

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GARRARD)	
COUNTY WATER ASSOCIATION, INC. FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	CASE NO.
NECESSITY TO CONSTRUCT A WATER)	2022-00276
SYSTEM IMPROVEMENTS PROJECT, FINANCE,)	
AND INCREASE IN RATES PURSUANT TO THE)	
PROVISIONS OF KRS 278.023)	

ORDER

On August 26, 2022, Garrard County Water Association (Garrard County Water) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a water main and storage tank, approval of the proposed plan for financing the project, and approval of rate changes required by its agreement with the United States Department of Agriculture Rural Development (RD). No party has sought intervention in this matter. This matter now stands submitted for a decision by the Commission.

LEGAL STANDARD

Garrard County 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 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 RD and Garrard

County Water or defer the issuance of all necessary orders to implement the terms of that agreement. Pursuant to KRS 278.023, the statute 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, United States Department of Agriculture or United States Department of Housing and Urban Development.

The Commission is not, however, prohibited by KRS 278.023 from requiring a utility seeking approval of such an agreement to subsequently file reports or other information in order to monitor the utility's ability to repay the loan, meet other financial or regulatory obligations, or otherwise establish its financial condition.

BACKGROUND

Garrard County Water is a water association organized under KRS Chapter 273. Garrard County Water proposed to construct 34,300 linear feet of 3-inch, 4-inch, and 6-

inch water main improvements and a 50,000-gallon ground water storage tank.¹ Garrard County sought to fund this project via a \$2.5 million loan agreement with RD.² The agreement requires that Garrard County Water maintain certain minimum rates.³ These rates exceed Garrard County Water's current rates.⁴ The monthly bill of an average residential water customer who uses 5,000 gallons of water will increase \$2.16 from \$34.22 to \$36.38 or 6.31 percent.

Garrard County Water reported a water loss of 27.7554 percent in its 2021 Annual Report.⁵ Reduction of Garrard County Water's unaccounted-for water loss to 15 percent would result in an approximate \$142,826 decrease to its cost of water annually.⁶ Garrard County Water's total cost of water loss is \$310,786 annually at the current 27.7554 percent rate.⁷

The Commission ordered Garrard County Water to file an application for a traditional adjustment in rates or an alternative rate adjustment by June 23, 2021.⁸ Garrard County Water did not file an application and an investigation was opened on October 14, 2021.⁹ An informal conference was held with Garrard County Water and the

¹ Application, Exhibit A.

² Application, Exhibit B, Section 28.

³ Application, Exhibit B, Section 32.

⁴ TFS 2022-00278 (Ky. PSC filed Apr. 7, 2022), 25th Revised Sheet 1.

⁵ *Annual Report of Garrard County Water to the Public Service Commission for the year ended December 31, 2021* (2021 Annual Report) at 57.

⁶ Excess gallons times average cost per thousand (54,710 x \$2.61 = \$142,826).

⁷ Total gallons water loss times average cost per thousand (119,048 x \$2.61 = \$310,786).

⁸ Case No. 2020-00187, *Electronic Purchased Water Adjustment Filing of Garrard County Water Association, Inc.* (Ky. PSC June 23, 2020), Order at 4.

⁹ Case No. 2021-00350, *Electronic Alleged Failure of the Garrard County Water Association, Inc. and Its Officers, Bill C. Doolin, Felix Reynolds, Jenny Lynn Whittaker, Robert W. Ballard, Gary W. Clark,*

Commission ordered Garrard County Water to implement a policy of regular rate sufficiency review and to file documentation of the adopted rate review policy with the Commission.¹⁰ Garrard County Water subsequently submitted a Rate Sufficiency Review Policy to the Commission on August 22, 2022.¹¹

DISCUSSION AND FINDINGS

Having considered the application and all evidence in the record, the Commission finds that the application is approved pursuant to KRS 278.023. Garrard County Water is a water association organized under KRS Chapter 273 and the approvals sought are authorized or required by the RD agreement.

The Commission further orders that this case shall be kept open so Garrard County Water's financial condition and water loss may be closely monitored. Garrard County Water reported operating losses in four of the last five years.¹² In each year they reported investment income that more than offset the losses.¹³ Garrard County Water did not have any debt as of December 31, 2021.¹⁴ Payments on a 2018 RD loan for \$2,423,000 were accelerated from 2019 through 2021 and the loan was paid off with cash on hand and

Bill Oliver, and Sean Smith, to Comply with a Commission order, KRS 278.990 (Ky. PSC Oct. 14, 2021), Order.

¹⁰ Case No. 2021-00350, Mar. 28, 2022 Order.

¹¹ Case No. 2021-00350 (filed Aug. 22, 2022) Garrard County Water Association, Inc. Rate Sufficiency Review Policy.

¹² Appendix A.

¹³ Appendix A.

¹⁴ Audited Financial Statements for Garrard County Water Association for the Year Ended December 31, 2021.

funds generated from current operations.¹⁵ Garrard County Water had \$3,777,283 in cash and investments at the end of 2021 and averaged \$482,605 in cash basis income annually from 2017 to 2021.¹⁶ While recurring operating losses would typically result in a recommendation to require a rate application, due to the rate review policy that was developed by Garrard County Water as an outcome of Case No. 2021-00350,¹⁷ the Commission orders Garrard County Water to provide a copy of its revenue sufficiency report for the year ended December 31, 2022, along with the board minutes that report the board's decision on the need for a rate application.

