

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH LOGAN )	
WATER ASSOCIATION, INC. FOR A )	
CERTIFICATE OF PUBLIC CONVENIENCE AND )	CASE NO.
NECESSITY TO CONSTRUCT, FINANCE, AND )	2022-00103
INCREASE RATES PURSUANT TO THE )	
PROVISIONS KRS 278.023 )	

ORDER

On March 30, 2022, South Logan Water Association (South Logan 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, approval of the proposed plan of financing the project, and approval of the proposed rates in its application.<sup>1</sup>

LEGAL STANDARD

South Logan Water has submitted its application pursuant to KRS 278.023. 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. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between the USDA/RD and South Logan Water or

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

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 utility's proposed construction will result in the wasteful duplication of facilities, resulting in an excessive investment, or its proposed rates are unfair, unjust, or unreasonable. As explained in KRS 278.023(1), the limits on the Commission's review are 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. The 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.

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, USDA or United States HUD.

### BACKGROUND

South Logan Water, a water Association organized under KRS Chapter 74, provides retail water service to approximately 1,763 water customers<sup>2</sup> in Logan County, Kentucky.<sup>3</sup> The Commission's Division of Inspections (DOI) last inspected South Logan Water on September 17, 2019. On October 22, 2019, DOI provided South Logan Water

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<sup>2</sup> *Annual Report of South Logan Water Association to the Public Service Commission (Annual Report of South Logan Water) for the Calendar Year Ended December 31, 2020* at 49.

<sup>3</sup> *Annual Report of South Logan Water* at 12.

a copy of the inspection and noted that there were no deficiencies. A copy of the cover letter is attached to this Order as Appendix B.

The proposed project consists of the construction of approximately 11,000 linear feet of new water line along and off the recently opened Russellville Southern Bypass that serves to extend water service to the new unserved area as well as a new SCADA metering point for that area.

The total estimated cost of the proposed project, including but not limited to development, legal expenses, engineering, construction, and contingencies, is \$1,065,000.<sup>4</sup> South Logan Water proposes to finance the construction of the proposed project through the combination of the issuance of a \$798,000 promissory note to USDA/RD repaid over 40 years, at an interest rate not to exceed 1.50 percent per annum<sup>5</sup> as well as a grant from USDA/RD in the amount of \$267,000.<sup>6</sup>

The proposed rates contained in the application are the minimum rates and charges required under the agreement with USDA/RD.<sup>7</sup> The monthly bill of an average residential water customer who uses 4,228 gallons will increase from \$39.70 to \$42.62, an increase of \$2.92, or 7.4 percent.<sup>8</sup>

### DISCUSSION AND FINDINGS

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<sup>4</sup> Application, Exhibit A, Project Description.

<sup>5</sup> Application, paragraph 5.

<sup>6</sup> Application, paragraph 5.

<sup>7</sup> Application, Exhibit B, Amended RD Letter of Conditions at 1.

<sup>8</sup> Application, Exhibit E, Notice of Proposed Rate Charge.

The Commission notes that South Logan Water’s last general rate case was in 2002.<sup>9</sup> An examination of finances outlined in the annual and audit reports filed with the Commission finds that South Logan Water has operated with a positive net income for four of the past five years, as shown below.

Year	2016	2017	2018	2019	2020
Net Income before Contributions	\$ (94,629)	\$ 28,505	\$ 53,351	\$ 79,303	\$ 79,567
Less: Principal Payments	53,599	55,745	57,984	60,316	62,749
Add: Depreciation Expense	159,708	164,624	159,836	149,771	158,163
Cash Basis Income	\$ 11,480	\$ 137,384	\$ 155,203	\$ 168,758	\$ 174,981

Year	2016	2017	2018	2019	2020
Cash and Cash Equivalents	\$ 242,139	\$ 267,442	\$ 374,149	\$ 496,008	\$ 530,363
Restricted Funds - Sinking, Depreciation	492,708	501,388	443,382	468,393	508,594
Net Increase (Decrease) in Cash	(20,580)	25,303	106,707	121,859	34,335 <sup>10</sup>

South Logan Water’s cash reserves are historically stable and generally increasing. These two factors combined indicate that South Logan Water is fully funding its depreciation reserves.

The Commission notes that South Logan Water reported a water loss of 23.70 percent in its 2020 Annual Report.<sup>11</sup> Commission regulation 807 KAR 5:066(6)(3) states that, for rate-making purposes, a utility’s unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water used by a utility in its own operations. At the proposed rates, reduction of South Logan Water’s unaccounted-for water loss to 15 percent would result in an approximate \$47,556

<sup>9</sup> Case No. 2002-00481, *The Application of the South Logan Water Association for Approval of a Proposed Increase in Rates for Water Service, Approval to Borrow Funds, and to Increase Non-Recurring Charges* (Ky. PSC Oct. 9, 2003).

<sup>10</sup> 2016 Audit Report of South Logan Water at 3–6, 2018 Audit Report of South Logan Water at 3–6, and 2020 Audit Report of South Logan Water at 3–6.

<sup>11</sup> Annual Report of South Logan Water at 57.

decrease to its cost of water annually.<sup>12</sup> The Commission also notes that at the proposed rates, South Logan Water's total cost of water loss is \$126,550 annually at the current 23.70 percent rate.<sup>13</sup>

Based upon the evidence of record, the Commission concludes that the KRS 278.023 legal standard to approve the proposed financing is met because South Logan Water is a water association formed by KRS Chapter 74 and the financing for the proposed project is being obtained through a federal agency, USDA/RD. Therefore, the Commission finds that the CPCN is granted, and the plan of financing and the rate adjustment are approved.

