

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EAST LAUREL	)	
WATER DISTRICT FOR A CERTIFICATE OF	)	
PUBLIC CONVENIENCE AND NECESSITY TO	)	
CONSTRUCT A SYSTEM IMPROVEMENTS	)	CASE NO.
PROJECT AND AN ORDER APPROVING A	)	2025-00305
CHANGE IN RATES AND AUTHORIZING THE	)	
ISSUANCE OF SECURITIES PURSUANT TO	)	
KRS 278.023	)	

ORDER

On September 18, 2025 East Laurel Water District (East Laurel District) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a waterworks improvement project; and for approval of its plan to finance the proposed project via a loan agreement with United States Department of Agriculture (USDA), Rural Development (RD) and approval of a rate increase as required by the RD loan.

East Laurel District is a water district organized under KRS Chapter 74 and provides retail water service to approximately 5,760 residential customers and 239 commercial customers.¹ There were no intervenors in the matter.

This matter stands submitted for decision.

¹ *Annual Report of East Laurel Water District to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report) at 49.

LEGAL STANDARD

Notwithstanding the Commission's general responsibilities and discretion regarding CPCNs as laid out in KRS 278.020(1), KRS 278.190, and KRS 278.300; KRS 278.023(1) requires the Commission to accept agreements between water districts and the USDA, RD, and to issue the necessary orders to implement the terms of such agreements no later than 30 days after the application is filed with the Commission. Additionally, the Commission has no discretionary authority to modify or reject any portion of the agreement between RD and the water district, nor to defer the issuance of all necessary orders to implement the terms of that agreement. As explained in KRS 278.023(1), the Commission's review is truncated 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.

Therefore, the Commission is unable to review this application utilizing the standards applicable in cases 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, RD or the 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.

KRS 278.020(l)(a)(2) and KRS 278.020(l)(a)(3)(b) provide exceptions from the necessity for a utility to apply for a CPCN for particular projects that are deemed ordinary extensions of existing systems in the usual course of business; or, for a water district that undertakes a waterline extension or improvement project, that project will not cost more than \$500,000; or the water district will not, as a result of the water line extension or improvement project, incur obligations requiring commission approval as required by KRS 278.300.

PROJECT DESCRIPTION

East Laurel District's project is divided into three separate contracts. East Laurel District's current proposal includes Contracts 2 and 3. Contract 1 was completed on July 30, 2025, and the utility did not pursue a CPCN premised on the belief that the CPCN exceptions contained in KRS 278.020(l)(a)(2) and KRS 278.020(l)(a)(3)(b) were applicable.² In Contract 2, East Laurel District is seeking to construct a booster pump station along KY 472, upgrade one booster pump station, and replace or upgrade approximately 22,500 linear feet of Polyvinyl Chloride (PVC) waterlines along several roads in Laurel County, Kentucky. According to the application, the lines proposed to be replaced have been in place for nearly 30 years, and the customer demand in the area has outgrown the capacity that the waterlines can efficiently deliver.³ The existing booster pump station has been in place for 20 years,⁴ and is in need of an upgrade due to the

² Application, Exhibit A, Project Description, Necessity and Current Status, at 6.

³ Application, Exhibit A, Paragraph 4.1.

⁴ Application, Exhibit A, Paragraph 4.2.

recent increased demand on the system in this area.⁵ Contract 3 consists of a 139,000-gallon ground storage tank and 70 customer reconnects.⁶ East Laurel District stated that the addition of the 139,000-gallon ground storage tank will help East Laurel District run a more efficient, cost-effective system.⁷

East Laurel District provided an estimated breakdown of the project costs, as shown in the following table.⁸

Description	Amount
Administration	\$ 35,000
Development	3,249,200
Contingency	483,920
Engineering Fees	364,900
Interest - Interim	80,000
Land and Right-of-Way	20,000
Legal Fees	25,000
Total Project Costs	<u>\$ 4,258,020</u>

East Laurel District proposed to finance the construction of the project through the proceeds of the issuance of \$2,351,000 of its Waterworks Revenue Bonds, Series 2026; as well as a rate adjustment in accord with RD requirements.⁹ The Waterworks Revenue Bonds, Series 2026 will have a 40-year maturity period at an interest rate not to exceed 2.75 percent per annum.¹⁰ East Laurel District has a commitment from USDA, RD to

⁵ Application, Exhibit A, Paragraph 4.2.

⁶ Application, Exhibit A, Paragraph 1.0.

⁷ Application, Exhibit A, Paragraph 4.3.

⁸ Application, Exhibit B at 3 , paragraph 3 Project Budget.

⁹ Application, paragraph 5, and Exhibit B at 2, paragraph 2 Project Funding.

