

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH SHELBY)	
WATER COMPANY FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY TO)	CASE NO.
CONSTRUCT PURSUANT TO 807 KAR 5:001)	2022-00152
AND KRS 278.020 TO CONSTRUCT A)	
REPLACEMENT WATER TOWER)	

ORDER

On May 26, 2022, North Shelby Water Company (North Shelby Water) filed, pursuant to KRS 278.020(1), an application for a Certificate of Public Convenience and Necessity (CPCN) to construct a replacement water storage tower at an estimated cost of \$2,125,000. No debt will be incurred by North Shelby Water to finance this project and North Shelby Water does not seek a rate increase to support this project. No party has sought intervention in this matter. North Shelby Water filed a motion on September 20, 2022, asking for an expedited decision on its application. The record for this case is complete, and the matter stands ready for decision.

BACKGROUND

North Shelby Water, a water association organized under KRS Chapter 273, provides retail water service to approximately 5,398 customers in Franklin, Henry, Oldham, and Shelby Counties, Kentucky.¹

¹ *Annual Report of North Shelby Water to the Public Service Commission for the Year Ended December 31, 2021* at 12 and 49.

WATER LOSS

Pursuant to 807 KAR 5:066, Section 6(3), water loss is limited to 15 percent for rate-making purposes. The Commission Staff notes that North Shelby Water reported a water loss of 16.68 percent in its 2021 Annual Report.² At a 16.68 percent water loss, the annual cost of water loss above 15 percent is \$22,644, and the yearly total cost of water loss to North Shelby Water is \$224,825, as calculated in the table below.

	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Total</u>
Test-Year Purchased Water and Purchased Power	\$ 1,262,161	\$ 85,713	\$ 1,347,874
Multiplied by: Water Loss in Excess of 15 Percent	1.68%	1.68%	1.68%
Cost of Water loss in Excess of the 15% Limitation	<u>\$ 21,204</u>	<u>\$ 1,440</u>	<u>\$ 22,644</u>
Test-Year Purchased Water and Purchased Power	\$ 1,262,161	\$ 85,713	\$ 1,347,874
Multiplied by: Test-Year Water Loss	16.68%	16.68%	16.68%
Total Cost of Water Loss	<u>\$ 210,528</u>	<u>\$ 14,297</u>	<u>\$ 224,825</u>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent water loss threshold and strongly encourages North Shelby Water to pursue reasonable actions to reduce its water loss. Failure by North Shelby Water to make significant progress toward reducing water loss may cause the Commission to pursue additional action with the utility.

LEGAL STANDARD

The Commission's standard of review regarding a CPCN is well settled. Under KRS 278.020(1), 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. To obtain

² *Annual Report of North Shelby Water Company, Water Utilities Report to the Kentucky Public Service Commission for the Year Ended December 31, 2021* at 57.

a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.³

“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.⁴

“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.”⁵ 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.⁶ Selection of a

³ *Kentucky Utilities Co. v. Pub. Serv. Comm’n*, 252 S.W.2d 885 (Ky. 1952)

⁴ *Kentucky Utilities Co. v. Pub. Serv. Comm’n*, 252 S.W.2d 885, 890 (Ky. 1952).

⁵ *Kentucky Utilities Co. v. Pub. Serv. Comm’n*, 252 S.W.2d 885, 890 (Ky. 1952).

⁶ Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company 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.⁷ All relevant factors must be balanced.⁸

PROPOSED PROJECT

North Shelby Water's proposed project includes the construction a new 250,000-gallon elevated water storage tank to replace an existing 100,000-gallon standpipe structure in the community of Bryant in western Franklin County, Kentucky.⁹ North Shelby Water stated the existing storage tank is inadequate, as it is in poor condition and lacks the capacity needed to meet current and future customer demands.¹⁰ Furthermore, North Shelby Water stated the existing tank style (standpipe) and piping arrangement present operation challenges relative to maintaining water quality in the eastern portion of the distribution system.¹¹ Of the existing tank's 100,000 gallons, only approximately 30,000 gallons constitutes usable storage, and if the tank is operated below 70 percent capacity, many customers in the service area experience pressure below the 30 psi minimum threshold required by the Kentucky Division of Water.¹² North Shelby Water further claimed that the interior and exterior coating systems have reached the end of their useful

⁷ See *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 390 S.W.2d 168, 175 (Ky. 1965). See also Case No. 2005-00089, *The Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity to Construct a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005).

