

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH)	
EASTERN WATER ASSOCIATION, INC. FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	CASE NO.
NECESSITY AND FINANCING OF THE U.S. 27)	2025-00375
WATER LINE REPLACEMENT PROJECT)	
PURSUANT TO THE PROVISIONS OF)	
KRS 278.020, KRS 278.300, AND 807 KAR 5:001)	

O R D E R

On December 2, 2025 South Eastern Water Association, Inc. (South Eastern Water) filed an application,¹ pursuant to KRS 278.020(1), KRS 278.300, and 807 KAR 5:001, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct the U.S. 27 Water Line Replacement Project, which consists of replacing approximately 5,400 linear feet of existing 6-inch polyvinyl chloride (PVC) water line with new 8-inch ductile iron water line and all necessary appurtenances; and for approval of its plan to finance the proposed project through a Kentucky Infrastructure Authority (KIA) Fund B Loan, Cleaner Water Program grant funds, and unrestricted reserve funds.²

This matter stands submitted for decision.

¹ South Eastern Water tendered an application on November 25, 2025, that was rejected for filing due to certain deficiencies. On December 2, 2025, South Eastern Water filed documents that cured the filing deficiencies, and the application was deemed filed as of December 2, 2025.

² Application (filed Dec. 2, 2025) at 5 and 13.

BACKGROUND

South Eastern Water is a water association organized under KRS Chapter 273 and provides retail water service to approximately 7,863 residential customers and 14 commercial customers in Pulaski County, Kentucky.³ South Eastern Water purchases its water from the city of Somerset Utilities.⁴ As of December 31, 2024, South Eastern Water's plant in service was \$50,725,224 and its accumulated depreciation was \$21,398,721.⁵

WATER LOSS

Pursuant to 807 KAR 5:066, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. South Eastern Water reported water loss of 17.2562 percent in its 2024 Annual Report.⁶ At 17.2562 percent water loss, South Eastern Water's total cost of water loss is \$295,119 while the annual cost of water loss in excess of 15 percent was \$38,586.

³ *Annual Report of South Eastern Water to the Public Service Commission for the Year Ending December 31, 2024* (2024 Annual Report), at 12 and 49.

⁴ 2024 Annual Report at 54.

⁵ 2024 Annual Report at 16.

⁶ 2024 Annual Report at 57.

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$1,605,841	\$104,377	\$1,710,218
Loss Percentage	17.2562%	17.2562%	17.2562%
Total Water Loss	<u>\$ 277,107</u>	<u>\$ 18,012</u>	<u>\$ 295,119</u>

Description	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$1,605,841	\$104,377	\$1,710,218
Water Loss in Excess of 15%	2.2562%	2.2562%	2.2562%
Disallowable Water Loss	<u>\$ 36,231</u>	<u>\$ 2,355</u>	<u>\$ 38,586</u>

PROPOSED PROJECT

Project Description

South Eastern Water proposed to replace approximately 5,400 linear feet of aging 6-inch PVC distribution main along U.S. 27 in Pulaski County with 8-inch ductile iron water line and associated appurtenances.⁷ The existing line is among the oldest in South Eastern Water's system and serves approximately 2,000 customers, including supplying the Tateville Pump Station.⁸ According to the application, the existing facilities have experienced repeated failures and are inadequately sized to maintain reliable service and system pressures. South Eastern Water stated its replacement of the line will improve hydraulic capacity, system reliability, and operational efficiency.⁹

⁷ Application, Exhibit 5, Final Engineering Report at 2.

⁸ Application, Exhibit 5, Final Engineering Report at 2.

⁹ Application, Exhibit 5, Final Engineering Report at 2.

South Eastern Water and its consulting engineers considered multiple alternatives to the proposed U.S. 27 Water Line Replacement Project.¹⁰ These alternatives included both construction and non-construction options.

One alternative considered was phasing of the project and replacing only a portion of the existing 6-inch PVC water line.¹¹ While the southern portion of the line presents fewer constructability challenges and connects directly to the Tateville Pump Station, South Eastern Water determined that delaying replacement of the northern portion of the line would likely increase overall project costs due to inflation and escalating construction costs associated with working along a heavily traveled highway corridor.¹² South Eastern Water determined that this alternative would not adequately address the ongoing reliability concerns associated with the entire length of the deteriorating water line.¹³

A second alternative involved utilizing a temporary high-density polyethylene (HDPE) bypass line installed during construction as a permanent replacement for a portion of the existing facilities.¹⁴ South Eastern Water rejected this option due to the unavoidable service interruptions that would occur during relocation of the bypass line and concerns regarding the long-term durability of HDPE pipe in the rocky terrain present along U.S. 27. South Eastern Water concluded this alternative would increase operational risk and compromise long-term system reliability.¹⁵

¹⁰ Application, Exhibit 5, Final Engineering Report.