¹⁰ Application, paragraph 5.

purchase the \$2,351,000 Waterworks Revenue Bonds, Series 2026 to secure the loan.¹¹

The agreement with RD requires that East Laurel District's rates and charges must at least be adequate to meet the cost of maintaining, repairing, and operating the water system while meeting required principal and interest payments as well as deposits to debt service and depreciation reserves.¹² Consequently, the proposed rates exceed East Laurel District's current rates. The proposed required increases in rates are as follows:¹³

5/8" x 3/4" Meter Water Use		Existing Rate		Proposed Rate		Amount Increase	Percentage Increase
First	2,000	\$ 24.73	Min. Bill	\$ 26.33	Min. Bill	\$ 1.60	6.47%
Next	2,000	\$ 9.81	/1000 gal.	\$ 10.44	/1000 gal.	\$ 0.63	6.42%
Next	2,000	\$ 9.53	/1000 gal.	\$ 10.15	/1000 gal.	\$ 0.62	6.51%
Next	2,000	\$ 8.64	/1000 gal.	\$ 9.20	/1000 gal.	\$ 0.56	6.48%
All Over	10,000	\$ 7.90	/1000 gal.	\$ 8.41	/1000 gal.	\$ 0.51	6.46%
1" Meter Water Use		Existing Rate		Proposed Rate		Amount Increase	Percentage Increase
First	6,000	\$ 63.41	Min. Bill	\$ 67.51	Min. Bill	\$ 4.10	6.47%
Next	4,000	\$ 8.64	/1000 gal.	\$ 9.20	/1000 gal.	\$ 0.56	6.48%
All Over	10,000	\$ 7.90	/1000 gal.	\$ 8.41	/1000 gal.	\$ 0.51	6.46%
2" Meter Water Use		Existing Rate		Proposed Rate		Amount Increase	Percentage Increase
First	20,000	\$ 176.92	Min. Bill	\$ 188.35	Min. Bill	\$ 11.43	6.46%
All Over	20,000	\$ 7.90	/1000 gal.	\$ 8.41	/1000 gal.	\$ 0.51	6.46%
3" Meter Water Use		Existing Rate		Proposed Rate		Amount Increase	Percentage Increase
First	30,000	\$ 255.88	Min. Bill	\$ 272.41	Min. Bill	\$ 16.53	6.46%
All Over	30,000	\$ 7.90	/1000 gal.	\$ 8.41	/1000 gal.	\$ 0.51	6.46%
Wholesale User		Existing Rate		Proposed Rate		Amount Increase	Percentage Increase
Utility							
Manchester Water Works		\$ 5.80	/1000 gal.	\$ 6.17	/1000 gal.	\$ 0.37	6.38%

¹¹ Application, paragraph 5.

¹² Application, Exhibit B at 4, paragraph 5 Rates & Charges.

¹³ Application, Exhibit E.

DISCUSSION AND FINDINGS

Commission Staff performed a limited review of East Laurel District's financial records on file at the Commission for the immediately preceding five years. A summary is presented in the table below.

Description / Year	Audited 2020	Audited 2021	Audited 2022	Audited 2023	Annual Report 2024
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ (136,478)	\$ (120,062)	\$ (230,198)	\$ 56,205	\$ 134,838
Other Non-Recurring Items ()	-	-	-	(64,500)	-
Adjusted Net Income / (Loss) before Contributions	\$ (136,478)	\$ (120,062)	\$ (230,198)	\$ (8,295)	\$ 134,838
Subtract: Principal Payments ()	(100,000)	(100,500)	(101,000)	(107,000)	(107,500)
Rate Based Income	\$ (236,478)	\$ (220,562)	\$ (331,198)	\$ (115,295)	\$ 27,338
Add: Depreciation Expense	233,492	235,444	235,197	237,356	238,701
Cash Basis Income	\$ (2,986)	\$ 14,882	\$ (96,001)	\$ 122,061	\$ 266,039
 Capital Spending	 \$ 158,538	 \$ 93,432	 \$ 127,719	 \$ 230,016	 \$ 125,420
 <i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 160,571	\$ 137,439	\$ 260,507	\$ 264,078	\$ 348,695
Restricted Funds	150,346	156,621	166,097	174,482	163,259
Adjusted Cash Balances	\$ 310,917	\$ 294,060	\$ 426,604	\$ 438,560	\$ 511,954
 Net Increase (Decrease) in Cash	 \$ (220,998)	 \$ (16,857)	 \$ 132,544	 \$ 11,956	 \$ 73,394
 <i>Selected Statistical Information</i>					
Customer Count	5,547	5,547	5,547	5,547	6,000
Gallons Purchased	484,158	507,422	508,770	451,091	452,705
Gallons Sold	295,191	304,372	294,833	299,206	292,636
Gallons Used for Internal Use	120,255	133,960	17,046	11,399	17,583
Water Loss Gallons	68,712	69,090	196,891	140,486	142,486
System Use Percentage	24.8380%	26.4001%	3.3504%	2.5270%	3.8840%
Water Loss Percentage	14.1921%	13.6159%	38.6994%	31.1436%	31.4744%
 Per Cust Per Month Gallons	 4,435	 4,573	 4,429	 4,495	 4,064
Revenue from Water Sales	\$ 2,830,947	\$ 2,908,784	\$ 2,876,403	\$ 2,943,457	\$ 3,336,100
Purchased Water Expense	1,655,824	1,735,385	1,736,672	1,579,574	1,602,314
Purchased Water Expense Over 15% Water Loss	0	0	411,581	255,000	263,971
Water Loss Expense Over 15% as Percentage of Total Revenue	0.00%	0.00%	14.31%	8.66%	7.91%

