

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
COLUMBIA/ADAIR UTILITIES DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	CASE NO.
NECESSITY TO CONSTRUCT A SYSTEM)	2025-00394
IMPROVEMENTS PROJECT AND AN ORDER)	
AUTHORIZING THE ISSUANCE OF SECURITIES)	
PURSUANT TO KRS 278.300)	

ORDER

On December 16, 2025, Columbia/Adair Utilities District (Columbia/Adair District) filed an application, pursuant to KRS 278.020(1) and KRS 278.300, requesting a Certificate of Public Convenience and Necessity (CPCN), and authority to issue related evidence of indebtedness. Columbia/Adair District stated it would fund the project using loans issued through the “Kentucky Infrastructure Authority (KIA) Federally Assisted Drinking Water Revolving Loan Fund.”¹ No parties have requested intervention in this proceeding. Columbia/Adair District responded to one round of discovery.² This matter now stands submitted for decision by the Commission.

BACKGROUND

CPCN

Columbia/Adair District is a water district organized pursuant to KRS Chapter 74. It owns and operates a wastewater collection and treatment system through which it

¹ Application at 3.

² Columbia/Adair District’s Response to Commission Staff’s First Request for Information (Staff’s First Request) (filed Jan. 16, 2026).

provides wastewater services to approximately 1,749 customers.³ Columbia/Adair District's plant in service was \$20,716,708 as of December 21, 2024.⁴ Columbia/Adair District's most recent general rate increase for its wastewater services, filed pursuant to the alternative rate filing procedure, occurred in Case No. 2021-00316, and resulted in a rate increase of approximately 52.1 percent, phased-in over three years starting with service after February 9, 2022.⁵ Columbia/Adair District also owns and manages a water utility, the most recent general rate increase, filed pursuant to the alternative rate filing procedure, occurred in Case No. 2021-00315 and resulted in a rate increase of approximately 29.44 percent, phased in over three years starting with services after February 10, 2022.⁶ Columbia/Adair District reported water loss of 18.12 percent at the end of 2024,⁷ 13.65 percent at the end of 2023,⁸ and 10.98 percent at the end of 2022.⁹

Columbia/Adair District seeks approval for a proposed project to eliminate the Burkesville Road lift station, modify the Majestic Yacht lift station, construct a gravity line from the former Burkesville Road lift station to the Majestic Yacht lift station, construct a force main from the Majestic Yacht lift station to the main interceptor sewer near the

³ *Annual Report of Columbia/Adair District to the Public Service Commission for the Calendar Year Ended in December 21, 2024* (2024 Annual Report) at 8.

⁴ 2024 Annual Report at 4.

⁵ Case No. 2021-00316, *Electronic Application of Adair County Water District For An Alternative Rate Adjustment* (Ky. PSC Feb. 9, 2021), Order.

⁶ Case No. 2021-00315, *Electronic Application of Adair County Water District For An Alternative Rate Adjustment* (Ky. PSC Feb. 10, 2022), Order.

⁷ 2024 Annual Report at 30.

⁸ *Annual Report of Columbia/Adair District to the Public Service Commission for the Calendar Year Ended in December 21, 2023* at 30

⁹ *Annual Report of Columbia/Adair District to the Public Service Commission for the Calendar Year Ended in December 21, of 2022* at 30

former Burkesville Road lift station, remove a grinder pump station currently connected to an apartment building, replace a lateral gravity line, and replace a grinder pump station with a new wet well and pump.¹⁰

Columbia/Adair District stated that the Burkesville Road lift station has reached the end of its useful life,¹¹ and that due to hydrological changes in Columbia/Adair District's system that occurred after the construction of the Burkesville Road lift station air accumulates in the force main going to the Burkesville Road lift station resulting in flow backing up into the force main until the air and blockages must be removed manually.¹²

Columbia/Adair District also stated that the Kentucky Division of Water requires two hours of emergency wet well storage, which due to growth since the construction of the Burkesville Road lift station is no longer achievable at its current location.¹³ Columbia/Adair District stated that the Burkesville Road lift station is in need of immediate repair, that with the inadequate wet well storage is not an acceptable alternative to repair or upgrade the lift station.¹⁴

Columbia/Adair District stated that as a result of the removal of the Burkesville Road lift station the flow is being diverted to the Majestic Yacht lift station which required modification to the Majestic Yacht lift station to handle the additional flow.¹⁵

¹⁰ Application, Exhibit A. See Also, Columbia/Adair District's Response to Staff's First Request, Item 2, and Item 7.

