

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE GREEN-	)	
TAYLOR WATER DISTRICT FOR THE	)	
ISSUANCE OF A CERTIFICATE OF PUBLIC	)	
CONVENIENCE AND NECESSITY TO	)	CASE NO.
CONSTRUCT AND FINANCE A WATER	)	2021-00233
SYSTEM IMPROVEMENTS PROJECT	)	
PURSUANT TO THE PROVISIONS OF KRS	)	
278.020, KRS 278.300 AND 807 KAR 5:001	)	

ORDER

On June 15, 2021, Green-Taylor Water District (Green-Taylor District) filed an application, pursuant to KRS 278.020, KRS 278.300, and 807 KAR 5:001, 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. The record for this case is complete, and the matter stands ready for decision.

BACKGROUND

Green-Taylor District, a water district organized under KRS Chapter 74, provides retail water service to approximately 5,096 water customers<sup>1</sup> in Adair, Green, Metcalfe, and Taylor counties, Kentucky.<sup>2</sup>

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<sup>1</sup> *Annual Report of Green-Taylor Water District to the Public Service Commission for the Year Ended December 31, 2019* (Annual Report of Green-Taylor District) at 49.

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

The Commission's Division of Inspections last inspected Green-Taylor District on February 27, 2020. Based on the inspector's observations, one deficiency was identified: Green-Taylor District was failing to operate its facilities so as 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. For the one deficiency listed above, Green-Taylor District was to provide an explanation of why this deficiency occurred and how this deficiency will be remedied and prevented in the future. Commission Staff requested a letter addressing the organization's actions regarding the deficiency to be submitted by April 9, 2020. No such letter is currently in the case record.

The Commission notes that its records indicate Green-Taylor District has not sought a general adjustment in base rates since February 2018.<sup>3</sup> Green-Taylor District's last change in rates came by way of a purchased water adjustment filed pursuant to KRS 278.015 and 807 KAR 5:068.<sup>4</sup> 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.<sup>5</sup>

The Commission's analysis of Green-Taylor District's Excel spreadsheets submitted in its responses to Commission Staff's request for information is contained in

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<sup>3</sup> Case No. 2018-00030, *Application of Green-Taylor Water District for an Alternative Rate Adjustment* (Ky. PSC Aug. 17, 2018).

<sup>4</sup> Case No. 2020-00123, *Electronic Purchased Water Adjustment Filing of Green-Taylor Water District* (Ky. PSC May 7, 2020).

<sup>5</sup> *Id.*

the Appendix attached hereto.<sup>6</sup> Based upon Green-Taylor District's projections the Commission's analysis show that Green-Taylor District will be in compliance with the Debt Service Coverage (DSC) requirements of its lenders for the calendar years 2022–2024. However, unlike Green-Taylor 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.<sup>7</sup> For the projected calendar years 2022–2024 Green-Taylor District's DSC falls below the 1.2X threshold in every year in Green-Taylor District's projections.

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 Green-Taylor 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. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Green-Taylor District from this requirement.

The Commission notes that Green-Taylor District reported a water loss of 17.643 percent in its 2019 Annual Report.<sup>8</sup> Commission regulation 807 KAR 5:066(6)(3)

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<sup>6</sup> Green-Taylor District's Responses to Commission Staff's First Request for Information (Staff's First Request) (filed Aug. 4, 2021), Items 5–7.

<sup>7</sup> 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).

<sup>8</sup> Annual Report of Green-Taylor District at 57.

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 used by a utility in its own operations. Reduction of Green-Taylor District's unaccounted-for water loss to 15 percent would result in an approximate \$23,945 decrease to its cost of water annually.<sup>9</sup> The Commission notes that Green-Taylor District's total cost of water loss is \$159,842<sup>10</sup> annually at the current 17.643 percent rate.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Green-Taylor District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Green-Taylor 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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2019 Water Loss	17.64%
Less: 15% Allowable Water Loss	<u>-15.00%</u>
Water Loss in Excess of 15%	<u><u>2.643%</u></u>

	Purchased Water	Purchased Power	Total
2019 Reported Expenses	\$ 827,653	\$ 78,329	\$ 905,982
Multiplied by: Water Loss in Excess of 15%	<u>-2.643%</u>	<u>-2.643%</u>	<u>-2.643%</u>
Excess Purchased Water & Pumping Cost	<u>\$ (21,875)</u>	<u>\$ (2,070)</u>	<u>\$ (23,945)</u>

