

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ALLEN COUNTY WATER)	
DISTRICT FOR THE ISSUANCE OF A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY TO CONSTRUCT A WATER)	CASE NO.
SYSTEM IMPROVEMENTS PROJECT AND)	2019-00398
AN ORDER AUTHORIZING THE ISSUANCE)	
OF SECURITIES PURSUANT TO THE)	
PROVISIONS OF KRS 278.020, KRS 278.300,)	
AND 807 KAR 5:001)	

ORDER

On October 29, 2019, Allen County Water District (Allen District) filed, pursuant to KRS 278.020(1) and KRS 278.300, an application (Application) for the issuance of a Certificate of Public Convenience and Necessity (CPCN) to construct a new water storage tank. Allen District proposes to finance the project by requesting approval to borrow up to \$2,450,000 from the Kentucky Infrastructure Authority (KIA) Federally Assisted Drinking Water Revolving Loan Fund (F19-025). There have been no requests to intervene in this case.

Allen District, a water district organized under KRS Chapter 74, provides retail service to approximately 5,532 customers in Allen County, Kentucky.¹

The Commission notes that in its 2018 Annual Report Allen District reported a water loss of 25.5582 percent. Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water

¹ *Annual Report for Allen County District for Year Ending December 31, 2018*, at 49.

produced and purchased, excluding water consumed by a utility in its own operations. Reduction of Allen District’s water loss to 15 percent would result in an approximate \$83,336² decrease to purchased water expense. Potentially, Allen District is paying \$0.22 per 1,000 gallons sold,³ for expenses associated with water loss greater than 15 percent.

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

Allen District is requesting a CPCN to construct a new 500,000-gallon elevated water storage tank. The proposed water storage tank will address Allen District’s inadequate storage capacity caused by growth in the service area. The new water tank will replace the existing Lambert Road ground storage tank to address the short fill cycles and lack of adequate storage capacity. The existing Lambert Road ground storage tank only utilizes the top third of the tank and is turning over in excess of seven times per day.⁴ It will be removed from operation and will ultimately be decommissioned. In addition to the new elevated tank, approximately 9,000 linear feet of 8-inch PVC water line will be run along Bowling Green Road to transport water pumped via the Halfway Booster Station

²

Purchased Water from 2018 Annual Report	\$ 798.298
Times: Water Loss Above 15 Percent	<u>10.5582%</u>
Purchased Water Expense Reduction	\$ <u>83,336</u>

³ Potential purchased water expense reduction divided by sales (83,336/ (382,036,000/1000) equals \$0.22/1,000.

⁴ Application, Exhibit A.

to the Walker Chapel Pressure Zone. The Halfway Booster Station will have some internal piping switched out for the installation of a new master meter to aid in Allen District's water loss program.

The Kentucky Division of Water reviewed and approved the sanitary features and specifications of the proposed water tank.⁵

The total capital cost of the proposed project is approximately \$2,450,000.⁶ Allen District states that it will finance the proposed project with a \$2,450,000 loan from KIA. The proposed loan will be repaid over a period not to exceed 20 years from the last draw of funds and shall bear interest at the rate of 2.0 percent annum commencing with the first draw of funds.⁷

A special condition was included in the KIA loan conditional commitment letter, which required Allen District to adopt a resolution, agreeing to seek an increase of seven percent for revenues or realize \$160,000 of additional revenues by January 1, 2021. Allen District adopted the required resolution and included a copy of the resolution in its application.⁸ At this time, Allen District is not seeking a rate change. Commission Staff issued a request for information to clarify this, and Allen District confirmed rates were not changing.⁹

Allen District also noted that the utility has implemented a Water Loss Reduction Program to replace current meters in anticipation that the replaced meters will result in

⁵ *Id.*, Exhibit B.

⁶ *Id.*, Exhibit E.

⁷ *Id.*, Exhibit C.

⁸ *Id.*, Exhibit D.

⁹ Allen District's Response to Commission Staff's Initial Request for Information, Item 1.

sufficient additional revenues to make the implantation of the KIA special condition unnecessary. If not, Allen District stated that it will submit a rate case to comply with the special condition of KIA. The Commission is concerned that Allen District will not be successful in meeting the KIA special condition by January 1, 2021. As noted above, reducing water loss by 10 percent would increase revenues by \$83,336 by decreasing purchased water expense, and Allen County would have to reduce its unaccounted water loss to approximately 5 percent to meet KIA's revenue requirement. We do not believe that Allen District can accomplish this within the timeframe required by KIA. We also note that Allen District has not applied for a general adjustment in rates since at least before 1985. Allen District's rate increases since 1985 have been pursuant to either KRS 278.023 or purchased water adjustments; thus, the Commission has had little opportunity to examine Allen District's finances. Therefore, in order to ensure that Allen District is able to meet KIA's increased revenues requirements, the Commission will condition approval of Allen District's application upon Allen District filing an application to adjust its rates no later than July 1, 2020.

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The proposed construction will not result in wasteful duplication of existing facilities.
2. The proposed construction does not conflict with any existing certificates or services of any other utility operating in the area.
3. Public convenience and necessity require the proposed construction, which will allow Allen District to provide reliable and adequate water service to its customers.
4. KDOW has approved the plans and specifications for this proposed project.

5. The proposed loan with KIA is necessary, appropriate for, and consistent with the proper performance of Allen District's service to the public and will not impair Allen District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

6. The project will be funded by a KIA Loan of \$2,450,000.

7. Allen District should be authorized to utilize \$2,450,000 of the Assistance Agreement on the project approved herein.

8. Allen District's Application does not include a proposal to adjust rates.

9. Allen District should file an application to adjust its rates no later than July 1, 2020.

IT IS THEREFORE ORDERED that:

1. Allen District is granted a CPCN to construct the proposed project as set forth in its Application.

2. Allen District's proposed plan for financing is approved.

3. Allen District shall obtain approval from the Commission prior to performing any additional construction not expressly approved by this Order.

4. Allen District shall require construction to be inspected under the 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 the best practices of the construction trades involved in the project.

5. Allen District is authorized to enter the proposed Assistance Agreement with KIA and, under the terms of the Assistance Agreement, to borrow from KIA an amount

not to exceed \$2,450,000 to be repaid over a 20-year period from the date of the last draw of funds at the rate of 2.0 percent per annum.

6. The proceeds from the promissory note shall be used only for the purposes specified in Allen District's Application.

7. Allen District 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.

8. Allen District 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.

9. No later than July 1, 2020, Allen District shall request to adjust its rates for water service pursuant to 807 KAR 5:076.

10. Any documents filed in the future pursuant to ordering paragraphs 3, 7, and 8 shall reference this case number and shall be retained in the post-case correspondence file.

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

12. This case is closed and removed from the Commission's Docket.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

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By the Commission

ENTERED
DEC 19 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2019-00398

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