¹¹ Columbia/Adair District's Response to Staff's First Request, Item 7(a).

¹² Application, Exhibit A.

¹³ Columbia/Adair District's Response to Staff's First Request, Item 2(b).

¹⁴ Columbia/Adair District's Response to Staff's First Request, Item 2(c).

¹⁵ Columbia/Adair District's Response to Staff's First Request, Item 7(b).

Columbia/Adair District stated that a gravity line must be extended from the previous location of the Burkesville Road lift station to transfer flow to the modified Majestic Yacht lift station, then a force main is needed to take the additional flow from the Majestic Yacht lift station to the existing force main.¹⁶

Columbia/Adair District stated that the grinder station needs to be replaced as it was installed by a developer and has reached the end of its useful life, and the new grinder station will be standardized with other such sites maintained by Columbia/Adair District.¹⁷

Columbia/Adair District stated that the new grit removal system at the wastewater treatment plant is needed as the current system has outlived its useful life and has severely deteriorated.¹⁸

Columbia/Adair District stated that, in the alternative to modifying the Majestic Yacht lift station, it considered building an additional lift station across the intersection, but that it would require the same amount of gravity sewer and force main, and it would add \$450,000 to the project as well as increased long-term maintenance and power costs.¹⁹

Columbia/Adair District also stated that it considered replacing the Burkesville Road lift station with a larger wet well and other upgrades, but that doing so would not

¹⁶ Columbia/Adair District's Response to Staff's First Request, Item 7(c).

¹⁷ Columbia/Adair District's Response to Staff's First Request, Item 7(d).

¹⁸ Columbia/Adair District's Response to Staff's First Request, 7(e).

¹⁹ Application, Exhibit A.

have relieved the air accumulation and blockage issue, and would not allow for easy access to customers located in the area.

Columbia/Adair District solicited bids for the project in the form of two separate contracts. Contract 1, which included the Waste Water Treatment Plant improvements received two bids, one for \$915,000 from Herrick Company, Inc, and another from NAC Heavy Highway Inc. for \$815,000.²⁰ Based on the recommendation from Kentucky Engineering Group, PLLC, Columbia/Adair District selected the lower bid from NAC Heavy Highway Inc, and as a result of cost restrictions asked them to propose a deduction for a portion of the original work, which NAC Heavy Highway Inc. did, lowering the bid to \$406,000.²¹

Columbia/Adair District also received two bids for Contract 2, which included the lift station portion of the project, Cumberland Pipeline bid \$2,670.968, and Noris Brothers Excavating bid \$3,358,450.²² Columbia/Adair District selected the lowest bid, and as a result of cost restrictions asked them to propose a deduction for a portion of the work, which they did, lowering the bid to \$1,872,176.²³ This resulted in total construction costs for the project being estimated at \$2,278,176.²⁴ The non-construction costs for the project were an estimated \$661,299 and included planning, design, engineering, administrative,

²⁰ Application, Exhibit J, Contract 1.

²¹ Application, Exhibit J, Contract 1.

²² Application, Exhibit J, Contract 2.

²³ Application, Exhibit J, Contract 2.

²⁴ Application, Exhibit K, Project Cost Summary at 109.

legal and contingency fees.²⁵ The total cost of the project, including construction and non-construction costs was \$2,939,475 and is shown in the chart below.

Description	Amount
Administrative Expense	\$ 20,000
Legal Expense	6,000
Planning	10,000
Engineering Fees - Design	130,400
Engineering Fees - Construction	32,600
Engineering Fees - Insepction	97,000
Engineering Fees - Other	20,000
Constrction	2,278,176
Contigencies	<u>345,299</u>
Total Project cost	<u>\$ 2,939,475</u>

Financing

Columbia/Adair District proposed to fund the project through a KIA Loan in the amount of \$2,939,475, at an interest rate of 1.25 percent for 20 years.²⁶ The KIA Loan did offer principal forgiveness of 23.7 percent resulting in an estimated reduction of \$695,218 and a net loan amount of \$2,244,257 shown in the chart below.²⁷

Description	Amount
KIA Loan	2,939,475
Principal Forgiveness ()	(695,218)
Net Loan Amount	<u>\$ 2,244,257</u>

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

²⁵ Application, Exhibit K, Project Cost Summary at 109.