¹¹ Application, Exhibit 5, Final Engineering Report, at 2, Paragraph 3. Alternatives Considered.

¹² Application, Exhibit 5, Final Engineering Report, at 2, Paragraph 3. Alternatives Considered.

¹³ Application, Exhibit 5, Final Engineering Report at 2.

¹⁴ Application, Exhibit 5, Final Engineering Report, at 2, Paragraph 3. Alternatives Considered.

¹⁵ Application, Exhibit 5, Final Engineering Report at 2-3.

South Eastern Water also considered a non-construction alternative of continuing reactive maintenance of the existing 1970s-era PVC water line. The record reflects that this line has experienced frequent breaks, is difficult to monitor for leaks due to roadway noise and limited access and serves approximately one-quarter of South Eastern Water's customers. According to the application, continued reliance on reactive maintenance would not be consistent with South Eastern Water's obligation to provide adequate, efficient, and reliable service.¹⁶

After evaluating these alternatives, South Eastern Water selected full replacement of the existing 6-inch PVC line with an 8-inch ductile iron water line as the most reasonable and prudent option to address system reliability, hydraulic capacity, and water loss concerns.

Financing

South Eastern Water proposed to finance the project with a combination of funding sources, including a \$617,823 KIA Fund B Loan (B26-002), \$107,059 in Cleaner Water Program grant funds, and \$380,282 in unrestricted reserve funds, from excess debt reserve accounts,¹⁷ for a total estimated project cost of \$1,105,164.¹⁸ The KIA loan will bear interest at 1.75 percent per annum and will be repaid over a period not to exceed 20 years from the date of the final draw of funds.¹⁹

¹⁶ Application, Exhibit 5, Final Engineering Report at 3.

¹⁷ Application, Exhibit 5, Final Engineering Report, Appendix D Local Funds Commitment Letter.

¹⁸ Application, Exhibit 5, Final Engineering Report at 4, Table 3 – Revised Project Funding.

¹⁹ Application at 13–14, paragraph 32. Application, Exhibit 15, Conditional Commitment Letter, Attachment A Conditions, paragraph 3.

South Eastern Water stated that the total capital costs for the project are \$1,105,164, which includes construction, Engineering Fees – Design, Engineering Fees - Inspection, and contingencies.²⁰

Description	Amount
Construction	\$ 919,240
Engineering Fees - Design	41,000
Engineering Fees - Inspection	53,000
Contingency	91,924
Total	<u>\$ 1,105,164</u>

The proposed loan will bear interest at a rate of 1.75 percent per annum and must be repaid over a period not to exceed 20 years from the date of the last draw of funds.²¹ The proposed loan will be secured by a pledge of South Eastern Water's revenues.²² A loan servicing fee of 0.20 percent of the outstanding loan balance will also be assessed semi-annually.²³ Payments on the proposed loan will begin six months after funds are first drawn.²⁴

Description	Amount
KIA - Fund B Loan (B26-002)	\$ 617,823
22CWW362	107,059
Unrestricted Reserve Funds	380,282
Total	<u>\$ 1,105,164</u>

²⁰ Application, Exhibit 5, Final Engineering Report for the South Eastern Water Association at 4, Table 3.

²¹ Application at 13-14, paragraph 32.

²² Application at 13-14, paragraph 32.

²³ Application at 13-14, paragraph 32.

²⁴ Application at 13-14, paragraph 32.

LEGAL STANDARD

The Commission's standard of review regarding a CPCN is well settled. No utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission.²⁵ To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.²⁶

"Need" requires:

[A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.

[T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.²⁷

"Wasteful duplication" is defined as "an excess of capacity over need" and "an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties."²⁸ To demonstrate that a proposed facility does not result in wasteful duplication, the Commission has held that the applicant must

²⁵ KRS 278.020(1). Although the statute exempts certain types of projects from the requirement to obtain a CPCN, the exemptions are not applicable.

²⁶ *Kentucky Utilities Co. v. Public Service Commission*, 252 S.W.2d 885 (Ky. 1952).

²⁷ *Kentucky Utilities Co.*, 252 S.W.2d at 890.

²⁸ *Kentucky Utilities Co.*, 252 S.W.2d at 890.

demonstrate that a thorough review of all reasonable alternatives has been performed.²⁹

Although cost is a factor, selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.³⁰ All relevant factors must be balanced.³¹

KRS 278.300 requires Commission authorization before a utility may “issue any securities or evidence of indebtedness or assume any obligation or liability in respect to the securities or evidence of indebtedness of any other person.”³² KRS 278.300 only applies to notes that have a term of more than two years.³³

KRS 278.300(3) sets forth Commission considerations and clarifies the scope of Commission review, stating:

The Commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

²⁹ Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005), Order at 11.

