

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND COUNTY	)	
WATER DISTRICT FOR A CERTIFICATE OF	)	
PUBLIC CONVENIENCE AND NECESSITY TO	)	
CONSTRUCT A SYSTEM IMPROVEMENTS	)	CASE NO.
PROJECT AND AN ORDER APPROVING A	)	2019-00377
CHANGE IN RATES AND AUTHORIZING THE	)	
ISSUANCE OF SECURITIES PURSUANT TO	)	
KRS 278.023	)	

ORDER

On October 14, 2019, Cumberland County Water District (Cumberland District) tendered for filing an application, pursuant to KRS 278.023 and 807 KAR 5:069, for a Certificate of Public Convenience and Necessity (CPCN) for the construction of a waterworks improvement project, approval of its plan to finance the proposed project, and an adjustment of its water rates. The Commission Staff issued discovery requests on October 28, 2019, and Cumberland District filed responses to the discovery on November 1, 2019. No person has sought intervention in this matter, and Cumberland District 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 2017 Annual Report, Cumberland District reported a water loss of 28.8870 percent. Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Reduction of Cumberland District's water loss to 15 percent would result in

an approximate \$50,390.51<sup>1</sup> decrease to purchased water expense. Potentially, Cumberland District is paying \$.44 per 1,000 gallons sold, for expenses associated with water loss greater than 15 percent.<sup>2</sup>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent water loss threshold and strongly encourages Cumberland District to pursue reasonable actions to reduce its water loss. Failure by Cumberland District to make significant progress towards reducing water loss may cause the Commission to pursue additional action with the utility.

Cumberland District, a water district organized under KRS Chapter 74, provides retail water service to approximately 2,489 water customers,<sup>3</sup> in Cumberland County, Kentucky.

Cumberland District states that it has an existing 6" water line serving Kentucky Highway 704 (Crocus Creek Road) that was installed in the early 1970s, which is in poor condition, lacks suitable bedding and cover, and is located in extremely rocky subsoil.<sup>4</sup>

1

Purchased Water from 2017 Annual Report	\$ 362,861
Times: Water Loss Above 15 Percent	<u>13.887%</u>
Purchased Water Expense Reduction	\$ 50,390.51

2

Purchased Water Expense Reduction	\$ 50390.51
Divided by: Total 1,000 gallons sold from 2017 Annual Report	<u>114,743</u>
Cost per 1,000 gallons sold	\$ .44

<sup>3</sup> *Annual Report of Cumberland County Water District for Water Operations for the Year Ended December 31, 2017*, at 48.

<sup>4</sup> Application, Exhibit A; Cumberland District's Preliminary Engineering Report at 3.

Cumberland District asserts that this line is subject to frequent breaks, leaks, and other emergency repair situations, which are generally cumbersome and costly due to the rough terrain.<sup>5</sup> In order to correct these deficiencies, Cumberland District proposes to replace 13,600 linear feet of the deteriorating 6” water line and appurtenances adjacent to Kentucky Highway 704 with new 6” polyvinyl chloride (PVC) pipeline.<sup>6</sup> Cumberland District further states that it will use 8” high-density polyethylene (HDPE) pipeline for the portion of the project that is in an exceptionally rocky area.<sup>7</sup> Finally, a new master meter vault will be installed near the intersection of Kentucky Highway 61 and Kentucky Highway 704.<sup>8</sup> Cumberland District contends that the proposed project will improve service to approximately 90 existing customers.<sup>9</sup>

The total estimated cost of the proposed project, including but not limited to engineering, construction, legal, administrative, environmental, plus interest and contingencies, is approximately \$800,000.<sup>10</sup> Cumberland District proposes to finance the cost of the proposed project through the issuance of \$560,000 of its Waterworks Revenue Bonds and a grant of \$240,000 from the United States Department of Agriculture (USDA) acting through Rural Development (RD).<sup>11</sup> RD has committed to purchase all of the

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<sup>5</sup> Application, Exhibit A.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

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

<sup>9</sup> *Id.*

<sup>10</sup> Application at 1–2.

<sup>11</sup> *Id.*

Waterworks Revenue Bonds, with the bonds maturing over a 40-year period at an interest rate not to exceed 2.125 percent per annum.<sup>12</sup>

Under the proposed rates, the monthly bill of a customer with a 5/8" x 3/4" meter who uses 3,059 gallons of water per month will increase from \$36.26 to \$37.25, or approximately 2.73 percent.<sup>13</sup>

Cumberland District has submitted its application pursuant to KRS 278.020 and 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 districts and the USDA/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 the USDA/RD and Cumberland District 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 utility's proposed facilities will result in the wasteful duplication of facilities, 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.

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<sup>12</sup> *Id.* at 2.

<sup>13</sup> Exhibit D, Notice of Proposed Rate Change.

IT IS THEREFORE ORDERED that:

1. Cumberland District is granted a CPCN for the proposed project as submitted.
2. Cumberland District's proposed plan of financing is approved.
3. Cumberland District is authorized to issue Waterworks Revenue Bonds in the amount of \$560,000, maturing over a period not to exceed 40 years with an interest rate not to exceed 2.125 percent per annum.
4. The proceeds from the bonds shall be used only for the purposes specified in Cumberland District's application.
5. Cumberland District is authorized to obtain a grant in the amount of \$240,000 from USDA/RD.
6. Cumberland District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
7. Notwithstanding ordering paragraphs 4 and 6, if surplus funds remain after the approved construction has been completed, Cumberland District may use such surplus to construct additional plant facilities if USDA/RD approves of the use and the additional construction, and it will not result in a change in Cumberland District's rates for service. Cumberland District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.
8. Cumberland District 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 costs shall be classified into appropriate plant

accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

9. Cumberland District 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.

10. Cumberland District 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.

11. Cumberland District shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

12. The rates set forth in the Appendix to this Order are approved for service that Cumberland District renders on and after the date of this Order.

13. Within 20 days of the date of entry of this Order, Cumberland District 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.

14. Any documents filed in the future pursuant to ordering paragraphs 6, 7, 8, 9, and 11 of this Order shall reference this case number and shall be retained in the post-case correspondence file.

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

16. This case is closed and removed from the Commission's docket.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing, herein approved.

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By the Commission

ENTERED  
NOV 08 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2019-00377



APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2019-00377 DATED **NOV 08 2019**

The following rates and charges are prescribed for the customers in the area served by Cumberland County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8" X 3/4" Meter

First	2,000 Gallons	\$ 29.10 Minimum Bill
Next	3,000 Gallons	7.70 per 1,000 Gallons
Next	5,000 Gallons	6.70 per 1,000 Gallons
Over	10,000 Gallons	5.70 per 1,000 Gallons

1 " Meter

First	5,000 Gallons	\$ 52.20 Minimum Bill
Next	5,000 Gallons	6.70 per 1,000 Gallons
Over	10,000 Gallons	5.70 per 1,000 Gallons

1 1/2" Meter

First	12,500 Gallons	\$ 99.95 Minimum Bill
Over	12,500 Gallons	5.70 per 1,000 Gallons

2" Meter

First	25,000 Gallons	\$ 171.20 Minimum Bill
Over	25,000 Gallons	5.70 per 1,000 Gallons

Dale Hollow State Park

First	300,000 Gallons	\$ 1,738.70 Minimum Bill
Over	300,000 Gallons	5.70 per 1,000 Gallons

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