

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH	)	
MARSHALL WATER DISTRICT FOR A	)	
CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY TO CONSTRUCT A SYSTEM	)	CASE NO.
IMPROVEMENTS PROJECT AND AN ORDER	)	2021-00333
APPROVING A CHANGE IN RATES AND	)	
AUTHORIZING THE ISSUANCE OF	)	
SECURITIES PURSUANT TO KRS 278.023	)	

ORDER

On September 1, 2021, North Marshall Water District (North Marshall 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, approval of the proposed plan of financing the project, and approval of the proposed rates in its application.<sup>1</sup>

LEGAL STANDARD

North Marshall 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

---

<sup>1</sup> Application at 4.

reject any portion of the agreement between the USDA/RD and North Marshall District or 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. As explained in KRS 278.023(1), the limits on the Commission's review are because federal financing of these projects entails prior review and oversight by a federal agency and obligates the utility to take certain actions; conflicting requirements between the federal agency and the Commission may jeopardize the project and place the utility in an untenable position. 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 legal standard established in KRS 278.023 requires that (1) the applicant be a water utility formed under KRS Chapter 74 or 273; and (2) the construction project must be funded in whole or in part under terms of an agreement between the water utility, USDA or United States HUD.

### BACKGROUND

North Marshall District, a water district organized under KRS Chapter 74, provides retail water service to approximately 5,655 water customers<sup>2</sup> in Livingston and Marshall counties, Kentucky.<sup>3</sup> The Commission's Division of Inspections (DOI) last inspected North Marshall District on May 4, 2021. On August 2, 2021 DOI provided North Marshall

---

<sup>2</sup> *Annual Report of North Marshall Water District to the Public Service Commission (Annual Report of North Marshall District) for the Calendar Year Ended December 31, 2020* at 49.

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

District a copy of the inspection and directed North Marshall District to reply to the deficiencies noted in the report by August 31, 2021. A copy of the cover letter is included in Attachment 1 of this Order. A copy of North Marshall District's response is included in Attachment 2 of this Order.

The proposed final project consists of several parts:

The Parkway Crossing subproject proposes the construction and installation of approximately 400 feet of 6-inch HDPE water main, replacing 6-inch PVC pipe encased in a 12-inch CMP carrier pipe located under the Purchase Parkway. North Marshall District states the void between the new pipe and casing will be filled with flowable grout, sealed on each end.

The Tatumsville Pumping Station subproject includes the drilling of a new water well, installation of a submersible pump, and connection of the new well to the existing raw water piping. The proposed well would be approximately 400 feet in depth and the proposed pump will be integrated into the utilities' existing SCADA system.

In addition to the specific projects listed above, North Marshall District states that the project will also include the installation of approximately 43,330 linear feet of new water mains and other appurtenances throughout North Marshall District in Marshall County<sup>4</sup> as well as the installation of approximately \$500,000 of new remote read water meters throughout the district's service area.<sup>5</sup>

The total estimated cost of the proposed project, including but not limited to development, legal expenses, engineering, construction, and contingencies, is

---

<sup>4</sup> Application, Exhibit A, Project Description

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

\$3,489,000.<sup>6</sup> North Marshall District proposes to finance the construction of the proposed project through the combination of the issuance of \$2,715,000 of its Water System Revenue Bonds as set out in the USDA/RD Letter of Conditions, the proceeds of an RD grant in the amount of \$699,000, and contributions from North Marshall District totaling \$75,000.<sup>7</sup> North Marshall District has a commitment from USDA/RD to purchase the \$2,715,000 in bonds maturing over 40 years, at an interest rate not to exceed 1.50 percent per annum.<sup>8</sup>

The proposed rates contained in the application are the minimum rates and charges required under the agreement with USDA/RD.<sup>9</sup> North Marshall District's proposed rates meet the total revenue requirements recommended in the engineering reports. The bi-monthly bill of an average residential water customer who uses 7,737 gallons will increase from \$39.37 to \$48.79, an increase of \$9.42, or 24 percent.<sup>10</sup>

#### DISCUSSION AND FINDINGS

The Commission notes that North Marshall District's last general rate case was in 2010.<sup>11</sup>

---

<sup>6</sup> *Id.*, Exhibit B, RD Letter of Conditions and Form RD 1940-1 at 11.

<sup>7</sup> Application at 1–2, paragraph 5.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*, Exhibit B, Amended RD Letter of Conditions at 1.

<sup>10</sup> *Id.*, Exhibit E, Notice of Proposed Rate Charge.

<sup>11</sup> Case No. 2010-00247, *Application for Adjustment of Water Rates of North Marshall Water District* (Ky. PSC Oct. 5, 2010).

