

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE)	
BARKLEY LAKE WATER DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY TO CONSTRUCT A)	CASE NO.
SYSTEM IMPROVEMENTS PROJECT AND)	2020-00255
AN ORDER APPROVING A CHANGE IN)	
RATES AND AUTHORIZING THE ISSUANCE)	
OF SECURITIES PURSUANT TO KRS 278.023)	

ORDER

On August 7, 2020, Barkley Lake Water District (Barkley Lake 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. No party has sought intervention in this matter.

Barkley Lake District, a water district organized under KRS Chapter 74, provides retail water service to approximately 5,516 water customers¹ in Caldwell, Christian, and Trigg counties, Kentucky.²

The Commission’s Division of Inspections last inspected Barkley Lake District on August 23, 2019. Barkley Lake District was notified of one deficiency identified by the Commission in a letter of October 1, 2019: “Barkley Lake Water District is failing to

¹ *Annual Report of Barkley Lake Water District for the Year Ended December 31, 2019*, at 49.

² *Id.* at 12.

operate its facilities so as to provide adequate and safe service to its customers as required by KAR 5:066, Section 7, due to water loss exceeding 15 percent.”

Barkley Lake District filed a response to its Inspection Report stating that it has installed several master meters since its last inspection. Also, Barkley Lake District stated that through scheduled projects the district plans to utilize variable frequency drives and improved supervisory control data acquisition (SCADA) to monitor some of the more problematic portions of its distribution system. On October 30, 2019, Commission Staff sent a letter to Barkley Lake District acknowledging that the water district had responded to the deficiency, and Barkley Lake District has met the regulatory requirements of the Commission.

The Commission notes that its records indicate Barkley Lake District has not sought a general adjustment in base rates since its last rate case in 2003.³ Barkley Lake District’s last change in rates came by way of another KRS 278.023 case.⁴ In the present case, the water district has submitted its application pursuant to KRS 278.023. The Commission is required, pursuant to KRS 278.023, to accept agreements between water utilities and the United States Department of Agriculture, Rural Development (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

³ Case No. 2003-00042, *Application of the Barkley Lake Water District for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC Apr. 29, 2003).

⁴ Case No. 2014-00251, *Application of Barkley Lake Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC July 29, 2014).

reject any portion of the agreement between the USDA/RD and Barkley Lake 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 construction 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.

The Commission's review of records in a financing case, filed pursuant to KRS 278.023, 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 applications to increase rates pursuant to KRS 278.023 to intentionally avoid a review of its financial records.⁵ A key general recommendation that resulted from the investigation in Commission Case No. 2019-00041 was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁶ The annual reports of Barkley Lake District submitted to the Commission indicate that Barkley Lake District has experienced net losses for each of

⁵ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

⁶ *Id.*

the past five years as well as a decrease in cash in four of the past five years.⁷ Based upon this, the Commission finds that Barkley Lake 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.

Barkley Lake District states in its application that it has a need to increase flow and improve pressure in the northern portion of its service area.⁸ The existing McUpton Booster Pump Station (MBPS) and the transmission lines that serve the northern portion of the service area were constructed in the late 1970s.⁹ Barkley Lake District states that although the system was adequate at the time it was constructed, higher water demand due to regional growth at higher elevations is making it increasingly difficult and costly for the water district to adequately operate and serve the northern portion of the service area in a reliable manner.¹⁰ The current system is undersized, aging, and in need of upgrades and replacements.¹¹

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Year	2015	2016	2017	2018	2019
Net Income	\$ (21,503)	\$ (561,243)	\$ (486,798)	\$ (647,044)	\$ (437,859)
Add: Depreciation Expense	647,998	660,383	679,150	728,174	720,338
Cash Basis Income	\$ 626,495	\$ 99,140	\$ 192,352	\$ 81,130	\$ 282,479
Year	2015	2016	2017	2018	2019
Cash and Cash Equivalents	\$ 1,554,814	\$ 1,897,334	\$ 1,781,361	\$ 1,858,159	\$ 1,818,492
Depreciation Reserve					
Net Increase (Decrease) in Cash	(322,221)	342,520	(115,973)	76,798	(39,667)

⁸ Application, Exhibit A.

⁹ Final Engineering Report at 1 (filed Aug. 7, 2020).