IT IS THEREFORE ORDERED that:

1. Garrard County Water is granted a CPCN for the proposed project as submitted.
2. Garrard County Water's proposed plan of financing is approved.
3. Garrard County Water is authorized to execute the RD loan as provided.
4. Garrard County Water shall charge rates, set forth in Appendix B attached hereto, not to exceed the minimum rates required by the RD agreement but not less than its current rates.
5. Garrard County Water shall file a revised tariff sheet adopting the rates set forth in Appendix B attached hereto within 30 days of issuance of this Order.

¹⁵ Case No. 2017-00398; Audited Financial Statements for Garrard County Water Association for the Years Ended December 31, 2019, 2020, and 2021.

¹⁶ Appendix A.

¹⁷ Case No. 2021-00350 (filed Aug. 22, 2022) Garrard County Water Association, Inc. Rate Sufficiency Review Policy.

6. On or before June 30, 2023, Garrard County Water shall provide a copy of its revenue sufficiency report for the year ended December 31, 2022, and any board meeting minutes that report the board's decision on the need for a rate application.

7. The proceeds of the loan shall be used only for the purposes specified in Garrard County Water's application.

8. Garrard County Water shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

9. Garrard County 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.

10. Garrard County 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.

11. Garrard County 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.

12. Garrard County Water shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

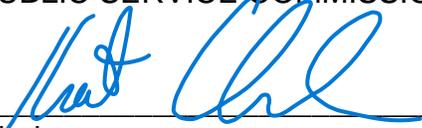
13. Any documents filed by Garrard County Water in the future pursuant to this Order shall reference this case number and shall be retained in the post-case correspondence file for this proceeding.

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

15. The Commission's approval of the CPCN and rates is conditioned upon execution of all required loan documents.

16. This case is closed and is removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

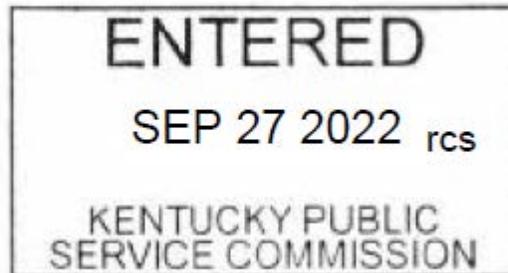


Chairman

Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00276 DATED SEP 27 2022

Description / Year	Audited 2017	Audited 2018	Audited 2019	Audited 2020	Audited 2021
<i>Adjusted Net Income</i>					
Operating Income	\$ (16,193)	\$ 1,881	\$ (88,217)	\$ (122,011)	\$ (13,033)
Net Investment Income	109,300	45,097	191,381	125,166	97,136
Other Income (Net)	4,500	5,122	5,140	3,644	5,144
Adjusted Net Income / (Loss)	\$ 97,607	\$ 52,100	\$ 108,304	\$ 6,799	\$ 89,247
Add: Depreciation Expense (1) 2021	441,795	476,746	577,254	562,635	430,630
Subtract: Principal Payments () (2)	0	0	(252,870)	(89,044)	(88,177)
Cash Basis Income	\$ 539,402	\$ 528,846	\$ 432,688	\$ 480,390	\$ 431,700
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 606,492	\$ 567,156	\$ 738,821	\$ 1,205,120	\$ 1,684,268
Restricted Assets	500	443,590	201,303	201,303	0
Investments	3,866,826	4,241,274	4,287,481	3,130,531	2,093,015
Adjusted Cash Balances	\$ 4,473,818	\$ 5,252,020	\$ 5,227,605	\$ 4,536,954	\$ 3,777,283
Net Increase (Decrease) in Cash		\$ 778,202	\$ (24,415)	\$ (690,651)	\$ (759,671)
<i>Selected Statistical Information</i>					
Customer Count	5,655	5,708	5,758	5,934	6,008
Water Loss Percentage	18.7647	19.7927	19.0504	21.7757	27.7554
System Use Percentage	0.9877	1.4493	2.3299	2.1444	2.4760

Notes

(1) Asset useful lives were revaluated during a 2021 review resulting in change in estimated lives of transmission and distribution lines from 40 to 55 years.

(2) District received \$783,042 in RD grant funding and \$2,423,000 in RD loan funding in 2018 (Case No. 2017-00398). The loan was repaid from 2019 through 2021 with depreciation reserve funds and funds generated from current operations. This was noted in 2021-00350 in the internal conference memo.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00276 DATED SEP 27 2022

The following rates and charges are prescribed for the customers in the area served by Garrard County Water Association, Inc. 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	1,000 Gallons	\$	12.86	Minimum Bill
Next	1,000 Gallons		0.00699	Per Gallon
Next	1,000 Gallons		0.00567	Per Gallon
Next	2,000 Gallons		0.00543	Per Gallon
Over	5,000 Gallons		0.00507	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	36.37	Minimum Bill
Over	5,000 Gallons		0.00507	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$	61.72	Minimum Bill
Over	10,000 Gallons		0.00507	Per Gallon

2-Inch Meter

First	25,000 Gallons	\$	137.74	Minimum Bill
Over	25,000 Gallons		0.00507	Per Gallon

Bulk Sales		\$	0.00638	Per Gallon
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