An examination of finances outlined in the annual and audit reports filed with the Commission finds that North Marshall District has operated with a negative net income for four of the past five years, as shown below.

Year	2016	2017	2018	2019	2020
Net Income before Contributions	\$ 49,991	\$ (274,164)	\$ (254,254)	\$ (367,447)	\$ (551,860)
Less: Principal Payments	-	-	(58,500)	(60,000)	(62,000)
Add: Depreciation Expense	332,592	393,191	407,876	441,706	425,741
Cash Basis Income	\$ 382,583	\$ 119,027	\$ 95,122	\$ 14,259	\$ (188,119)

Year	2016	2017	2018	2019	2020
Cash and Cash Equivalents	\$ 948,608	\$ 1,191,111	\$ 1,340,169	\$ 1,161,667	\$ 781,806
Restricted Funds - Sinking, Depreciation	53,417	62,214	57,557	57,628	60,621
Net Increase (Decrease) in Cash	265,635	251,300	145,301	(179,331)	(376,868)

12

North Marshall District’s cash reserves are, historically, somewhat stable, though the Commission notes a drastic reduction in cash in both 2019 and 2020.

The Commission notes that North Marshall District reported a water loss of 33.53 percent in its 2020 Annual Report.<sup>13</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 used by a utility in its own operations. At the proposed rates, reduction of North Marshall District’s unaccounted-for water loss to 15 percent would result in an approximate \$35,544

<sup>12</sup> 2016 Audit Report of North Marshall District at 4-13, 2018 Audit Report of North Marshall District at 4-13, and 2020 Audit Report of North Marshall District at 4-13.

<sup>13</sup> 2020 Annual Report of North Marshall District at 58.

decrease to its cost of water annually.<sup>14</sup> The Commission also notes that at the proposed rates, North Marshall District's total cost of water loss is \$64,316 annually at the current 33.53 percent rate.<sup>15</sup>

Based upon the evidence of record, the Commission concludes that the KRS 278.023 legal standard to approve the proposed financing is met because North Marshall District is a water district formed by KRS Chapter 74 and the financing for the proposed project is being obtained through a federal agency, USDA/RD.

Although we approve the financing, the Commission has concerns regarding the financial condition of North Marshall District because the utility has been operating with a negative net income for four of the past five years, the most recent inspection notes the utility is spending an excess on \$64,316 on water loss, and the utility is not complying with proper meter testing schedules in order ensure that its meters are accurate. Based on the information provided in the application, the Commission finds that this case should remain open to allow Commission Staff to monitor whether North Marshall District's

14

	Purchased Power	Purchased Chemicals	Total
2020 Reported Expenses	\$ 162,988	\$ 28,829	\$ 191,817
Multiplied by: Water Loss In Excess of 15 Percent	18.53%	18.53%	18.53%
Excess Cost	<u>\$ 30,202</u>	<u>\$ 5,342</u>	<u>\$ 35,544</u>

15

	Purchased Power	Purchased Chemicals	Total
2020 Reported Expenses	\$ 162,988	\$ 28,829	\$ 191,817
Multiplied by: Water Loss Percentage	33.53%	33.53%	33.53%
Excess Cost	<u>\$ 54,650</u>	<u>\$ 9,666</u>	<u>\$ 64,316</u>

proposed rates meet the total revenue requirements recommended in the engineering reports. To clarify this issue, North Marshall District should file on or before October 22, 2021, its responses to Staff's First Request for Information, attached as Appendix B to this Order.

IT IS THEREFORE ORDERED that:

1. North Marshall District is granted a CPCN for the proposed project as submitted.

2. North Marshall District's proposed plan of financing is approved.

3. North Marshall District is authorized to issue \$2,715,000 of its Water System Revenue Bonds in the amount of \$2,715,000 maturing over 40 years at an interest rate not to exceed 1.50 percent per annum.

4. The proceeds from the issuance of the Water System Revenue Bonds shall be used only for the purposes specified in North Marshall District's application.

5. North Marshall District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

6. North Marshall 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.

7. North Marshall 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.

8. North Marshall 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.

9. North Marshall District shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

10. Any documents filed in the future pursuant to ordering paragraphs 6, 7, and 9 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

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

12. The rates set forth in Appendix A to this Order are approved for service that North Marshall District renders on and after the date of this Order.

13. Within 20 days of the date of this Order, North Marshall District shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.

14. This case shall remain open to allow the Commission sufficient time to evaluate North Marshall District's financial condition.



15. On or before October 22, 2021, North Marshall District shall submit its responses to the Staff's First Request for Information attached to this Order as Appendix B.

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

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

By the Commission

ENTERED  
SEP 17 2021 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2021-00333

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00333 DATED SEP 17 2021

The following rates and charges are prescribed for the customers in the area served by North Marshall 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.

