

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WOOD)	
CREEK WATER DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	CASE NO.
AND NECESSITY TO CONSTRUCT A SYSTEM)	2020-00352
IMPROVEMENTS PROJECT AND AN ORDER)	
AUTHORIZING THE ISSUANCE OF)	
SECURITIES PURSUANT TO KRS 278.023)	

ORDER

On November 3, 2020, Wood Creek Water District (Wood Creek 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 and approval of the proposed plan of financing the project. No party has sought intervention in this matter.

Wood Creek District, a water district organized under KRS Chapter 74, provides retail water service to approximately 5,307 water customers¹ in Laurel County, Kentucky.²

The Commission's Division of Inspections last inspected Wood Creek District on November 27, 2018. Based on the inspector's observations, one deficiency was identified, "Woodcreek [sic] Water District is not in compliance with meter test facilities and equipment as required by 807 KAR 5:066, Section 14." Wood Creek District filed a letter in response, received on January 4, 2019, stating, "The reason we have not been testing our equipment is we were not knowledgably of anyone that could certify it. The

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

² *Id.* at 12.

Water District has contacted American Scale of Louisville, KY and they are going to test our meter test facilities and equipment the first part of January 2019.” In a letter dated January 9, 2019, the Commission accepted Wood Creek District’s response to the deficiency and stated that the Commission would follow up with this at its next inspection.

The Commission notes that its records indicate Wood Creek District has not sought a general adjustment in base rates since 2013.³ Wood Creek District’s last change in rates came by way of another case filed pursuant to KRS 278.023.⁴ In the present case, Wood Creek 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 reject any portion of the agreement between the USDA/RD and Wood Creek 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

³ Case No. 2013-00170, *Alternative Rate Adjustment Filing of Wood Creek Water District* (Ky. PSC Nov. 12, 2013).

⁴ Case No. 2018-00066, *Application of Wood Creek Water District for a Certificate of Public Convenience and Necessity to Construct a Sewer Improvement Project and an Order Authorizing the Issuance of Securities and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Mar. 16, 2018).

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

In submitting its responses to Commission Staff’s request for information,⁷ Wood Creek District provided an Excel spreadsheet of its Audited financial records showing that for the calendar years 2016-2019 it met the Debt Service Coverage (DSC) of its lenders.⁸ Based upon Wood Creek District’s projections it will remain in compliance with the DSC

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.*

⁷ Wood Creek District’s Responses to Commission Staff’s First Request for Information (Staff’s First Request) (filed Nov. 25, 2020), Items 4–6.

⁸

	Audited 2016	Audited 2017	Audited 2018	Audited 2019
Cash Available for Debt Service	\$ 1,540,075	\$ 2,006,645	\$ 1,676,665	\$ 1,371,552
Total Debt Service	\$ 1,091,668	\$ 1,116,148	\$ 1,082,600	\$ 1,079,525
Debt Coverage Ratio	1.4	1.8	1.5	1.3

requirements of its lenders for the 2020-2024 calendar years.⁹ However, unlike Wood Creek District's lenders the Commission includes noncash items such as depreciation expense in the DSC calculation supporting the revenue requirement of water districts and associations.¹⁰ For the projected calendar years 2020-2024 Wood Creek District's DSC falls below the 1.2x threshold.¹¹

Pursuant to the Commission's recommendation in Case No. 2019-00041 and the results of the financial analysis performed in this proceeding, the Commission finds that Wood Creek District should be ordered to file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 within one year of the date of the issuance of this Order to ensure its revenue is sufficient to support adequate and reliable service.

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	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024
Cash Available for Debt Service	\$ 1,485,196	\$ 1,602,799	\$ 1,981,191	\$ 2,115,325	\$ 2,255,625
Total Debt Service	\$ 1,058,107	\$ 1,101,249	\$ 1,188,716	\$ 1,109,734	\$ 1,109,480
Debt Coverage Ratio	<u>1.4</u>	<u>1.5</u>	<u>1.7</u>	<u>1.9</u>	<u>2.0</u>

¹⁰ See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); See Case No. 2020-00020, *Alternative Rate Adjustment Filing of Knox County Utility Commission* (Ky. PSC July 22, 2020); and See Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

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	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024
Cash Available for Debt Service	\$ 1,485,196	\$ 1,602,799	\$ 1,981,191	\$ 2,115,325	\$ 2,255,625
Less: Depreciation Expense	(992,948)	(1,020,650)	(1,049,126)	(1,078,396)	(1,108,482)
Income Available Debt Service PSC	492,248	582,149	932,065	1,036,929	1,147,143
Total Debt Service	1,058,107	1,101,249	1,188,716	1,109,734	1,109,480
PSC DSC	<u>0.47</u>	<u>0.53</u>	<u>0.78</u>	<u>0.93</u>	<u>1.03</u>

