

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF	)	
CRITTENDEN-LIVINGSTON WATER	)	CASE NO.
DISTRICT FOR AUTHORITY TO ENTER INTO	)	2020-00232
A LOAN AGREEMENT WITH THE KENTUCKY	)	
INFRASTRUCTURE AUTHORITY	)	

ORDER

On July 17, 2020, Crittenden-Livingston Water District (Crittenden-Livingston District) tendered an application, pursuant to KRS 278.020, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a water system improvements project as described below. Although not expressly requested, Crittenden-Livingston District also seeks Commission approval of the proposed plan of financing the project pursuant to KRS 278.300.<sup>1</sup> After Crittenden-Livingston District cured a filing deficiency, the application was deemed filed on July 24, 2020. No party has sought intervention in this matter. Crittenden-Livingston District responded to one round of discovery. The record for this case is complete, and the matter stands ready for decision.

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<sup>1</sup> Crittenden-Livingston District captioned the case style consistent with a request for Commission approval of financing and referenced filing requirements consistent with an application for approval of financing, but never expressly requested Commission approval pursuant to KRS 278.300, the statute that sets forth the standards for Commission approval of financing and evidences of indebtedness.

Crittenden-Livingston District, a water district organized under KRS Chapter 74, provides retail water service to approximately 3,600 water customers<sup>2</sup> in Crittenden and Livingston counties, Kentucky.<sup>3</sup>

The Commission notes that Crittenden-Livingston District reported a water loss of 21.25 percent in its 2018 Annual Report.<sup>4</sup> 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 Crittenden-Livingston District's unaccounted-for water loss to 15 percent would result in an approximate \$9,567 decrease to its cost of water annually.<sup>5</sup> The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Crittenden-Livingston District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Crittenden-Livingston District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

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<sup>2</sup> *Annual Report of Crittenden-Livingston Water District for the Year Ended December 31, 2018*, at 49.

<sup>3</sup> *Id.* at 12.

<sup>4</sup> *Id.* at 57.

<sup>5</sup>

Purchased Water	728
Purchased Power	<u>152,336</u>
Cost of Water	153,064
Multiply by Water Loss Percentage Above 15%	<u>6.25%</u>
Expense Reduction to Cost of Water	<u>9,567</u>

Crittenden-Livingston District proposed to replace approximately 1,400 existing meters with Automated Meter Reader (AMR) meters. The proposed project is a continuation of a meter replacement project approved in Case No. 2012-00077,<sup>6</sup> in which the Commission approved a CPCN to purchase and install an AMR system that replaced half of Crittenden-Livingston District's meters. That project was funded by a Kentucky Infrastructure Authority (KIA) Fund B loan. Crittenden-Livingston District seeks to finish its meter replacement project with the same type of radio read meters that were approved in Case No. 2012-00077.

As a basis for its request for a CPCN, Crittenden-Livingston District explained that installing the same type of AMR system in its entire service area would result in significant monetary savings. Crittenden-Livingston District anticipated that the proposed project would reduce the time and labor costs for meter reading by 50 percent by reducing personnel and vehicle costs associated with meter reading.<sup>7</sup> In support of this assertion, Crittenden-Livingston District explained that meter reading now takes three weeks, but will take only one week if all meters are AMR.<sup>8</sup> Crittenden-Livingston District further explained that reducing the amount of time to read meters will reduce vehicle maintenance cost by an estimated 20 percent because personnel will spend less time traveling, and therefore will reduce the wear-and-tear on the vehicles.<sup>9</sup>

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<sup>6</sup> Case No. 2012-00077, *Application of Crittenden-Livingston Water District for Authority to Enter Into a Loan Agreement with the Kentucky Infrastructure Authority and for a Certificate of Convenience and Necessity to Acquire and Install Automated Meter Reading Equipment*. (Ky. PSC Mar. 30, 2020).

<sup>7</sup> Application, Exhibit A, B.

<sup>8</sup> Crittenden-Livingston District Response to Commission Staff's First Request for Information (Staff's First Request), Item 1.