Although the Commission approves the financing, and the proposed rate adjustment, the Commission questions the feasibility of the rates proposed to meet South Logan Water's existing debt service agreements and revenue requirement. Based on the information provided in the application, the Commission finds that this case will remain open to allow Commission Staff to monitor whether South Logan Water's proposed rates meet the total revenue requirements recommended in the engineering reports.

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	Purchased Water	Purchased Power	Total
2020 Reported Expenses	531,512	\$ 15,114	\$ 546,626
Multiplied by: Water Loss In Excess of 15 Percent	8.70%	8.70%	8.70%
Excess Cost	46,242	\$ 1,315	\$ 47,556

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	Purchased Water	Purchased Power	Total
2020 Reported Expenses	531,512	\$ 15,114	\$ 546,626
Multiplied by: Water Loss Percentage	23.70%	23.70%	23.70%
Excess Cost	\$ 125,968	\$ 3,582	\$ 129,550

IT IS THEREFORE ORDERED that:

1. South Logan Water is granted a CPCN for the proposed project as submitted.
2. South Logan Water's proposed plan of financing is approved.
3. South Logan Water is authorized to issue \$798,000 via a Promissory Note at an interest rate not exceeding 1.875 percent per annum with a repayment period of 40 years as well as an RD grant in the amount of \$267,000.
4. The proceeds from the issuance of the Water System Revenue Bonds shall be used only for the purposes specified in South Logan Water's application.
5. South Logan Water shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
6. South Logan 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.
7. South Logan Water 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.
8. South Logan 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.

9. South Logan Water shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

10. Any documents filed in the future pursuant to ordering paragraphs 6, 7, and 9 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

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

12. The rates set forth in Appendix A to this Order are approved for service that South Logan Water renders on and after the date of this Order.

13. Within 20 days of the date of this Order, South Logan Water shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.

14. This case shall remain open to allow the Commission sufficient time to evaluate South Logan Water's financial condition.

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

PUBLIC SERVICE COMMISSION

  
\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Vice Chairman

\_\_\_\_\_  
Commissioner



ATTEST:

  
\_\_\_\_\_  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00103 DATED APR 29 2022

The following rates and charges are prescribed for the customers in the area served by South Logan 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 X 3/4-Inch Meter

First	2,000 Gallons	\$24.02	Minimum Bill
Next	8,000 Gallons	0.00835	Per Gallon
Next	40,000 Gallons	0.00806	Per Gallon
Next	50,000 Gallons	0.00776	Per Gallon
Over	100,000 Gallons	0.00747	Per Gallon

1-Inch Meter

First	2,000 Gallons	\$45.43	Minimum Bill
Next	8,000 Gallons	0.00835	Per Gallon
Next	40,000 Gallons	0.00806	Per Gallon
Next	50,000 Gallons	0.00776	Per Gallon
Over	100,000 Gallons	0.00747	Per Gallon

1 1/2-Inch Meter

First	2,000 Gallons	64.67	Minimum Bill
Next	8,000 Gallons	0.00835	Per Gallon
Next	40,000 Gallons	0.00806	Per Gallon
Next	50,000 Gallons	0.00776	Per Gallon
Over	100,000 Gallons	0.00747	Per Gallon

2-Inch Meter

First	2,000 Gallons	\$99.48	Minimum Bill
Next	8,000 Gallons	0.00835	Per Gallon
Next	40,000 Gallons	0.00806	Per Gallon
Next	50,000 Gallons	0.00776	Per Gallon
Over	100,000 Gallons	0.00747	Per Gallon

3-Inch Meter

First	2,000 Gallons	\$133.82	Minimum Bill
Next	8,000 Gallons	0.00835	Per Gallon
Next	40,000 Gallons	0.00806	Per Gallon
Next	50,000 Gallons	0.00776	Per Gallon
Over	100,000 Gallons	0.00747	Per Gallon

4-Inch Meter

First	2,000 Gallons	\$173.09	Minimum Bill
Next	8,000 Gallons	0.00835	Per Gallon
Next	40,000 Gallons	0.00806	Per Gallon
Next	50,000 Gallons	0.00776	Per Gallon
Over	100,000 Gallons	0.00747	Per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00103 DATED APR 29 2022

TWO PAGES TO FOLLOW



**Matthew G. Bevin**  
Governor

**Charles G. Snavely**  
Secretary  
Energy and Environment Cabinet

Commonwealth of Kentucky  
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**Michael J. Schmitt**  
Chairman

**Robert Cicero**  
Vice Chairman

**Talina R. Mathews**  
Commissioner

October 22, 2019

Rebecca Ferguson  
South Logan Water Association  
114 South Main Street  
Adairville, KY 42202

Re: Periodic Water Inspection  
South Logan Water Association Water System  
Logan County, KY

Dear Rebecca Ferguson:

Public Service Commission staff performed a periodic inspection of the South Logan Water Association water system on September 17, 2019, reviewing utility operations and management practices pursuant to Commission regulations. The report of this inspection is enclosed with this letter.

Based on the inspector's observations, no deficiencies were identified.

One deficiency was noted on the previous inspection on November 8, 2017. The deficiency from the previous inspection has been addressed.

Please review the enclosed inspection report in its entirety as you will find further information noted in regard to the inspection. If you have any questions regarding this inspection, feel free to contact Roy Gray at 502-782-1247 or via email at roy.gray@ky.gov.

Sincerely,

A handwritten signature in black ink that reads "Roy Gray".

Roy Gray

Periodic Water Inspection  
South Logan Water Association Water System  
October 22, 2019  
Page 2 of 2

Utility Regulatory & Safety Investigator  
Public Service Commission

Enclosure(s)  
Copy: George Fugate, Chairperson

\*Chris Wilcutt  
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\*Rebecca Ferguson  
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