²⁶ Application, Exhibit D, Proposed KIA Repayment Schedule at 86.

²⁷ Application, Exhibit D, Proposed KIA Repayment Schedule at 86.

until it has obtained a CPCN from this Commission.²⁸ To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.²⁹

"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.³⁰

"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."³¹ To demonstrate that a proposed facility does not result in wasteful duplication, the Commission has held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.³² Although cost is a factor, selection of a proposal that ultimately costs more than an

²⁸ KRS 278.020(1). Although the statute exempts certain types of projects from the requirement to obtain a CPCN, the exemptions are not applicable

²⁹ *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 252 S.W.2d 885 (Ky. 1952).

³⁰ *Kentucky Utilities Co.*, 252 S.W.2d at 890.

³¹ *Kentucky Utilities Co.*, 252 S.W.2d at 890.

³² 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.

alternative does not necessarily result in wasteful duplication.³³ All relevant factors must be balanced.³⁴

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.³⁵ KRS 278.300 only applies to notes that have a term of more than two years.³⁶

KRS 278.300(3) establishes the legal standard 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.

DISCUSSION AND FINDINGS

Having reviewed the application and evidence in the record, the Commission finds that Columbia/Adair District’s application for a CPCN for the proposed project should be granted. The evidence indicates that the Burkesville Road lift station has reached the

³³ See *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 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), Order at 6.

³⁴ Case No. 2005-00089, Aug. 19, 2005 Order at 6.

³⁵ KRS 278.300(1).

³⁶ KRS 278.300(8)

end of its useful life, and that due to changes in Columbia/Adair District's system since it was first installed it is no longer located in a beneficial area. Columbia/Adair District also demonstrated that, due to changes in the system, Burkesville lift station is unable to meet the Kentucky Division of Water's requirements of having emergency wet well storage of two hours. Columbia/Adair District also demonstrated that as a result of that upgrades and modifications are required at the Majestic Yacht lift station to handle the increased flow, a gravity line must be extended to support the removal of the Burkesville Road lift station, as well as other line changes. Columbia/Adair District also demonstrated a need for replacing the grind station as it has reached the end of its useful life and replacing it will also allow them to standardize that station with others on its system. Columbia/Adair District also demonstrated a need to replace the grit removal system at the waste treatment plant, as it has also reached the end of its useful life.

The evidence also indicates that the projects will not result in wasteful duplication. Columbia/Adair District considered at least two alternatives and selected the current projects as the projects meet the needs and are the least cost option to do so. Columbia/Adair District also solicited bids and retained Kentucky Engineering Group, PPLC to assist in reviewing the bids and developing the project. Columbia/Adair Districts selected the lowest cost bid for each of the two contracts.

With respect to the proposed KIA loan, the Commission finds that the financing is necessary for the completion of the projects discussed above and will not impair Columbia/Adair District's ability to provide service. In fact, as noted above, the Commission finds that the projects at issue are necessary and will not result in wasteful duplication, and the terms of the financing, which is through a state agency, are extremely

favorable when compared to other financing options. For those reasons, the Commission finds that the financing for which Columbia/Adair District requested approval is for a lawful object within the corporate purpose of Columbia/Adair District's utility operations; the project and associated financing are necessary, appropriate for, and consistent with the proper performance of Columbia/Adair District's service to the public. Therefore, the Commission finds that approval of the financing should be granted.

Notably, Columbia/Adair District stated that the annual operations and maintenance expenses associated with this project would be less than current operations and maintenance expenses due to the elimination of a lift station and that station's associated costs.³⁷ Columbia/Adair District also stated that it did not expect to file for a rate increase at this time as it felt revenues would be sufficient to cover operation, maintenance, depreciation and debt service charges.³⁸

Unaccounted For Water Loss

Columbia/Adair District's water loss for the years 2022 to 2024 are presented in the table below.

