

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BRACKEN	)	
COUNTY WATER DISTRICT FOR THE	)	
ISSUANCE OF A CERTIFICATE OF PUBLIC	)	
CONVENIENCE AND NECESSITY TO	)	
CONSTRUCT A WATER SYSTEM	)	CASE NO.
IMPROVEMENTS PROJECT AND AN ORDER	)	2020-00271
AUTHORIZING THE ISSUANCE OF	)	
SECURITIES PURSUANT TO THE	)	
PROVISIONS OF KRS 278.020, KRS 278.300,	)	
AND 807 KAR 5:001	)	

ORDER

This matter arises from Bracken County Water District's (Bracken District) application for a Certificate of Public Convenience and Necessity (CPCN) and financing approval to install approximately 5,250 linear feet of 12-inch ductile iron water main from the city of Augusta's water treatment plant to a point along Augusta Berlin Road in northern Bracken County. The application was tendered on August 26, 2020, and deemed to have been filed on August 28, 2020, after Bracken District cured a deficiency.

Here, the financing for which Bracken District has requested approval is intended to fund the project for which it is requesting a CPCN, so the financing approval is dependent on Bracken District obtaining a CPCN for that project. On October 21, 2020, the Commission entered an Order pursuant to KRS 278.300, finding good cause to extend the application beyond 60 days to continue its investigation and review of the application. No party has sought intervention in this matter. The record for this case is complete, and the matter stands ready for decision.

Bracken District, a water district organized under KRS Chapter 274, provides retail water service to approximately 2,597 water customers<sup>1</sup> in Bracken, Mason, Pendleton, and Robertson counties, Kentucky.<sup>2</sup>

The proposed project includes the installation of approximately 5,250 linear feet of 12-inch ductile iron water main from the city of Augusta's water treatment plant to a point along Augusta Berlin Road in northern Bracken County.<sup>3</sup> The installation of the water main is necessary because of the age of the water main and the fact that it exists in a flood area. In the event of a break on this water main the entire water district's customers are in jeopardy of losing water service.<sup>4</sup>

The total cost of the proposed project, including but not limited to development, Land and Rights, legal and administration, engineering, interest, plus contingencies, is \$1,004,900.<sup>5</sup> Bracken District proposes to finance the \$1,004,900 project cost through the issuance of a loan from the Kentucky Rural Water Finance Corporation (KRWFC) of \$1,000,000 and internally generated funds of \$29,900.<sup>6</sup> The proposed KRWFC loan will mature over a 20-year term, with interest rates that vary between 2.00 percent to 2.50

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<sup>1</sup> *Annual Report of Bracken County Water District for the Year Ended December 31, 2019* at 49.

<sup>2</sup> *Id.* at 12.

<sup>3</sup> Application, Exhibit A.

<sup>4</sup> *Id.*

<sup>5</sup> Application, Exhibit D.

<sup>6</sup> Application, Exhibit D, Final Project Budget. Total Project Cost: \$867,650 (Construction Cost) + \$137,250 (Non-Construction Costs) = \$1,004,900. Funding Project per Source: \$975,000 (Proceeds of the KRWFC Loan Net of Issuance Costs) + \$29,900 (Internally Generated Funds) = \$1,004,900.

percent per annum.<sup>7</sup> Bracken District does not propose to increase its water service rates to its customers as a result of the proposed project.<sup>8</sup>

The Commission notes that its records indicate Bracken District has not sought a general adjustment in base rates since its last rate case in 2010.<sup>9</sup> Attached hereto in the Appendix is the Commission's analysis of Bracken District's Excel spreadsheets submitted in its responses to Commission Staff's Initial Request for Information.<sup>10</sup> The Commission's analysis of Bracken District's Audited financial records shows that for the calendar years 2016–2019, Bracken District met the Debt Service Coverage (DSC) requirements of its lenders. Based upon Bracken District's projections Bracken District will remain in compliance with the DSC requirements of its lenders for the calendar years 2021–2023.