In its review of East Laurel District's financial condition for the past five years, the Commission determined that rate-based income (adjusted net income minus principal payments) was negative until 2024, when the approved rates took effect. In addition, East Laurel District's cash basis income (rate-based income plus depreciation) was negative until 2023. East Laurel District's cash flow increased each year since 2021.

East Laurel District's last alternative rate filing (ARF) was in Case No. 2023-00130 (2021 test year) which became final on December 8, 2023, and resulted in a \$422,739, or 14.43 percent increase.¹⁴ East Laurel District's financial performance improved to positive rate-based income in 2024 as a result of the rate increase. The rates were based on water loss of 13.6159 percent¹⁵ while system usage during 2021 was 26.4001 percent.¹⁶ Since reported water loss was below 15 percent for the test year, there was not an adjustment to disallow any purchased water or power costs. East Laurel District's water loss for 2024 was 31.4744 percent,¹⁷ therefore if East Laurel District were to file an ARF today based on a 2024 test year, 16.4744 percent¹⁸ of water loss, or \$271,233 would be disallowed.¹⁹ The Commission recommends East Laurel District work to develop a long-term capital investment plan to reduce its water loss.

Based upon the evidence of record, the Commission concludes that the standard set forth in KRS 278.023 is met because East Laurel District is a water district organized under KRS Chapter 74 and the financing for the proposed project is subject to an agreement between USDA, RD, and East Laurel District. Therefore, the Commission finds that the CPCN is granted, and the financing plan is approved.

¹⁴ Case No. 2023-00130, *Electronic Application of East Laurel Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Dec. 8, 2023).

¹⁵ *Annual Report of East Laurel Water District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 57.

¹⁶ 2021 Annual Report at 57. Total Other Water Used 133,960 gallons divided by Total Produced and Purchased 507,422 = 26.4001%.

¹⁷ 2024 Annual Report at 57 and 58.

¹⁸ 2024 Annual Report at 57 and 58. Total Water Loss 31.4744 Percent less 15 Percent regulation recoverable amount = 16.4744%.

¹⁹ 2024 Annual Report at 50. Purchased Water Expense \$1,602,314 + Purchased Power Expense \$44,078 = \$1,646,392. Divided by Water loss percentage in excess of 15% = \$271,233.

IT IS THEREFORE ORDERED that:

1. East Laurel District is granted a CPCN pursuant to KRS 278.023 for the proposed project as submitted.
2. East Laurel District's proposed plan of financing is approved.
3. East Laurel District is authorized to execute the RD loan as provided.
4. East Laurel District is authorized to enter into a loan in the amount of \$2,351,000 with RD, maturing over a period of 40 years and with an interest rate not to exceed 2.75 percent.
5. East Laurel District shall charge rates, set forth in the Appendix attached to this Order, not to exceed the minimum rates required by the RD agreement but not less than its current rates.
6. Within 20 days of the date of service of this Order, East Laurel District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
7. The proceeds of the loans shall be used only for the purposes specified in East Laurel District's application.
8. East Laurel District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
9. East Laurel 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.

10. East Laurel District shall notify the Commission in writing one week prior to the actual start of construction.

11. East Laurel 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.

12. Any documents filed in the future pursuant to ordering paragraphs 9 and 10 of this Order shall reference this case number and shall be retained in East Laurel District's post-case correspondence file.

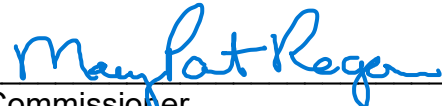
13. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon East Laurel District's showing of good cause for such extension.

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

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:

 
Executive Director



Case No. 2025-00305

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00305 DATED OCT 17 2025

The following rates and charges are prescribed for the customers in the area service by East Laurel Water District. 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 Rates

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$26.33	Minimum Bill
Next	2,000 Gallons	0.01044	Per Gallon
Next	2,000 Gallons	0.01015	Per Gallon
Next	4,000 Gallons	0.00920	Per Gallon
Over	10,000 Gallons	0.00841	Per Gallon

1-Inch Meter

First	6,000 Gallons	\$67.51	Minimum Bill
Next	4,000 Gallons	0.00920	Per Gallon
Over	10,000 Gallons	0.00841	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$188.35	Minimum Bill
Over	20,000 Gallons	0.00841	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$272.41	Minimum Bill
Over	30,000 Gallons	0.00841	Per Gallon

Wholesale Rate

All Water Purchased	0.00617	Per Gallon
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