

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH)	
HOPKINS WATER DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	CASE NO.
AND NECESSITY TO CONSTRUCT A)	2020-00126
SYSTEM IMPROVEMENTS PROJECT AND)	
AN ORDER AUTHORIZING THE ISSUANCE)	
OF SECURITIES PURSUANT KRS 278.023)	

ORDER

On April 14, 2020, North Hopkins Water District (North Hopkins District) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a water system improvements project, as described below, and approval of the proposed plan of financing the project. After North Hopkins District cured deficiencies, the application was deemed filed on April 15, 2020. No party has sought intervention in this matter. The record for this case is complete, and the matter stands ready for decision.

North Hopkins District, a water district organized under KRS Chapter 274, provides retail water service to approximately 1,413 water customers¹ in Hopkins County, Kentucky.²

¹ *Annual Report of North Hopkins Water District for the Year Ended December 31, 2018*, at 49.

² *Id.* at 12.

The Commission notes that North Hopkins District reported a water loss of 29.59 percent in its 2018 Annual Report.³ Commission Regulation 807 KAR 5:066(6)(3) states that, for ratemaking purposes, a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. Reduction of North Hopkins District's unaccounted-for water loss to 15 percent would result in an approximate \$57,689 decrease to its cost of water annually.⁴ The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages North Hopkins District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by North Hopkins District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

³ Annual Report of North Hopkins Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018 at 57.

⁴

Purchased Water	\$ 377,780
Purchased Power	<u>17,621</u>
Cost of Water	395,401
Multiply By Water Loss Percentace above 15%	<u>14.59%</u>
Expense Reduction to Cost of Water	<u>\$ 57,689</u>

The Commission's Division of Inspections last inspected North Hopkins District on January 16, 2020. North Hopkins District was notified of four deficiencies identified by the Commission in a letter of January 31, 2020.

1. North Hopkins District has 5/8-inch x 3/4-inch meters that have been in service for more than ten years without being tested contrary to the table in 807 KAR 5:066, Section 16(1) (1,000 meters).

2. North Hopkins District is not instructing its employees who, in the course of their work, are subject to the hazards of electric shock, asphyxiation, or drowning, in accepted methods of artificial respiration as required by 807 KAR 5:006, Section 25(3) (CPR expired).

3. North Hopkins District is not testing its master meter as required by 807 KAR 5:066, Section 16(1) (last test 2016).

4. North Hopkins District is failing to operate its facilities to provide adequate and safe service to its customers as required by 807 KAR 5:066, Section 7, due to water loss exceeding 15 percent (2018-29.59%).

North Hopkins District filed a response to its Inspection Report stating that it was in the process of applying for funding to facilitate meter replacement and had scheduled an instructor to address the lapse in CPR certification. Additionally, North Hopkins District was working with Madisonville to replace the master meter and working with Kentucky Rural Water to identify leaks, indicating that water loss had reduced from 2018 to 2019. The Commission notes that the project applied for herein is to construct lines to purchase water from Webster County Water District (Webster District). North Hopkins District is under an agreed order with the Division of Water. North Hopkins District water quality

was found to be out of compliance with Division of Water acceptable contaminant levels. The water purchased from the city of Madisonville is believed to be the problem.⁵ Therefore, the project herein does not serve to cure all of North Hopkins District's deficiencies with the Commission, although the project may alleviate the need to test the master meter between North Hopkins District and city of Madisonville for the moment.

Additionally, the Commission notes that its records indicate North Hopkins District has not sought a general adjustment in base rates since its last rate case in 2018.⁶ North Hopkins District's response to Commission Staff's First Request for Information provided that the potential revenues to be derived from customer usage at the current rates of North Hopkins District would be \$1,080,567.⁷ The financial need to address meter testing and replacement from its last inspection report, the lack of insight into North Hopkins District's current financial records, and North Hopkins District's excessive water loss indicates to the Commission that North Hopkins District should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of this Order to ensure its financial situation is sufficient.

The proposed project includes the installation of 18,700 feet of 8-inch waterline replacement, a booster pump station, the installation of flushing assemblies throughout the system, and the installation of an automated meter reading system (AMS).⁸ The

⁵ Application, Exhibit A.

⁶ Case No. 2018-00118, *Application of North Hopkins Water District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076*, (Ky. PSC Aug. 16, 2018).

⁷ Response to Commission Staff's First Request for Information, Item 1. Combined annual revenues from the two excel files provided in the response titled, Excel-Commercial Existing and Excel-Residential Existing.

⁸ Application, Exhibit A.

installation of the waterline, pump station and flushing assemblies are necessary to address the agreed order with the Division of Water for exceeding the maximum contaminant level (MCL) for the total Trihalomethane (TTHM). North Hopkins District determined that water purchased from the city of Madisonville caused them to be out of compliance for TTHM. North Hopkins District decided to construct additional waterlines to purchase water from Webster District. North Hopkins District also intends to install approximately 20 flushing hydrants or flushing assemblies throughout its system. With the additional flushing points, North Hopkins District intends to establish a flushing route that will also help reduce the levels of TTHM.⁹

The project also involves the installation of an automated meter reading system. North Hopkins projects to reduce the time and labor needed to read all of its water meters from, two full-time and one part-time employees over approximately two and a half days, to one employee that will read the meters in one day. In addition, the AMS system is helpful in identifying water leaks on the customer side of the meter.¹⁰

The total cost of the proposed project, including but not limited to development, Land and Rights, legal and administration, engineering, interest, plus contingencies, is \$1,140,000.¹¹ This project will be financed with the issuance of a Rural Development (RD) Grant of \$285,000, and the issuance of its Waterworks Revenue Bonds to RD for \$855,000 with an interest rate of 2.75 percent per annum maturing over a 40-year term.¹²

⁹ Preliminary engineering report, at 4

¹⁰ *Id.*

¹¹ Application, Exhibit B at 10; Final Engineering Report at 1.