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	Purchased Water	Purchased Power	Total
2019 Reported Expenses	\$ 827,653	\$ 78,329	\$ 905,982
Multiplied by Water Loss	<u>-17.643%</u>	<u>-17.643%</u>	<u>-17.643%</u>
Cost of Water Loss	<u>\$ (146,023)</u>	<u>\$ (13,820)</u>	<u>\$ (159,842)</u>

## PROPOSED PROJECT AND FINANCING

The proposed project includes rehabilitations or upgrades at three existing pump stations and one existing storage tank within Green-Taylor District's distribution system.<sup>11</sup> Two of the existing pumps, the Exie and Donansburg pump stations, will be fitted with new interior piping, valves, pumps, metering and electrical/control systems including variable frequency drives (VFD's).<sup>12</sup> The Mac-Pitman pump station does not have the same need for rehabilitation as the other two pumps as it has modern pumps, piping, and valves but lacks VFD controls. The work needed for the Mac-Pitman pump station includes control modifications including VFD's and metering upgrades.<sup>13</sup> Also, the interior of the existing Pierce storage tank will be rehabilitated. The rehabilitation of the Pierce storage tank will consist of structural repairs, new coatings, and piping modifications.<sup>14</sup> The Pierce storage tank will be modified so that the tank will fill near the top and drain from the bottom of the bowl.<sup>15</sup> This modification should greatly improve turnover and should reduce the production of disinfection byproducts.<sup>16</sup>

The need for the proposed project is due to Green-Taylor District's struggle to keep disinfectant byproduct levels within their regulated standards.<sup>17</sup> Also, Green-Taylor District states in its application that this proposed project is needed to provide high quality

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<sup>11</sup> Application, Exhibit A.

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

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

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

<sup>16</sup> *Id.*

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

water to its existing and future customers.<sup>18</sup> According to Green-Taylor District the proposed project is needed to address the various aging, undersized, and inadequate infrastructure components throughout its distribution system.<sup>19</sup> Furthermore, Green-Taylor District states that the current condition of the existing storage tank and pump stations included in the project is poor and presents an ongoing risk to the reliability of service for much of its service area.<sup>20</sup>

The total estimated cost of the proposed project, including but not limited to legal expenses, land and rights, engineering, construction, and contingencies, is approximately \$657,000.<sup>21</sup> Green-Taylor District proposes to finance the \$657,000 project cost through the issuance of a loan from the Kentucky Infrastructure Authority (KIA) Infrastructure Revolving Loan Fund of \$564,600 and with internally generated funds of \$92,400.<sup>22</sup> The proposed KIA loan will mature over a 20-year term, at an interest rate not to exceed 2.00 percent per annum.<sup>23</sup> Green-Taylor District does not propose to increase its water service rates to its customers as a result of the proposed project.<sup>24</sup>

## DISCUSSION AND FINDINGS

### Legal Standard

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

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> Final Engineering Report, Final Project Budget, Option Number 1.

<sup>22</sup> Application at 3, paragraph 5(vi).

<sup>23</sup> *Id.*, Exhibit C, KIA Conditional Commitment Letter, paragraphs 3 and 6.

<sup>24</sup> *Id.*, paragraph 10.

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). To obtain a CPCN, a utility must demonstrate a need for such facilities and an absence of wasteful duplication.<sup>25</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>26</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>27</sup> To demonstrate that a proposed facility does not result in wasteful duplication, we have held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.<sup>28</sup> Selection of a

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<sup>25</sup> *Kentucky Utilities Co. v. Public Service Comm'n*, 252 S.W.2d 885 (Ky. 1952).

<sup>26</sup> *Id.* at 890.

<sup>27</sup> *Id.*

<sup>28</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).

proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.<sup>29</sup> All relevant factors must be balanced.<sup>30</sup>

The legal standard for Commission approval of financing is established in KRS 278.300. In accordance with KRS 278.300(3), the financing must be for some lawful object within the corporate purposes of the utility, must be necessary for proper performance of the utility's service to the public, will not impair the utility's ability to perform its service, and is reasonably necessary for such purpose.

### Findings

The Commission finds that Green-Taylor District has demonstrated the need for the proposed project because Green-Taylor District provided sufficient evidence of the inadequacy of the existing service. Green-Taylor District's current infrastructure consists of aging, undersize, and inadequate components that adversely affect Green-Taylor District's ability to provide safe, adequate, and reliable service to its customers. For example, due to inadequate infrastructure, the disinfectant byproducts levels are frequently not within the regulated standards. Green-Taylor District also provided sufficient evidence that the proposed project will not result in wasteful duplication and is the reasonable, least cost alternative evaluated. Green-Taylor District evaluated two options to address the infrastructure issues, with pricing developed from bids obtained for the projects. Green-Taylor District received three bids for pump station and tank yard piping projects, and five proposals for water storage tank rehabilitation. Based on the

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<sup>29</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>30</sup> Case No. 2005-00089, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Aug. 19, 2005), final Order at 6.



above discussion, Green-Taylor District established a need for the proposed project and an absence of wasteful duplication.

