction, which will allow Kentucky-American to continue providing reliable and adequate sewer service to its customers.
5. The project will be financed through available cash from operations and short-term bank borrowings. Commission approval of the financing is not required at present. However, pursuant to KRS 278.300, Kentucky-American must obtain Commission approval before issuing any long-term bonds.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is granted a CPCN to proceed with the proposed construction as set forth in its application.
2. Kentucky-American shall notify the Commission prior to performing any additional construction not expressly authorized by this Order.
3. Any deviation from the construction and repairs approved by this Order shall be undertaken only with the prior approval of the Commission.
4. Kentucky-American 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.

5. Kentucky-American shall submit an application to the Commission prior to issuing any securities that require approval pursuant to KRS 278.300.

6. Kentucky-American shall file with the Commission documentation of the total costs of this project, including the cost of construction and repairs and all other capitalized costs, (e.g., engineering, legal, administrative) within 60 days of the date that construction authorized under this CPCN is substantially completed. Construction and repair costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

7. Kentucky-American shall file a copy of the "as-built" drawings, 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.

8. Any documents filed in the future pursuant to ordering paragraphs 2, 6, and 7 shall reference this case number and shall be retained in the post case correspondence file.

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

By the Commission



ATTEST:

A handwritten signature in blue ink, appearing to read "Steve R. Penzo". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

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