

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BRONSTON)	
WATER ASSOCIATION, INC. FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY TO CONSTRUCT A)	CASE NO.
SYSTEM IMPROVEMENTS PROJECT AND)	2020-00416
AN ORDER APPROVING A CHANGE IN)	
RATES AND AUTHORIZING THE ISSUANCE)	
OF SECURITIES PURSUANT TO KRS 278.023)	

ORDER

On January 8, 2021, Bronston Water Association, Inc. (Bronston Water) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a water system improvements project. The Commission is required, pursuant to KRS 278.023, to accept agreements between water utilities and the United States Department of Agriculture, Rural Development (USDA/RD), regarding construction projects, and to issue the necessary orders to implement the terms of such agreements no later than 30 days after filing the application with the Commission.

To comply with the requirements of KRS 278.023, the Commission issued its Order on February 4, 2021, granting Bronston Water a CPCN to construct its proposed project, authorizing Bronston Water to obtain the \$555,000 USDA/RD loan, and approving the increase in base rates. The case remained open to allow the Commission ample time to review Bronston Water's responses to the Commission Staff's First Request for Information (Staff's First Request).

The Commission notes that Bronston Water reported in its annual report a water loss of 21.0075 percent.¹ Commission regulation 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.

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

The Commission's Division of Inspections last inspected Bronston Water on September 2, 2020. Bronston Water was notified of one deficiency identified by the Commission in a letter of September 15, 2020: "Bronston Water Association, Inc. is failing to operate its facilities so as to provide adequate and safe service to its customers as required by 807 KAR 5:066, Section 7, due to water loss exceeding 15 percent." Bronston Water filed a response to its Inspection Report stating:

Two of our tanks were taken down due to repairs made to the damaged glass lining in each of these tanks. Water that was used through the local Fire Department, Flushing, Refilling the tanks, and repaired leaks accounted for 4,991,970 gallons of unsold water in 2019. We have installed 38 check meters that are aiding in locating leaks in a more efficient and timely manner. We plan to continue to add more check meters in unmetered areas of the system. We are preparing for a new line replacement project of 3-4 miles of aged line. We have

¹ *Annual Report of Bronston Water Association, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 57.

changed out all meters older than 2012 and will begin in 2021 to resume meter change outs. We strive to continue to monitor our lines and locate leaks as soon as possible to prevent undetected leaks. We read our check daily and monitor the readings on the master meters. We will continue to change out aging meters both customer and check meters.

The Commission notes that its records indicate Bronston Water has not sought a general adjustment in base rates since its last rate case in 2003.² Since 2003, Bronston Water has filed five cases, including this instant case, pursuant to KRS 278.023 involving increases in base rates.³ The Commission's review of records in a financing/rate case, filed pursuant to KRS 278.023, is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. The Commission recently noted that some utilities file applications to increase rates pursuant to KRS 278.023 to intentionally avoid a review of its financial records.⁴ A key general recommendation that resulted from the investigation in Commission Case No. 2019-

² Case No. 2003-00159, *Application of Bronston Water Association, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 7, 2003).

³ Case No. 2007-00545, *The Application of Bronston Water Association Inc. of Wayne and Pulaski Counties, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates* (Ky. PSC Jan. 11, 2008); Case No. 2010-00372, *Application of Bronston Water Association Inc. of Wayne and Pulaski Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023* (Ky. PSC Oct. 10, 2010); Case No. 2014-00029, *Application of Bronston Water Association Inc. of Wayne and Pulaski Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023* (Ky. PSC Mar. 7, 2014); and Case No. 2017-00138, *Application of Bronston Water Association Inc. for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions Of KRS 278.023* (Ky. PSC Mar. 19, 2017).

⁴ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

00041 was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁵

Attached hereto in the Appendix is the Commission's analysis of Bronston Water's Excel spreadsheets submitted in its responses to Staff's First Request.⁶ The Commission's analysis of Bronston Water's audited financial records shows that for the calendar years 2017 through 2019, Bronston Water met the Debt Service Coverage (DSC) requirements of its lenders. Based upon Bronston Water's projections and using a three-average debt service payment, Bronston Water will remain in compliance with the DSC requirements of its lenders for the 2022 through 2024 calendar years. However, unlike Bronston Water's lenders, the Commission includes noncash items such as depreciation expense in the DSC calculation supporting the revenue requirement of water districts and associations.⁷ For the projected calendar years 2022 through 2024, Bronston Water's DSC falls below the 1.2x threshold.