The Commission further finds that Green-Taylor District satisfied the legal standard for Commission approval of the financing. Green-Taylor District's lawful purpose is to provide safe, adequate, and reliable service to the public. The financing will enable Green-Taylor District to construct the proposed projects, which, as discussed above, are necessary to provide water service to the public consistent with Green-Taylor District's lawful purpose. Further, the financing will not impair Green-Taylor District's ability to perform its service because Green-Taylor District does not propose to increase its rates as a result of the proposed project or financing.

IT IS THEREFORE ORDERED that:

1. Green-Taylor District is granted a CPCN for the proposed project as submitted.
2. Green-Taylor District's proposed plan of financing is approved.
3. Green-Taylor District is authorized to obtain a KIA loan in the amount of \$564,600 maturing over 20 years at an interest rate not to exceed 2.00 percent per annum.
4. The proceeds from the issuance of the KIA loan shall be used only for the purposes specified in Green-Taylor District's application.
5. Green-Taylor District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
6. Notwithstanding ordering paragraphs 4 and 5, if surplus funds remain after the approved construction has been completed, Green-Taylor District may use such

surplus to construct additional plant facilities if KIA approves of the use and the additional construction, and it will not result in a change in Green-Taylor District's rates for service. Green-Taylor District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

7. Green-Taylor 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. Green-Taylor 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. Green-Taylor 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. Green-Taylor District shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

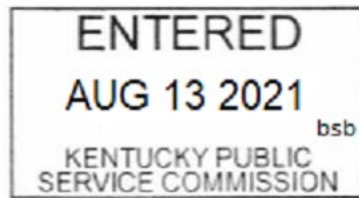
11. Any documents filed in the future pursuant to ordering paragraphs 7, 8, 9, and 10 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

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

13. Green-Taylor 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. This case is closed and will be removed from the Commission's docket.

By the Commission



ATTEST:

A handwritten signature in blue ink that reads "Linda C. Andwell". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

Case No. 2021-00233

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00233 DATED AUG 13 2021

Commission Analysis of Green-Taylor District's  
Projected Financial Information

Projected Debt Service Coverage Lenders

	Projected 2022	Projected 2023	Projected 2024
Cash Flow			
Revenues	\$ 2,700,000	\$ 2,700,000	\$ 2,700,000
Operating Expenses excluding Depreciation	2,130,062 *	2,172,663 *	2,216,117
Other Income	35,000	35,000	35,000
Cash Flow Before Debt Service	<u>604,938</u>	<u>562,337</u>	<u>518,884</u>
Debt Service			
Existing Debt Service	385,375	380,750	385,625
Proposed KIA Loan	<u>34,390</u>	<u>34,390</u>	<u>34,390</u>
Total Debt Service	<u>419,765</u>	<u>415,140</u>	<u>420,015</u>
Cash Flow After Debt Service	<u>\$ 185,173</u>	<u>\$ 147,197</u>	<u>\$ 98,869</u>
Debt Coverage Ratio	1.6	1.5	1.3
Lender Required Coverage Ratio	1.2	1.2	1.2

Projected Debt Service Coverage - Commission

	Projected 2022	Projected 2023	Projected 2024
Cash Flow			
Revenues	\$ 2,700,000	\$ 2,700,000	\$ 2,700,000
Operating Expenses excluding Depreciation	2,130,062 *	2,172,663 *	2,216,117
Depreciation Expense Recovery	392,850	392,850	392,850
Other Income	<u>35,000</u>	<u>35,000</u>	<u>35,000</u>
Cash Flow Before Debt Service	<u>212,088</u>	<u>169,487</u>	<u>126,034</u>
Total Debt Service	<u>419,765</u>	<u>415,140</u>	<u>420,015</u>
Cash Flow After Debt Service	<u>\$ (207,677)</u>	<u>\$ (245,653)</u>	<u>\$ (293,982)</u>
Debt Coverage Ratio	0.5	0.4	0.3
Lender Required Coverage Ratio	1.2	1.2	1.2

\* Assumes 2% increase in operating expenses

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