¹⁰ *Id.*

¹¹ *Id.*

The proposed project will eliminate the existing station by constructing a new station in the vicinity.¹² The new station will be equipped with variable speed drive triplex pumps that Barkley Lake District predicts will increase operating efficiencies and improve overall operations in the northern portion of the system.¹³ In addition to the pump station work, approximately 7,677 linear feet of 6-inch line will be replaced to support the increase flows and operating pressures from the new pump station.¹⁴

These proposed improvements should benefit customers in the northern portion of the service area through increased supply, increased pressure, and reliability of the system.¹⁵ The proposed improvements should also reduce the number of service interruptions and reduce operational maintenance (O&M) cost to Barkley Lake District.¹⁶

The total estimated cost of the proposed project, including but not limited to development, Land and Rights, legal and administration, engineering, interest, plus contingencies, is \$892,990.¹⁷ Barkley Lake District proposes to finance the cost of the proposed project through the issuance of \$892,990 of its Waterworks Revenue Bonds, consisting of \$854,990 Series A Bonds with an interest rate not to exceed 3.500 percent

¹² Application, Exhibit A.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ Final Engineering Report at 2.

¹⁶ *Id.*

¹⁷ Application at 1–2.

per annum maturing over a 40-year term and \$38,100 Series B with an interest rate not to exceed 1.875 percent per annum maturing over a 40-year term.¹⁸

The proposed rates contained in the application are the minimum rates and charges required under the agreement with USDA/RD. Barkley Lake District's proposed rates meet the total revenue requirements recommended in the engineering reports. The monthly bill of an average residential water customer who uses 2,470 gallons¹⁹ will increase from \$30.35 to \$32.17, which is an increase of \$1.82 or approximately 6 percent.

IT IS THEREFORE ORDERED that:

1. Barkley Lake District is granted a CPCN for the proposed project as submitted.
2. Barkley Lake District's proposed plan of financing is approved.
3. Barkley Lake District is authorized to issue water revenue bonds in the amount of \$892,990, consisting of \$854,890 of Series A Bonds maturing over 40 years at an interest rate not to exceed 3.500 percent per annum, and \$38,100 of Series B Bonds maturing over 40 years with an interest rate not to exceed 1.875 percent per annum that will be purchased by USDA/RD.
4. The proceeds from the water revenue bonds shall be used only for the purposes specified in Barkley Lake District's application.
5. Barkley Lake District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

¹⁸ *Id.*

¹⁹ Average usage for a customer with a 5/8- x 3/4-inch meter, Application, Exhibit E, at unnumbered page 2.

6. Notwithstanding ordering paragraphs 4 and 5, if surplus funds remain after the approved construction has been completed, Barkley Lake 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 Barkley Lake District's rates for service. Barkley Lake District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

7. Barkley Lake 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.

8. Barkley Lake 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.

9. Barkley Lake 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.

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

11. Any documents filed in the future pursuant to ordering paragraphs 5, 7, 8, and 10 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

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

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

14. Within 20 days of the date of this Order, Barkley Lake 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.

15. Barkley Lake 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.

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

By the Commission



ATTEST:

A blue ink signature, appearing to be "H. L. C.", written in a cursive style over a horizontal line.

Acting Executive Director

Case No. 2020-00255

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00255 DATED SEP 02 2020

The following rates and charges are prescribed for the customers in the area served by Barkley Lake 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-inch Meters

First 2,000 Gallons	\$21.78 Minimum Bill
Next 98,000 Gallons	7.34 Per 1,000 Gallons
Next 400,000 Gallons	5.97 Per 1,000 Gallons
Over 500,000 Gallons	4.36 Per 1,000 Gallons

1-inch Meters

First 4,000 Gallons	\$36.45 Minimum Bill
Next 96,000 Gallons	7.34 Per 1,000 Gallons
Next 400,000 Gallons	5.97 Per 1,000 Gallons
Over 500,000 Gallons	4.36 Per 1,000 Gallons

1 1/2-Inch Meter

First 8,000 Gallons	\$65.82 Minimum Bill
Next 92,000 Gallons	7.34 Per 1,000 Gallons
Next 400,000 Gallons	5.97 Per 1,000 Gallons
Over 500,000 Gallons	4.36 Per 1,000 Gallons

2-Inch Meter

First 15,000 Gallons	\$117.19 Minimum Bill
Next 85,000 Gallons	7.34 Per 1,000 Gallons
Next 400,000 Gallons	5.97 Per 1,000 Gallons
Over 500,000 Gallons	4.36 Per 1,000 Gallons

4-Inch Meter

First 25,000 Gallons	\$190.60 Minimum Bill
Next 75,000 Gallons	7.34 Per 1,000 Gallons
Next 400,000 Gallons	5.97 Per 1,000 Gallons
Over 500,000 Gallons	4.36 Per 1,000 Gallons

Wholesale Sales

2.45 Per 1,000 Gallons

*John Herring
Barkley Lake Water District
1420 Canton Road
P. O. Box 308
Cadiz, KY 42211

*Barkley Lake Water District
1420 Canton Road
P. O. Box 308
Cadiz, KY 42211

*Robert Pickerill
PE, Bell Eng.
Barkley Lake Water District
1420 Canton Road
P. O. Box 308
Cadiz, KY 42211

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