³⁰ See *Kentucky Utilities Co. v. Public Service Commission*, 390 S.W.2d 168, 175 (Ky. 1965). See also Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005), final Order.

³¹ Case No. 2005-00089, Aug. 19, 2005 final Order at 6.

³² KRS 278.300.

³³ Case No. 2005-00089, Aug. 19, 2005 final Order at 6; KRS 278.300(8), exception to general provisions of KRS 278.300.

DISCUSSION AND FINDINGS

Having considered the record and being otherwise sufficiently advised, the Commission finds that South Eastern Water has demonstrated that the U.S. 27 Water Line Replacement Project satisfies the statutory requirements for issuance of a Certificate of Public Convenience and Necessity.

The Commission finds that the proposed project meets the standard for need. South Eastern Water provided sufficient evidence that the existing 6-inch PVC water line along U.S. 27 is deteriorating, has experienced repeated failures, and is inadequately sized to reliably serve approximately 2,000 customers, multiple pump stations and storage facilities. The frequent line breaks, operational inefficiencies at the Tateville Pump Station, and increased risk of undetected leaks constitute a substantial inadequacy of existing service facilities that cannot be remedied through normal maintenance in the ordinary course of business. The Commission further finds that the affected customer base is sufficiently large to make the proposed facilities economically feasible.

The Commission also finds that the proposed project will not result in wasteful duplication. The project does not involve construction of parallel or competing facilities and will replace existing infrastructure in the same location. No other public water utilities serve the project area, and thus the proposed facilities will not duplicate the facilities of another utility. South Eastern Water evaluated reasonable alternatives and selected a solution that balances cost, constructability, operational efficiency, and long-term reliability. The Commission finds that the proposed investment is proportionate to system needs and will improve efficiency rather than create excess capacity; therefore, will not result in wasteful duplication.

The Commission further finds that the requested financing is necessary to complete the projects discussed above and will not impair South Eastern Water's ability to provide service. Additionally, the Commission finds that the financing requests are for the lawful purpose of providing safe, adequate, and reliable service to the public. The financing will enable South Eastern Water to construct the proposed project, which, as discussed above, is necessary to provide water service consistent with the lawful purpose. In this instance, the financing plan will not impair South Eastern Water's ability to provide service and is reasonably necessary for South Eastern Water to provide adequate service.

During review of this application the Commission undertook a limited review of South Eastern Water's finances. South Eastern Water's financial information from 2020 through 2024 is presented below. South Eastern Water's last rate filing, made pursuant to the alternative rate filing procedure, occurred in Case No. 2021-00126³⁴ and reflected an increase of \$263,372, or 6.39 percent.³⁵ During its review of South Eastern Water's past five-year financial performance, the Commission notes that South Eastern Water's Rate Based income (adjusted net income minus principal payments) was a net loss for the last five years, even after the updated rates set in Case No. 2021-00126 were put into effect. The increased revenue requirement to support the proposed project in the instant case may support a \$45,562, or 1.03 percent, increase to the 2024 Revenues from water sales of \$5,026,345, as shown in the following table.

³⁴ Case No. 2021-00126, *Electronic Application of South Eastern Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Sept. 17, 2021).

³⁵ Case No. 2021-00126, (Ky. PSC Sep. 17, 2021), Order at 16, Revenue Requirement.

Description	Total Project Amount
<i>Operating Expenses</i>	
Water Purchase Savings ()	\$ (5,900)
Estimated Annual Line Repair Costs ()	(5,500)
Depreciation	17,683
Expense Impact	<u><u>6,283</u></u>
<i>Debt Service</i>	
Principal and Interest	37,968
Working Capital (20% of Debt Service)	7,594
Debt Service Impact	<u><u>45,562</u></u>
Increased Revenue Requirement	<u><u>51,845</u></u>
2024 Revenues from Water Sales	<u><u>\$ 5,026,345</u></u>
Incremental Expenses as a Percent of Water Revenue	<u><u>1.03%</u></u>

Based on this application, the associated financing, and the audited financial information on file, the Commission finds that South Eastern Water should submit an application for a rate adjustment pursuant to 807 KAR 5:076, a general rate adjustment pursuant to 807 KAR 5:001, Section 16, based on a 2025 test year, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary, on or before August 31, 2026.