Year	Water Loss
2022	10.9846%
2023	13.6504%
2024	12.2687%

³⁷ Columbia/Adair District's Response to Staff's First Request, Item 6.

³⁸ Columbia/Adair District's Response to Staff's First Request, Item 15.

Financials

Columbia/Adair District's financial snapshot for 2020 through 2024 is presented below. Columbia/Adair District's last alternative rate filing was in Case No. 2021-00316 which became final on February 9, 2022,³⁹ (2020 test year), reflected an increase of \$462,274 or 52.10 percent. The increase was phased in over three years from the final order date. Rate based income (adjusted net income minus principal payments) was negative in each of the years and Cash basis income (rate-based income plus depreciation expense) was positive in each year except in 2020.

Description / Year	Audited 2020	Audited 2021	Audited 2022	Audited 2023	Audited 2024
<i>Adjusted Net Income</i>					
Net Income / (Loss)	\$ (620,762)	\$ (299,950)	\$ (212,044)	\$ (97,492)	\$ 113,673
Other Non-recurring Items ()	320	366	0	0	0
Non-Cash Pension and OPEB Expense / (Income)	152,315	2,085	660	(62,562)	(155,334)
<i>Adjusted Net Income / (Loss)</i>					
Subtract: Principal Payments ()	\$ (468,127)	\$ (297,499)	\$ (211,384)	\$ (160,054)	\$ (41,661)
	(79,850)	(81,850)	(14,000)	(73,940)	(74,739)
Rate Based Income					
Add: Depreciation Expense	\$ (547,977)	\$ (379,349)	\$ (225,384)	\$ (233,994)	\$ (116,400)
	518,989	517,711	521,479	570,300	579,095
Cash Basis Income					
	<u>\$ (28,988)</u>	<u>\$ 138,362</u>	<u>\$ 296,095</u>	<u>\$ 336,306</u>	<u>\$ 462,695</u>

With the addition of new projects, the Columbia/Adair District will likely not be able to cover all the new expenses (depreciation, debt, working capital) with its current rates. In Columbia/Adair District's recent water CPCN, Case No. 2024-00250,⁴⁰ it was ordered to file an application for a rate adjustment or file a motion explaining why no modifications were necessary by August 31, 2026. The Commission find that Columbia/Adair District should also file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, alternative rate adjustment pursuant to 807 KAR 5:076, or file a formal motion

³⁹ Case No. 2021-00316, *Electronic Application of Adair County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 9, 2022), Order.

⁴⁰ Case No. 2024-00250, *Electronic Application of Columbia/Adair Utilities District for a Certificate of Public Convenience and Necessity for a System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to KRS 278.300*.

with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary to its wastewater rates by August 21, 2026, based on a test year of 2025

IT IS THEREFORE ORDERED that:

1. Columbia/Adair District's application for a CPCN for the proposed projects, as submitted, is granted.
2. Columbia/Adair District's proposed plan of financing is approved.
3. Columbia/Adair District is authorized to enter into a loan in the amount of \$2,939,475 with KIA, maturing over a period of 20 years and with an interest rate not to exceed 1.25 percent with a principal forgiveness of \$695,218.
4. The proceeds of the loans shall be used only for the purposes specified in Columbia/Adair District's application.
5. Columbia/Adair District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
6. Columbia/Adair 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 sewer utilities prescribed by the Commission.
7. Columbia/Adair District shall immediately notify the Commission upon knowledge of any material changes to the projects, including but not limited to an increase in cost and any significant delays.

8. Columbia/Adair District shall only execute the loan documents with KIA to the extent the terms and conditions are consistent with the loan described in its application except as otherwise authorized herein.

9. Columbia/Adair District shall file a copy of the loan documents executed with KIA in this matter within ten days of execution.

10. Any documents filed in the future pursuant to ordering paragraphs 5-9 of this Order shall reference this case number and shall be retained in Columbia/Adair District'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 Columbia/Adair District's showing of good cause for such extension.

12. Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

13. Columbia/Adair District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, alternative rate adjustment pursuant to 807 KAR 5:076, or a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary to its wastewater rates by August 21, 2026, based on a test year of 2025.

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

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Linda Tridwell
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QP



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