Pursuant to the Commission's recommendation in Case No. 2019-00041 and the results of the financial analysis performed in this proceeding, the Commission finds that Bronston Water 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

⁵ *Id.*

⁶ Bronston Water's responses to Staff's First Request (filed February 2, 2021), Items 3–5.

⁷ 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).

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.

IT IS THEREFORE ORDERED that:

1. Bronston 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 within one year of the date of service of this Order.
2. This case is closed and removed from the Commission's Docket.

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By the Commission



ATTEST:

A handwritten signature in blue ink that reads "Linda C. Budwell". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

Case No. 2020-00416

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00416 DATED APR 30 2021

Commission Analysis of Bronston Water's
Audited Financial Information

	Actual DSC - Lenders			Ref.
	2017	2018	2019	
Operating Revenues	\$ 745,855	\$ 770,495	\$ 835,949	
Operating Expenses	(673,816)	(752,057)	(816,898)	
Net Operating Income	72,039	18,438	19,051	
Add Back: Depreciation Exp.	200,355	215,354	228,084	
Cash Available for Debt Service	272,394	233,792	247,135	
Divide by: 3-Year Average Debt Service	132,500	149,444	157,853	
DSC	2.06	1.56	1.57	

	Projected DSC - Commission			Ref.
	2022	2023	2024	
Operating Revenues	\$ 861,027	\$ 861,027	\$ 861,027	(a)
Depreciation Expense	(236,964)	(236,964)	(236,964)	(b)
Operating Exp. Net of Depreciation	(606,478)	(618,608)	(630,980)	(c)
Cash Available for Debt Service	17,585	5,455	(6,917)	
Divide by: 3-Year Average Debt Service	182,912	186,381	186,381	
DSC	0.10	0.03	(0.04)	

	Projected DSC - Lenders			Ref.
	2022	2023	2024	
Net Operating Income	17,585	5,455	(6,917)	
Add Back: Depreciation Exp.	236,964	236,964	236,964	
Cash Available for Debt Service	254,549	242,419	230,047	
Divide by: 3-Year Average Debt Service	182,912	186,381	186,381	
DSC	1.39	1.30	1.23	

(a) assumes a 3.2% rate increase in year one		
Operating Revenues - 2019 Annual Report		\$ 835,949
First Year Increase	3%	<u>25,078</u>
Projected Operating Revenues - 2021		<u>\$ 861,027</u>
(b) assumes 3% increase in operating expenses in year 1; 2% increase in years 2 and 3.		
Operating Revenue - 2019 Annual Report		\$ 816,898
Less: Depreciation Expense - 2019 Annual Report		<u>(228,084)</u>
Operating Exp. Net of Depreciation - 2019		588,814
Multiplied by: First Year Increase	3%	<u>17,664</u>
Operating Exp. Net of Depreciation - 2021		606,478
Multiplied by: Second Year Increase	2%	<u>12,130</u>
Operating Exp. Net of Depreciation - 2022		618,608
Multiplied by: Third Year Increase	2%	<u>12,372</u>
Operating Exp. Net of Depreciation - 2023		<u>\$ 630,980</u>
(c) Depreciation Expense		
Depreciation Expense - 2019 Annual Report		\$ 228,084
Water line expansion		
555,000 / 62.5 (PSC estimated life)		<u>8,880</u>
Depreciation Expense - 2021, 2022 and 2022		<u>\$ 236,964</u>

Three-Year Average Debt Service						
	Actual			Projected		
	2017	2018	2019	2022	2023	2024
2017	115,430					
2018	141,035	141,035				
2019	141,035	141,035	141,035			
2020		166,262	166,262			
2021			166,262			
2022				175,975		
2023				186,381	186,381	
2024				186,381	186,381	186,381
2025					186,381	186,381
2026						186,381
Totals	<u>397,500</u>	<u>448,332</u>	<u>473,559</u>	<u>548,737</u>	<u>559,143</u>	<u>559,143</u>
3-Year Avg.	<u>132,500</u>	<u>149,444</u>	<u>157,853</u>	<u>182,912</u>	<u>186,381</u>	<u>186,381</u>

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