

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WESTERN)	
ROCKCASTLE WATER ASSOCIATION, INC. FOR)	
A CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY TO CONSTRUCT A SYSTEM)	CASE NO.
IMPROVEMENTS PROJECT AND AN ORDER)	2023-00334
APPROVING A CHANGE IN RATES AND)	
AUTHORIZING THE ISSUANCE OF SECURITIES)	
PURSUANT TO KRS 278.023)	

ORDER

On October 23, 2023, Western Rockcastle Water Association (Western Rockcastle Water) filed an application, pursuant to KRS 278.023, requesting (1) a Certificate of Public Convenience and Necessity (CPCN) to construct a waterworks improvement project; (2) an Order approving increased water rates, and (3) an Order authorizing the issuance of securities¹ and for approval of its plan to finance the proposed project via a loan agreement with United States Department of Agriculture Rural Development (RD).

Western Rockcastle Water is a water association organized under KRS Chapter 273, and as of December 31, 2020, provided retail water service to approximately 4,141 residential customers, and 21 commercial customers who reside in Garrard, Madison,

¹ Application at 1, paragraph 3.

Pulaski, and Rockcastle counties, Kentucky.² Western Rockcastle Water has not provided an updated customer count since its 2020 Annual Report.

This matter now stands submitted for a decision by the Commission.

LEGAL STANDARD

Notwithstanding the Commission's general responsibilities and discretion regarding CPCNs as laid out in KRS 278.020(1), KRS 278.190, and KRS 278.300; KRS 278.023(1) requires the Commission to accept agreements between water associations and RD, and to issue the necessary orders to implement the terms of such agreements no later than 30 days after the application is filed with the Commission. Additionally, the Commission has no discretionary authority to modify or reject any portion of the agreement between RD and the water association, nor to defer the issuance of all necessary orders to implement the terms of that agreement. As explained in KRS 278.023(1), the Commission's review is truncated 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.

Therefore, the Commission is unable to review this application utilizing the standards applicable in cases 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, RD or the United States

² *Annual Report of Western Rockcastle Water Association to the Public Service Commission (Annual Report) for the Calendar year Ended December 31, 2020* at 12 and 49.

Department of Housing and Urban Development. The Commission is not, however, prohibited by KRS 278.023 from requiring a utility seeking approval of such an agreement to subsequently file reports or other information in order to monitor the utility's ability to repay the loan, meet other financial or regulatory obligations, or otherwise establish its financial condition.

PROJECT DESCRIPTION

Western Rockcastle Water's proposed project entails construction under two contracts, Contract 12 and Contract 13. First, under Contract 12, Western Rockcastle Water proposed installation of approximately 8,400 LF of new 3-inch PVC water main and appurtenances to replace ¾-inch and 1-inch water lines to serve approximately 18 existing users and two new users, along with the installation of two pressure reducing station replacements.³ Second, Contract 13 consists of the rehabilitation of an existing elevated storage tank which is known as the 150,000 Gallon Dog Walk Storage Tank.⁴ Western Rockcastle Water asserted that this tank has been in service for approximately 16 years and requires surface repairs and painting.

Western Rockcastle District proposed to fund this project through (1) the issuance of an RD loan in the amount of \$582,000,⁵ (2) an RD grant in the amount of \$249,000,⁶ and (3) a contribution from Western Rockcastle Water in the amount of \$205,543.⁷ Additionally, Western Rockcastle Water is petitioning RD for an additional \$205,543 to

³ Application, Exhibit A.

⁴ Application, Exhibit A.

⁵ Application, Exhibit A.

⁶ Application, Exhibit A.

⁷ Application at 2, paragraph 5.

cover the shortfall of funds provided.⁸ The agreement with RD requires that Western Rockcastle Water's rates and charges must be at least adequate to meet the cost of maintaining, repairing and operating the water system, meet the required principal and interest payments, and the required deposits to debt service and/or depreciation reserve.⁹ The new rates required by RD exceed Western Rockcastle Water's current rates.¹⁰ The new rates represent an increase of approximately 2.86 percent for residential customers.¹¹

DISCUSSION AND FINDINGS

Commission Staff performed a limited review of Western Rockcastle Water's annual reports and audited financial statements that are on file for the immediately preceding five years. A summary is presented in the table below, and illustrates that in four of the last five years Western Rockcastle Water has experienced net financial losses. The 2022 Annual Report and the 2022 audited financial statements have been submitted and are still under review by the Commission. The Commission notes that its records indicate that Western Rockcastle Water filed its 2022 Annual Report on August 15, 2023, more than four months after the deadline.¹² The 2022 audited financial statements filed with the Commission include results for 2021, and the audited financial statements for 2019, include results for 2018. Audited financial statements or a statement that no audit

⁸ Application, Exhibit A.