Upon its review of Bracken District's DSC projections, the Commission noted that Bracken District included customer tap-on fees in its calculation of the operating revenues available for debt service. Historically, the Commission has found that customer tap-on fees are a form of cost-free capital designed to recover the cost of meter installation rather than as a source of operating revenue to the water utility.<sup>11</sup> By eliminating customer tap-

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<sup>7</sup> *Id.*, Exhibit C, Preliminary Number Runs, Net Debt Service Schedule.

<sup>8</sup> Bracken District's Responses to Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 2, 2020), Item 1.

<sup>9</sup> Case No. 2010-00184, *Application of Bracken County Water District for an Adjustment of Water Rates*, (Ky. PSC Aug. 10, 2010).

<sup>10</sup> Staff's Initial Request for Information (filed Oct. 2, 2020), Items 7–9.

<sup>11</sup> In calculating Other Operating Revenues, the Commission has expressly excluded revenues for tap-on charges. According to KRS 278.0152(2), a tap-on fee is established by a water utility to recover the costs for service tap, meter, meter vault, and installation. According to 807 KAR 5:006, Section 1(6), nonrecurring charges, such as tap-on fees, are intended to be limited in nature and to recover the specific cost of the activity. As we noted in an earlier proceeding, "[i]f tap-on fees are listed as a revenue in the

on fees from Bracken District's DSC projections, the Commission determined that in calendar years 2022-2023 Bracken District will not be in compliance with the DSC requirements of its lenders. However, unlike Bracken District's lenders, the Commission includes noncash items such as depreciation expense in the DSC calculation supporting the revenue requirement of water districts and associations.<sup>12</sup> For the projected calendar years 2021–2023, Bracken District's DSC falls below the 1.2X threshold.

Pursuant to the results of its financial analysis performed in this proceeding, the Commission finds that Bracken District should be ordered to 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 within one year of the date of the issuance of this Order to ensure its revenue is sufficient to support adequate and reliable service. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Bracken District from this requirement.

IT IS THEREFORE ORDERED that:

1. Bracken District is granted a CPCN for the proposed project as submitted.
2. Bracken District's proposed plan of financing is approved.

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debt service calculation, than [sic] the corresponding costs should likewise be included. Since Northern District's fees are cost based, the costs would offset the fees and there would be nothing available to apply to debt service." See Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) An Adjustment of Rates; (B) Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC Apr. 30, 2003) at 13. Case No. 2002-00105, *Application of Northern Kentucky Water District for an Adjustment of Rates, Issuance of Bonds, and Tariff Changes* (Ky. PSC Jan. 7, 2011) at 25.

<sup>12</sup> See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); see Case No. 2020-00020, *Alternative Rate Adjustment Filing of Knox County Utility Commission* (Ky. PSC July 22, 2020); and see Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

3. Bracken District is authorized to obtain a KRWFC loan in the amount of \$1,000,000 maturing over 20 years with interest rates that vary between 2.00 percent to 2.50 percent per annum.

4. The proceeds from the loan agreement shall be used only for the purposes specified in Bracken District's application.

5. Bracken District 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, Bracken District may use such surplus to construct additional plant facilities if KRWFC approves of the use and the additional construction, and it will not result in a change in Bracken District's rates for service. Bracken District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

7. Bracken 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.

8. Bracken 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.

9. Bracken 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.

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

11. Any documents filed in the future pursuant to ordering paragraphs 6, 7, 8, and 10 of this Order shall reference this case number and shall be retained in the utility'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 Bracken District's showing of good cause for such extension.

13. Bracken District 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 within one year of the date of the issuance of this Order.

14. 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.