¹² Application at 1-2.

North Hopkins District has submitted its application pursuant to KRS 278.023. The Commission is required, pursuant to KRS 278.023, to accept agreements between water associations and the USDA/RD, regarding construction projects, and to issue the necessary orders to implement the terms of such agreements no later than 30 days after filing the application with the Commission. 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 North Hopkins 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, result in an 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. Moreover, the data supplied by North Hopkins District is out of date and not representative of its current financial state. The USDA/RD letter of conditions is dated January 31, 2018, significant changes have occurred with North Hopkins District since the letter was issued.

The Commission's review of records in a case filed pursuant to KRS 278.023 financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. The Commission recently noted that some utilities file pursuant to KRS 278.023 to intentionally avoid a review of its financial

records.¹³ A key general recommendation that resulted from the investigation of Commission Case No. 2019-00041 was that water districts with sustained excessive water loss should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹⁴ The Commission finds that North Hopkins District should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of filing of this Order to ensure its financial situation is sufficient to combat excessive water loss, but additionally finds that North Hopkins District should respond to Staff's requests for information to supplement the financial information filed in this matter that was grossly out of date. North Hopkins District provided billing information and forecasted data from 2017, which, for ratemaking purposes, would be considered outdated information. While North Hopkins District did not propose to increase its rates in this case, the current rates do not include in the calculation the new debt service on the proposed loans. Without more information, Staff cannot make even a limited analysis of its financial state. This matter should remain open until North Hopkins District responds to Staff's information requests contained in the Appendix to this Order within 14 days of the date of filing of this Order in order for the Commission to review current financial information impacting the sufficiency of North Hopkins District's rates.

IT IS THEREFORE ORDERED that:

¹³ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019).

¹⁴ *Id.*

1. North Hopkins District is granted a CPCN for the proposed project as submitted.
2. North Hopkins District's proposed plan of financing is approved.
3. North Hopkins District is authorized to enter into a loan agreement for a Rural Development loan not to exceed \$855,000.
4. The proceeds from the loan agreement shall be used only for the purposes specified in North Hopkins District's application.
5. North Hopkins District is authorized to obtain a grant not to exceed \$285,000 from the USDA/RD.
6. North Hopkins 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, North Hopkins 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 North Hopkins District's rates for service. North Hopkins District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.
8. North Hopkins 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. North Hopkins 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. North Hopkins 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. North Hopkins District shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

12. 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 utility’s post-case correspondence file.

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

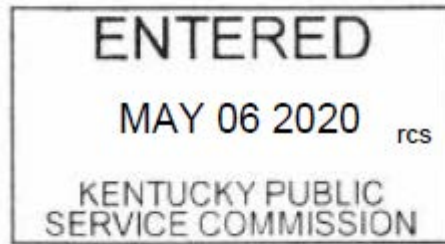
14. North Hopkins District shall file for an adjustment in its base rates or file an alternative rate filing within one year of the date of this Order.

15. This case shall remain open in order for North Hopkins District to respond to the information requests contained in the Appendix of this Order within 14 days of the date of filing of this Order.

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



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00126 DATED MAY 06 2020

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO NORTH HOPKINS WATER DISTRICT

North Hopkins Water District (North Hopkins District), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested herein is due on within fourteen days of the date of this request. The Commission directs North Hopkins District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹⁵ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency. All responses in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

North Hopkins District shall make timely amendment to any prior response if North Hopkins District obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which North Hopkins District fails or refuses to furnish all or part of the requested information, North Hopkins District shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, North Hopkins District shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to North Hopkins District's response to Commission Staff's First Request for Information, Item 1.
 - a. Provide the source and time frame of the data used in the Excel spreadsheets.
 - b. Provide an explanation of how the data chosen was determined to be appropriate as an example of North Hopkins District's current operations.

c. Provide an explanation why North Hopkins District's billing analysis provided in this response is reflective of North Hopkins District's customers and projected revenues.

d. Provide an explanation as to why the billing analysis provided in this response is not based on a full year of North Hopkins District's customer information.

e. If the North Hopkins District customer data being used in the spreadsheets are averages, derived from actual customer information, provide the time period of the data used to determine these averages.

2. Provide an updated billing analysis in Excel spreadsheet format as prescribed in 807 KAR 5:076 section 4. (1)(f) and ARF Form 1 Attachment BA-DB, using North Hopkins District historical customer data for the 12 months ending December 31, 2019. The copy provided in Excel spreadsheet format should have formulas intact and unprotected and all rows and columns fully accessible.

3. Provide North Hopkins District's depreciation schedule for all of its assets for the period ending December 31, 2019.

4. Provide a copy of a current amortization schedule for each of North Hopkins District's outstanding bond issuances, promissory notes, and debt instruments.

5. Provide a copy of North Hopkins District's general ledger for the calendar year ended December 31, 2019.

6. Provide North Hopkins District's adjusted trial balance showing unaudited account balances, audit adjustments, and audited balances for the calendar year ended December 31, 2019.

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