

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CUMBERLAND COUNTY WATER )	
DISTRICT FOR A CERTIFICATE OF PUBLIC )	
CONVENIENCE AND NECESSITY TO CONSTRUCT, )	CASE NO.
FINANCE, AND INCREASE RATES PURSUANT TO )	2017-00455
KRS 278.023 )	

ORDER

On December 1, 2017, Cumberland County Water District (“Cumberland”) filed an application pursuant to KRS 278.023 for a Certificate of Public Convenience and Necessity (“CPCN”) to construct a waterworks improvement project, for approval of its plan to finance the proposed project, and for an increase in the general water rates. No person has sought intervention in this matter, and Cumberland has not requested a hearing. The record for this case is complete, and the matter stands ready for decision.

The Commission notes that in its 2016 Annual Report, Cumberland reported a water loss of 30.5538 percent. 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility’s unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Reduction of Cumberland’s unaccounted-for water loss to 15 percent would result in an approximate \$56,973<sup>1</sup> decrease to purchased water expense. Potentially, Cumberland

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<sup>1</sup>	Purchased Water from 2016 Annual Report	\$366,296
	Times: Water Loss Above 15 Percent	<u>15.5538%</u>
	Purchased Water Expense Reduction	\$ 56,973

is paying \$0.48<sup>2</sup> per 1,000 gallons sold for expenses associated with unaccounted-for water loss greater than 15 percent.

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

Cumberland, a water district organized under KRS Chapter 74, provides retail water service to approximately 2,489 customers in Cumberland County, Kentucky.<sup>3</sup>

The proposed project consists of the installation of approximately 14,800 feet of 3-, 4-, and 6-inch polyvinyl chloride (“PVC”) water line, associated appurtenances, a pressure-reducing vault, and a master meter vault.<sup>4</sup> The proposed project will replace the existing aging and undersized line to meet existing and future system demands and improve service to approximately 100 existing customers, including one large commercial user.<sup>5</sup>

The total cost of the project, including legal, administrative, development, and engineering, plus interest and contingencies, is \$1,000,000. The project is to be financed

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<sup>2</sup> Potential purchased water expense reduction divided by sales (\$56,973/118,005,000/1,000) equals \$0.4828/1,000.

<sup>3</sup> *Annual Report of Cumberland County Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2016* at 12 and 48.

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

<sup>5</sup> Application, Monarch Engineering, Inc., Preliminary Engineering Report for the Cumberland County Water District.

with a \$700,000 promissory note to the United States Department of Agriculture (“USDA”), Rural Utilities Service, Rural Development (“RD”) and with a grant of \$300,000 from the USDA, acting through RD. Cumberland has a commitment from RD to purchase the \$700,000 promissory note. As set out in the RD Letter of Conditions as amended,<sup>6</sup> the \$700,000 promissory note will mature over a 40-year period at an interest rate equal to the lower of the rate in effect at the time of loan approval, or the rate in effect at the time of closing, but not to exceed 1.8750 percent per annum.<sup>7</sup>

Under the proposed rates, the monthly bill of a residential water customer using 5,000 gallons of water will increase from \$49.50 to \$51.11, or approximately 3.25 percent.

Cumberland has submitted its application pursuant to KRS 278.023 and 807 KAR 5:069. Notwithstanding KRS 278.020(1), KRS 278.190, and KRS 278.300, KRS 278.023 requires the Commission to accept agreements between water districts and RD regarding construction projects, and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between RD and Cumberland, 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 district’s proposed facilities will result in the wasteful duplication of facilities or excessive investment or its proposed rates are unfair, unjust or unreasonable. The

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<sup>6</sup> Application at Exhibit A.

<sup>7</sup> *Id.* at Exhibit A.

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.

IT IS THEREFORE ORDERED that:

1. Cumberland is granted a CPCN for the proposed project as submitted.
2. Cumberland's proposed plan of financing is approved.
3. Cumberland is authorized to enter into a promissory note with RD in the amount of \$700,000, maturing over a 40-year period, at an interest rate equal to the lower of the rate in effect at the time of loan approval, or the interest rate in effect at the time of closing, but not to exceed 1.8750 percent per annum.
4. The proceeds from the promissory note shall be used only for the purposes specified in Cumberland's application.
5. Cumberland 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, Cumberland may use such surplus to construct additional plant facilities if RD approves of the use and the additional construction will not result in a change in Cumberland's rates for service. Cumberland shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.
7. Cumberland 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 cost shall be classified into appropriate plant

accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

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

11. The rates set forth in the Appendix to this Order are approved for service that Cumberland renders on and after the date of this Order.

12. Within 20 days of the date of this Order, Cumberland shall file revised tariff sheets with the Commission, using the Commission’s electronic Tariff Filing System, containing the rates set forth in the Appendix to this Order.

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

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

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

By the Commission



ATTEST:

  
Executive Director

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00455 DATED **DEC 20 2017**

The following rates and charges are prescribed for the customers in the area served by Cumberland County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

#### Monthly Water Rates

##### 5/8-Inch x 3/4-Inch Meter

First	2,000	Gallons	\$ 28.16	Minimum bill
Next	3,000	Gallons	7.65	per 1,000 Gallons
Next	5,000	Gallons	6.65	per 1,000 Gallons
All Over	10,000	Gallons	5.65	per 1,000 Gallons

##### 1-Inch Meter

First	5,000	Gallons	\$ 51.11	Minimum bill
Next	5,000	Gallons	6.65	per 1,000 Gallons
All Over	10,000	Gallons	5.65	per 1,000 Gallons

##### 1 1/2-Inch Meter

First	12,500	Gallons	\$ 98.49	Minimum bill
All Over	12,500	Gallons	5.65	per 1,000 Gallons

##### 2-Inch Meter

First	25,000	Gallons	\$ 169.11	Minimum bill
All Over	25,000	Gallons	5.65	per 1,000 Gallons

##### Dale Hollow State Park

First	300,000	Gallons	\$ 1,722.86	Minimum bill
All Over	300,000	Gallons	5.65	per 1,000 Gallons

\*Cumberland County Water District  
133 Lower River Street  
Burkesville, KY 42717-9622

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