Bi-Monthly Water Rates

5/8- x 3/4-Inch Meters

Customer Charge \$ 23.49  
All Usage 0.00327 per gallon

1-Inch Meters

Customer Charge \$ 32.79  
All Usage 0.00327 per gallon

1.5-Inch Meters

Customer Charge \$ 48.30  
All Usage \$ 0.00327 per gallon

2-Inch Meters

Customer Charge \$ 66.95  
All Usage 0.00327 per gallon

3-Inch Meters

Customer Charge \$ 110.40  
All Usage 0.00327 per gallon

4-Inch Meters

Customer Charge \$ 172.51  
All Usage \$ 0.00327 per gallon

6-Inch Meters

Customer Charge \$ 327.73  
All Usage \$ 0.00327 per gallon

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00333 DATED SEP 17 2021

#### COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO NORTH MARSHALL WATER DISTRICT

North Marshall Water District (North Marshall District), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested is due on October 22, 2021. The Commission directs North Marshall District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission. 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 that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

North Marshall District shall make timely amendment to any prior response if North Marshall District obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request

---

<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

to which North Marshall District fails or refuses to furnish all or part of the requested information, North Marshall 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 Marshall 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. Provide a schedule in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible showing that North Marshall District will meet the debt service coverage requirements of its lenders (existing and proposed long-term debt) for the three years following the completion of its proposed construction project. Include all calculations, assumptions (customer growth and increases in operating expenses), and workpapers used by North Marshall District in its response.

2. Provide a schedule in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible showing North Marshall District's debt service coverage (existing and proposed long-term debt), including full recovery of its depreciation expense (existing plant and the completed project) for the three years following the completion of its proposed construction project. Include all calculations,

assumptions (customer growth and increases in operating expenses), and workpapers used by North Marshall District in its response.

3. Provide copies of the following and, when appropriate, provide in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible: The general ledger and trial balance for the calendar years 2020 and 2021 to date.

4. Provide a three-year projected average debt service coverage calculation including all current debt of North Marshall District, including the financing approved in this case using the table below.

5. Commission Regulation 807 KAR 5:069, Section 2(6)(c), provides that the proposed rates, if any, shall produce the total revenue requirements recommended in the engineering reports. Provide a copy of the Billing Analysis in Excel spreadsheet format, with all formulas, rows, and columns unprotected and fully accessible, showing revenue at current rates and at proposed rates based on actual and forecasted water usage for the existing system for 12 months as contained in the Kentucky Guide 7 Summary Addendum that was provided to the United States Department of Agriculture Rural Development (RD).

6. Refer to North Marshall District's 2020 Annual Report, page 57. line 21, Total Water Loss percentage is stated as 33.5267 percent.

a. Provide a comprehensive description of North Marshall District's efforts to reduce water loss.

b. Provide the anticipated reduction to water loss that will occur due to the proposed project.

7. North Marshall District's 2021 periodic inspection noted that 5/8 x 3/4 meters have been in service for greater than ten years without being tested. The project description includes the upgrade of meters with new remote read water meters.

a. Provide the size and number of meters that are not in compliance with the regulation.

b. Provide the size and number of meters that will be replaced as part of the project.

c. Provide North Marshall District's plan to remain in compliance going forward with 807 KAR 5:066, Section 16(1).

ATTACHMENT 1

ATTACHMENT TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00333 DATED

[https://cg.ky.gov/sites/eecintr/PSC/LEGAL%20PAD/PDF%20of%20Periodic Inspection North Marshall Water District CL 5-4-2021 \(2\).pdf?Web=1](https://cg.ky.gov/sites/eecintr/PSC/LEGAL%20PAD/PDF%20of%20Periodic%20Inspection%20North%20Marshall%20Water%20District%20CL%205-4-2021%20(2).pdf?Web=1)

TWO PAGES TO FOLLOW



ATTACHMENT 2

ATTACHMENT TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00333 DATED

[https://cg.ky.gov/sites/eecintr/PSC/LEGAL%20PAD/2021-00333%20SIGNED%20PSC Annual Report Response.pdf?Web=1](https://cg.ky.gov/sites/eecintr/PSC/LEGAL%20PAD/2021-00333%20SIGNED%20PSC%20Annual%20Report%20Response.pdf?Web=1)

THREE PAGES TO FOLLOW

\*Roger Colburn  
North Marshall Water District  
96 Carroll Road  
Benton, KY 42025

\*Paul Cloud  
PE  
Paul Cloud Engineering  
437 Cactus Dr.  
Benton, KENTUCKY 42025

\*North Marshall Water District  
96 Carroll Road  
Benton, KY 42025

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