⁸ Case No. 2005-00089, Aug. 19, 2005 final Order at 6.

⁹ Application at 3.

¹⁰ Application at 3.

¹¹ Application at 3.

¹² Application at 3.

life, with a few areas on the tank beginning to show signs of severe pitting and metal loss.¹³

North Shelby Water proposed to construct a new 250,000-gallon water tank in the multi-column style, with an overall height of approximately 110 feet, which will include a piping and control valve arrangement that it claimed will greatly improve the turnover and reduce the production of disinfection byproducts as compared to the existing storage tank being replaced.¹⁴ It is expected that the entire 250,000 gallons will be usable volume.¹⁵ The location of the site has been purchased by North Shelby Water for \$15,000 and North Shelby Water plans to construct the new water storage tank directly adjacent to the existing structure which it will replace.¹⁶ North Shelby Water stated the new tank will work in conjunction with the existing distribution system to serve the communities of Bryant, Benson, Flag Fork, Consolation, Jacksonville, Hatton, and other areas of northwestern Franklin County and northeastern Shelby County.¹⁷ North Shelby Water adds that, the improvements will allow it to better serve its entire system from multiple individual suppliers in the event of a water shortage or other emergency.¹⁸

The Kentucky Division of Water reviewed and approved the sanitary features and specifications of the proposed water tank.¹⁹

¹³ Application at 3.

¹⁴ Application at 3-4.

¹⁵ Application at 4.

¹⁶ Application at 4.

¹⁷ Application at 4.

¹⁸ Application at 4.

¹⁹ Application at 5, Exhibit C.

The construction of the new water storage tank is estimated at a cost of \$2,125,000. North Shelby Water has stated that it will pay for the project from its Operation & Maintenance account; no debt will be incurred for the project; and it does not seek a rate increase to support this project.²⁰ On September 20, 2022, North Shelby Water filed a motion that informed the bid for the construction of this project will expire on October 9, 2022, and requested an expedited decision on its application.

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that the proposed construction is necessary and will not result in wasteful duplication of existing facilities, and thus the utility should be granted a CPCN. The Commission finds the public convenience and necessity requires the proposed construction due to the insufficiency of current facilities to meet the storage and pressure required to provide reliable and adequate water service to its customers, primarily caused by the degradation of current facilities. Further, the proposed construction does not conflict with any existing certificates or services of any other utility operating in the area and this facility is proposed to replace an existing facility, and any additional capacity from the replacement will be used. The project will be funded from North Shelby Water's Operation & Maintenance account. North Shelby Water will not incur any debt for the project and its application does not include a proposal to adjust rates.

IT IS THEREFORE ORDERED that:

1. North Shelby Water is granted a CPCN to construct the proposed project as set forth in the Application.

²⁰ Application at 4.

2. North Shelby Water shall obtain approval from the Commission prior to performing any additional construction not expressly approved by this Order.

3. North Shelby Water shall require construction to be inspected under general supervision of a licensed 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 best practices of the construction trades involved in the project.

4. North Shelby Water shall file with the Commission documentation of the total cost of the project within 60 days of the date that construction authorized under this CPCN 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.

5. North Shelby Water shall file a copy of the as-built drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction authorized under this CPCN.

6. Any documents filed in the future pursuant to ordering paragraphs 4 and 5 shall reference this case number and shall be retained in the post-case correspondence file.

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

8. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

*Lee Mudd, P.E.
Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KENTUCKY 40342

*Nathan T Riggs
Riggs, Prather, Ratliff & Bullock, PSC
500 Main Street, Suite 5
Shelbyville,

*North Shelby Water Company
4596 Bagdad Road
P. O. Box 97
Bagdad, KY 40003

*Paula McClain
Mathis, Riggs, Prather & Ratliff, P.S.C Attorneys at
500 Main Street, Suite 5
Shelbyville, KENTUCKY 40065

*David Hedges
North Shelby Water Company
4596 Bagdad Road
P. O. Box 97
Bagdad, KY 40003