Description / Year	Audited 2020	Audited 2021	Audited 2022	Audited 2023	Audited 2024
<i>Adjusted Net Income</i>					
Net Income / (Loss)	\$ 854,164	\$ 1,033,324	\$ 682,325	\$ 899,243	\$ 1,381,112
Other Non-recurring Items ()	(633,962)	(933,038)	(597,414)	(606,432)	(1,227,132)
Non-Cash Pension and OPEB Expense / (Income)	0	0	0	0	0
Adjusted Net Income / (Loss)	\$ 220,202	\$ 100,286	\$ 84,911	\$ 292,811	\$ 153,980
Subtract: Principal Payments ()	(764,893)	(422,577)	(239,317)	(385,518)	(397,853)
Rate Based Income	\$ (544,691)	\$ (322,291)	\$ (154,406)	\$ (92,707)	\$ (243,873)
Add: Depreciation Expense	1,006,192	1,130,581	1,138,309	1,216,498	1,300,498
Cash Basis Income	\$ 461,501	\$ 808,290	\$ 983,903	\$ 1,123,791	\$ 1,056,625
Cash Basis Income as Percent of Depreciation	46%	71%	86%	92%	81%
Capital Spending	\$ 1,784,493	\$ 3,418,188	\$ 3,816,899	\$ 2,250,341	\$ 3,155,360
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 5,080,918	\$ 3,236,446	\$ 2,934,190	\$ 2,144,621	\$ 1,650,510
Restricted Funds	1,153,808	1,477,956	1,321,955	1,352,881	1,479,527
Adjusted Cash Balances	6,234,726	4,714,402	4,256,145	3,497,502	3,130,037
Net Increase (Decrease) in Cash	\$ 94,098	\$ (1,520,324)	\$ (458,257)	\$ (758,643)	\$ (367,465)
<i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	7,794	7,721	7,931	8,062	7,878
Gallons Purchased	527,654	524,138	568,738	586,312	584,555
Gallons Sold	317,641	331,236	346,691	342,357	346,472
Gallons Used for Internal Use	135,658	119,332	137,118	157,306	137,211
Water Loss Gallons	74,357	73,570	84,929	86,649	100,872
System Use Percentage	25.71%	22.77%	24.11%	26.83%	23.47%
Water Loss Percentage	14.0920%	14.0364%	14.9329%	14.7787%	17.2562%
Gallons Sold Per Customer Per Month	3,396	3,575	3,643	3,539	3,665
Revenues from the Sale of Water	\$ 4,156,230	\$ 4,382,177	\$ 4,613,098	\$ 4,713,362	\$ 5,026,345
Purchased Water Expense	1,313,081	1,373,820	1,476,814	1,460,185	1,669,955
Purchased Water Expense Over 15% Water Loss	0	0	0	0	37.678
Water Loss Expense Over 15% as Percentage of Water Revenue	0.00%	0.00%	0.00%	0.00%	0.75%

Accordingly, the Commission finds that the proposed project is necessary, will not result in wasteful duplication, and is consistent with South Eastern Water's obligation under KRS 278.030 to provide safe, adequate, and reasonable service.

IT IS THEREFORE ORDERED that:

1. South Eastern Water is granted a CPCN for the proposed U.S. 27 Water Line Replacement Project as submitted.
2. South Eastern Water shall immediately notify the Commission upon knowledge of any material changes to the projects, including but not limited to increase in cost and any significant delays. Any material deviation from the construction approved by this Order shall be undertaken only with prior approval of the Commission.

3. South Eastern 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.

4. South Eastern Water shall file a certified statement that the construction has been satisfactorily completed in accordance with the construction plans and specifications within 60 days of the substantial completion of the construction discussed herein.

5. South Eastern Water is authorized to issue the evidence of indebtedness requested, subject to the conditions discussed herein.

6. The proceeds from the issuance of evidence of debt authorized shall be used only for the lawful purposes set out in the application.

7. South Eastern Water shall only execute the loan documents with KIA to the extent their terms and conditions are consistent with the loan described in its application, except as otherwise authorized herein.

8. South Eastern Water shall file a copy of the loan documents executed with KIA in this matter within ten days of executing them.

9. Any documents filed in the future pursuant to ordering paragraphs 2, 3, 4, and 8 of this Order shall reference this case number and shall be retained in South Eastern Water's post-case correspondence file.

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

11. No later than August 31, 2026, and based on the 2025 test year, South Eastern Water shall file either an application for a general rate adjustment, pursuant to 807 KAR 5:001, Section 16; an application for an alternative rate adjustment, pursuant to 807 KAR 5:076; or a formal motion with detailed analysis of its rates and revenues, and a statement of the reasons why a rate case is not necessary.

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

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

PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

ATTEST:

Linda Bridwell RP

Executive Director

ENTERED
JAN 29 2026
AB
KENTUCKY PUBLIC
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