By the Commission



ATTEST:

  
Executive Director

Case No. 2020-00271

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00271 DATED JAN 21 2021

#### Commission Analysis of Bracken District's Audited and Projected Financial Information

	Debt Service Coverage - Lenders			
	Unaudited 2019	Audited 2018	Audited 2017	Audited 2016
Operating Revenues:				
Operating Revenue	\$ 1,772,759	\$ 1,486,104	\$ 1,560,059	\$ 1,557,242
Operating Expenses Net Depreciation	1,014,771	812,175	846,269	851,312
Net Operating Income	757,988	673,929	713,790	705,930
Non-Operating Income - Interest on Deposits	7,774	7,645	4,146	4,024
Cash Available for Debt Service	765,762	681,574	717,936	709,954
Divide by: Annual Debt Service	486,475	438,795	438,795	438,795
Debt Service Coverage - Bracken District	<u>1.57</u>	<u>1.55</u>	<u>1.64</u>	<u>1.62</u>

	Projected Debt Service Coverage - Lenders		
	2021	2022	2023
Operating Revenues:			
Operating Revenues - Water Sales	\$ 1,600,000	\$ 1,632,000	\$ 1,664,840
Disconnect/Reconnect/Late Charge Fees	58,000	59,160	60,343
Other - Customer Tap-on Fees	30,000	30,600	31,212
Total Operating Revenue	<u>1,688,000</u>	<u>1,721,760</u>	<u>1,756,395</u>
Operation and Maintenance Expenses:			
Operation Expenses	607,000	619,140	631,523
Maintenance Expenses	60,000	61,200	62,424
Customer Accounts Expense	12,000	12,240	12,485
Administrative and General Expenses	281,000	286,620	292,352
Total Operation and Maintenance Expenses	<u>960,000</u>	<u>979,200</u>	<u>998,784</u>
Net Operating Income	728,000	742,560	757,611
Non-Operating Income - Interest on Deposits	4,500	4,590	4,682
Cash Available for Debt Service	732,500	747,150	762,293
Divide by: Annual Debt Service	550,049	619,790	623,390
Debt Service Coverage - Bracken District	<u>1.33</u>	<u>1.21</u>	<u>1.22</u>
Cash Available for Debt Service	732,500	747,150	762,293
Less: Customer Tap-on Fees	(30,000)	(30,600)	(31,212)
Actual Cash Available for Debt Service	702,500	716,550	731,081
Divide by: Annual Debt Service	550,049	619,790	623,390
Debt Service Coverage - Commission	<u>1.28</u>	<u>1.16</u>	<u>1.17</u>

	Projected Debt Service Coverage - Commission		
	2021	2022	2023
Operating Revenues:			
Operating Revenues - Water Sales	\$ 1,600,000	\$ 1,632,000	\$ 1,664,840
Disconnect/Reconnect/Late Charge Fees	58,000	59,160	60,343
Other - Customer Tape Fees			
<b>Total Operating Revenue</b>	<b>1,658,000</b>	<b>1,691,160</b>	<b>1,725,183</b>
Operating Expenses:			
Operation Expenses	607,000	619,140	631,523
Maintenance Expenses	60,000	61,200	62,424
Customer Accounts Expense	12,000	12,240	12,485
Administrative and General Expenses	281,000	286,620	292,352
Depreciation Expense (Existing and Const. Project)	324,968	324,968	324,968
<b>Total Operating Expenses</b>	<b>1,284,968</b>	<b>1,304,168</b>	<b>1,323,752</b>
Net Operating Income	373,032	386,992	401,431
Non-Operating Income - Interest on Deposits	4,500	4,590	4,682
Cash Available for Debt Service	377,532	391,582	406,113
Divide by: Annual Debt Service	550,049	619,790	623,390
<b>Debt Service Coverage</b>	<b>0.69</b>	<b>0.63</b>	<b>0.65</b>
Construction Project (5,250 linear feet of 12-inch ductile iron main)			\$ 1,004,900
Divide by: Mid-point of the NARUC Depreciation Range - Mains			62.5
Projected Depreciation Expense - Construction Project			16,078
Calendar Year 2019 Depreciation Expense			308,890
<b>Total Projected Depreciation Expense</b>			<b>\$ 324,968</b>

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