⁹ Application, Exhibit B at 32.

¹⁰ Application, Exhibit E.

¹¹ Application, Exhibit E at 2.

¹² 807 KAR 5:006, Section 4(2) requires that utilities file annual reports on or before March 31 of each year.

was performed are required to be filed annually with the Commission on or before September 30.¹³ The Commission encourages Western Rockcastle Water to timely file its audited financial statements according to the regulatory requirements.

Summary Financial Information

Description / Year	Notes	Audited 2018	Audited 2019	Annual Report 2020	Audited 2021	Audited 2022
<i>Adjusted Net Income</i>						
Net Income / (Loss) before Contributions		\$ (105,723)	\$ (194,529)	\$ (166,423)	\$ (196,676)	\$ 57,325
Subtract: Principal Payments ()		(66,270)	(68,878)	(71,592)	(74,416)	(77,355)
Rate Based Income		\$ (171,993)	\$ (457,936)	\$ (238,015)	\$ (271,092)	\$ (20,030)
Add: Depreciation Expense		336,985	330,435	246,701	327,061	330,741
Cash Basis Income		\$ 164,992	\$ (127,501)	\$ 8,686	\$ 55,969	\$ 310,711
<i>Cash and Investments</i>						
Unrestricted Cash and Investments		\$ 851,220	\$ 910,803	Split not available	\$ 969,365	\$ 988,969
Restricted Funds		488,650	462,758		267,216	250,752
Adjusted Cash Balances		1,339,870	1,373,561	1,358,820	1,236,581	1,239,721
Net Increase (Decrease) in Cash			\$ 33,691	\$ (14,741)	\$ (122,239)	\$ 3,140

*Selected Statistical Information
(PSC Annual Reports)*

Customer Count	(1)	4,156	4,160	4,162	4,162	4,162
Gallons Purchased	(2) 2022	242,042	276,343	279,653	306,596	309,741
Gallons Sold		225,870	211,905	229,986	216,628	221,604
Gallons Used for Internal Use		2,030	217	191	775	5,296
Water Loss Gallons	(3) 2022	14,142	64,221	49,476	89,193	82,841
System Use Percentage		0.8387%	0.0785%	0.0683%	0.2528%	1.7098%
Water Loss Percentage		5.8428%	23.2396%	17.6919%	29.0914%	26.7452%

Notes

- (1) Customer count was not reported for 2021 or 2022. Used 2020 count for both years.
- (2) Calculated from purchased water expense (\$907,541 / \$2.93 = 309,741 gallons ('000)).
- (3) Water loss gallons interpolated from partial information provided in annual report and calculated from purchased water expense.

The Commission notes that Western Rockcastle Water has only filed for rate adjustments in conjunction with cases filed that are subject to KRS 278.023 and purchased water adjustments. Western Rockcastle Water reported losses in four of the

¹³ 807 KAR 5:006, Section 4(3), states "Financial statement audit reports. A utility required to file a report in accordance with subsection (2) of this section shall file with the commission on or before September 30 each year, a copy of the audit report of the Kentucky regulated entity, from the audit performed the previous year, or a statement that no audit was performed of the Kentucky regulated entity the previous year. For good cause shown, the executive director of the commission shall, upon application in writing, allow an appropriate extension of time for the filing."

past five years and did not fully fund depreciation in any of the five years.¹⁴ This is of significant concern to the Commission because Western Rockcastle Water's financial condition may significantly impact its ability to continue to supply adequate, efficient and reasonable water service. Additionally, reported water loss has increased significantly since 2018. In 2021, Western Rockcastle Water reported 29.09 percent water loss.¹⁵ For these reasons, the Commission, on its own motion, finds that Western Rockcastle Water should 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 no later than October 31, 2024.