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

Crittenden-Livingston District stated that its existing meters are 10 to 20 years old, and that between 50 and 75 percent of the analog meters likely read slow, which impacts the utility's revenue and water loss.<sup>10</sup> Crittenden-Livingston District asserted that it budgets significant funds to repair the existing analog meters and that the amount is roughly equal to the cost of purchasing new AMR meters.<sup>11</sup> Crittenden-Livingston District explained that the existing analog meters have been fully depreciated.<sup>12</sup>

Crittenden-Livingston District proposes to execute a loan with KIA to borrow \$315,000.<sup>13</sup> The proposed loan will have a 20-year term subject to interest rates of 2.75 percent per annum.<sup>14</sup> Crittenden-Livingston District proposes to use the proceeds to procure and install approximately 1,400 transmitters and meters as well as related equipment and software at a cost of approximately \$315,000. Crittenden-Livingston District states that no adjustment in rates is necessary.<sup>15</sup>

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<sup>10</sup> *Id.*

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

<sup>12</sup> *Id.* at Item 3.

<sup>13</sup> Application at 5.

<sup>14</sup> *Id.*, Exhibit A.

<sup>15</sup> *Id.*

## LEGAL STANDARD

### KRS 278.020(1)

The Commission's standard of review of a request for a CPCN is well settled. No utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission except as provided in KRS 278.020(1) and (2) and 807 KAR 5:001, Section 15(3), which are provisions not applicable to this matter. To obtain a CPCN, a utility must demonstrate a need for such facilities and an absence of wasteful duplication.<sup>16</sup>

"Need" requires:

[A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.

[T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.<sup>17</sup>

"Wasteful duplication" is defined as "an excess of capacity over need" and "an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties."<sup>18</sup> To demonstrate that a proposed facility does not

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<sup>16</sup> *Kentucky Utilities Co. v. Public Service Comm'n*, 252 S.W.2d 885 (Ky. 1952).

<sup>17</sup> *Id.* at 890.

<sup>18</sup> *Id.*

result in wasteful duplication, we have held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.<sup>19</sup> Selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.<sup>20</sup> All relevant factors must be balanced.<sup>21</sup>

### KRS 278.300

Pursuant to KRS 278.300(1), “[n]o utility shall issue any securities or evidences of indebtedness . . . until it has been authorized so to do by order of the commission.” The evidence of indebtedness must be for a lawful object within the corporate purpose of the utility, be necessary or appropriate for or consistent with the performance of the utility’s service to the public, will not impair the utility’s ability to perform that service, and is reasonably necessary for such purpose.

### FINDINGS

The Commission finds that Crittenden-Livingston District has sufficiently demonstrated that there is a need to upgrade its existing meter system. The project is a continuation of a previously approved installation of AMR. Once completed, Crittenden-Livingston District will have the same AMR system deployed throughout its service area. The existing meters to be replaced have reached the end of their useful lives and have been fully depreciated. Additionally, Crittenden-Livingston projected a cost savings

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<sup>19</sup> Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

<sup>20</sup> See *Kentucky Utilities Co. v. Public Service Comm’n*, 390 S.W.2d 168, 175 (Ky. 1965). See also Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005), final Order.

<sup>21</sup> Case No. 2005-00089, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Aug. 19, 2005), final Order at 6.

because the proposed project will lessen the water district's time reading meters and will reduce operating and maintenance costs by limiting personnel costs. The Commission also finds that Crittenden-Livingston District has demonstrated that the proposed upgrade to the AMR system is the most reasonable, least-cost alternative to address Crittenden-Livingston District's metering needs because it is completing the installation of an AMR system throughout its service area with the same AMR meters already in use in one-half of the service area, and is not a wasteful duplication of facilities.

The Commission finds that the \$315,000 KIA loan at 2.75 percent interest is for the provision of safe, adequate, and reasonable water service to Crittenden-Livingston District's customers, and therefore is for a lawful object within the corporate purposes of Crittenden-Livingston District and is necessary and appropriate for and consistent with the proper performance of its service to the public. The evidence of record supports the conclusion that the cost of the proposed project will not impair Crittenden-Livingston District's ability to perform that service, and is reasonable, necessary, and appropriate for such purposes. The Commission, therefore, finds that Crittenden-Livingston District's request to finance the project through a KIA Fund C Loan for \$315,000 at an interest rate of 2.75 percent per annum for a term of 20 years should be approved.

IT IS THEREFORE ORDERED that:

1. Crittenden-Livingston District is granted a CPCN for the proposed project as submitted.
2. Crittenden-Livingston District's proposed plan of financing is approved.
3. Crittenden-Livingston District is authorized to enter into a loan agreement with KIA for \$315,000 at an interest rate of 2.75 percent.

4. The proceeds from the loan agreement shall be used only for the purposes specified in Crittenden-Livingston District's application.

5. This matter is closed and removed from the Commission's docket.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

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By the Commission



ATTEST:

  
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Acting Executive Director

Case No. 2020-00232

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