The proposed project consists of improvements to the water system of Wood Creek District. The improvements include:

- Replacement of approximately 50,000 linear feet of 4" waterline with 6" and 8" PVC, SDR-17 waterline and one pump station along KY 490;
- Repainting and installing a mixing system in the existing 200,000 gallon elevated water storage tank along KY 490; and
- Purchase of new radio read water meters with meter reading software and hardware to sync with the existing system in place at Wood Creek Water District.¹²

Waterlines along KY 490 and U.S. 25 have given Wood Creek District problems over the years with leaks and breaks due to the lines being undersized and the increased demand in the system from steady population growth.¹³ According to Wood Creek District, Laurel County has been experiencing steady population growth and it anticipates continual growth in this area.¹⁴ These lines will be replaced and upgraded from 4" and 6" PVC, SDR-26 pipe to 8" PVC, SDR-17 pipe along KY 490 and to 8" PVC, SDR-17 pipe along U.S. 25. Wood Creek District states that these lines will be far less susceptible to breaks and leaks due to the upgrade in pressure classification, which currently plagues the existing lines. The new lines will also provide increased hydraulic capacity to serve Wood Creek District's system for many years to come.¹⁵

One pump station will be replaced and one elevated water storage tank will be repainted, both located along KY 490.¹⁶ The pump station has reached the end of its

¹² Application, Exhibit A.

¹³ Preliminary Engineering Report at 13.

¹⁴ *Id.* at 7.

¹⁵ *Id.* at 13.

usable life due to increased demands in these areas of the system. New, more efficient pumps will be installed in the pump station and will be equipped with telemetry communications to allow for the District to save on operational costs.¹⁷ To extend the usable life of the water storage tank along KY 490, it needs to be blasted and repainted.¹⁸ The purchase of new radio read water meters with meter reading software and hardware to sync with the existing system in place at Wood Creek District will reduce operational costs and should increase efficiency.

If any funds remain from the proposed project, Wood Creek District would like to make additional improvements. These additional improvements include waterline replacement north along Old Richmond Road from U.S. 25 to 1,000 L.F. from the intersection with KY 3434 and east along KY 3094 from U.S. 25 to the railroad tracks in East Bernstadt, additional Radio Read Water Meters, or painting and minor repairs at the Water Treatment Plant.¹⁹

The total estimated cost of the proposed project, including but not limited to legal expenses, land and rights, engineering, construction, and contingencies, is approximately \$3.678 million.²⁰ Wood Creek District proposes to finance the \$3.678 million cost of the project through the issuance of \$2.942 million of its Utility Revenue Bonds and a

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.* at 14.

²⁰ Application, Exhibit B. RD Letter of Conditions and Forms RD 1940-1 at 10.

USDA/RD grant in the amount of \$736,000.²¹ Wood Creek District has a commitment from USDA/RD to purchase the \$2.942 million in bonds maturing over a 40 years, at an interest rate not to exceed 3.375 percent per annum.²² Wood Creek District does not propose to increase its water service rates to its customers as a result of the proposed project.²³

IT IS THEREFORE ORDERED that:

1. Wood Creek District is granted a CPCN for the proposed project as submitted.
2. Wood Creek District's proposed plan of financing is approved.
3. Wood Creek District is authorized to issue its Utility Revenue Bonds in the amount of \$2.942 million maturing over 40 years at an interest rate not to exceed 3.375 percent per annum.
4. The proceeds from the issuance of the Utility Revenue Bonds shall be used only for the purposes specified in Wood Creek District's application.
5. Wood Creek District is authorized to obtain a grant in the amount of \$736,000 from USDA/RD.
6. Wood Creek 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, Wood Creek District may use such

²¹ *Id.*

²² Application at 3.

²³ Staff's First Request (filed Nov. 25, 2020), Item 1.

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 Wood Creek District's rates for service. Wood Creek District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

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

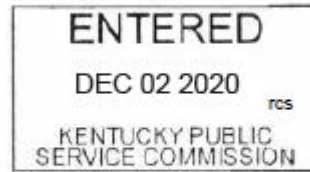
12. Any documents filed in the future pursuant to ordering paragraphs 7, 8, 9, and 11 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

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

14. Wood Creek District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 within one year of the date of the issuance 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:



Deputy Executive Director

Case No. 2020-00352

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