Further the Commission finds that any application for an adjustment in Western Rockcastle Water's rates should be based upon 2023 data and Western Rockcastle Water's completed 2023 Annual Report. Commission regulation 807 KAR 5:076, Section 3(1) provides that the record upon which a decision will be made in an alternative rate filing proceeding is the applicant's annual report for the immediate past year and the annual reports for the prior two years. Commission regulations 807 KAR 5:006, Section 4(1) and (2) require utilities to file a gross annual operating revenue report and a financial and statistical report no later than March 31 each year. The Commission finds that a rate case filed after Western Rockcastle Water files its 2023 annual report will provide the clearest picture of Western Rockcastle Water's current operations. As noted above, Western Rockcastle Water filed its 2022 Annual Report late. For this reason, the

¹⁴ 2019 Audit Report of Western Rockcastle Water at 7. 2022 Audit Report of Western Rockcastle District at 6.

¹⁵ *Annual Report of Western Rockcastle Water to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 58.

Commission strongly advises Western Rockcastle Water to take whatever steps are necessary to file its annual report by the regulatory deadline of March 31, 2024. The Commission will not look favorably upon any motion for an extension of time to file an application for an adjustment of Western Rockcastle Water's rates that is based on its failure to timely file its annual report with the Commission.

Based upon the evidence of record, the Commission concludes that the KRS 278.023 legal standard to approve the proposed financing is met because Western Rockcastle Water is a water association organized under KRS Chapter 273 and the financing for the proposed project is subject to an agreement between RD and Western Rockcastle Water. Therefore, the Commission finds that the CPCN should be granted, and the plan of financing should be approved.

IT IS THEREFORE ORDERED that:

1. Western Rockcastle Water is granted a CPCN for the proposed project as submitted.
2. Western Rockcastle Water's proposed plan of financing is approved.
3. Western Rockcastle Water is authorized to execute the RD Loan and RD Grant agreements as provided.
4. Western Rockcastle Water shall charge rates, set forth in the Appendix attached to this Order, not to exceed the minimum rates required by the RD agreement but not less than its current rates.
5. Within 20 days of the date of service of this Order, Western Rockcastle Water shall file with this Commission, using the Commission's electronic Tariff Filing

System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

6. The proceeds of the RD Loan and RD Grant shall be used only for the purposes specified in Western Rockcastle Water's application.

7. Western Rockcastle Water shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

8. Western Rockcastle Water 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. Western Rockcastle Water shall notify the Commission in writing one week prior to the actual start of construction.

10. Western Rockcastle Water 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. Any documents filed in the future pursuant to ordering paragraphs 5 and 8 of this Order shall reference this case number and shall be retained in Western Rockcastle Water'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 Western Rockcastle Water's showing of good cause for such extension.

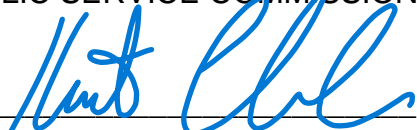
13. Nothing contained in this Order shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing, herein approved.

14. Western Rockcastle Water 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, no later than October 31, 2024, based on its Annual Report for the year ended December 31, 2023.

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

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PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED
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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00334 DATED NOV 22 2023

The following rates and charges are prescribed for the customers in the area served by Western Rockcastle Water Association. 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 Inch Meter

First	2,000 Gallons	\$	28.94 Minimum Bill
Next	3,000 Gallons		0.00827 Per Gallon
Next	5,000 Gallons		0.00763 Per Gallon
Next	15,000 Gallons		0.00698 Per Gallon
Over	25,000 Gallons		0.00637 Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	47.25 Minimum Bill
Next	5,000 Gallons		0.00763 Per Gallon
Next	15,000 Gallons		0.00698 Per Gallon
Over	25,000 Gallons		0.00637 Per Gallon

1-1/2-Inch Meter

First	10,000 Gallons	\$	84.65 Minimum Bill
Next	15,000 Gallons		0.00698 Per Gallon
Over	25,000 Gallons		0.00637 Per Gallon

2-Inch Meter

First	25,000 Gallons	\$	187.10 Minimum Bill
Over	25,000 Gallons		0.00637 Per Gallon

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