

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:

**ELECTRONIC PURCHASE WATER)
ADJUSTMENT FILING OF LARUE) **CASE NO. 2020-00194**
COUNTY WATER DISTRICT NO. 1)**

**MOTION FOR DEVIATION OR FOR EXTENSION OF TIME TO FILE
APPLICATION FOR RATE ADJUSTMENT**

LaRue County Water District No. 1 (“LaRue District No. 1”) moves for a deviation from the Public Service Commission’s Order dated July 2, 2020 to apply for a rate adjustment. In the alternative, LaRue District No. 1 moves for an extension of time until July 2, 2022 to comply with the Public Service Commission’s Order dated July 2, 2020 to apply for a rate adjustment. In support of this request, LaRue District No. 1 states the following:

1. LaRue District No. 1 is a water district created under the authority of KRS Chapter 74 with its principal office and principal place of business located at 6215 North L & N Turnpike, Buffalo, Kentucky 42716. LaRue District No. 1 can be contacted by email via the email address of its counsel set forth below.
2. LaRue District No. 1 is engaged in the distribution and sale of water in LaRue and Nelson Counties and the surrounding environs.
3. LaRue District No. 1 purchases water from the city of Campbellsville, Green-Taylor Water District, the city of Bardstown, the city of New Haven, Green River Valley Water District, and the city of Hodgenville.

4. On July 2, 2020, the Public Service Commission (“Commission”) entered an Order in this proceeding in which it authorized LaRue District No. 1 to adjust its rates pursuant to the purchased water adjustment procedure as set forth in 807 KAR 5:068.

5. In its July 2, 2020 Order, the Commission stated that it lacked “insight into LaRue District No. 1’s financial records” and this lack of insight indicated “to the Commission that LaRue District No. 1 should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of . . . [the] Order to ensure its revenue is sufficient to support adequate and reliable service.” Order at 1.

6. Subsequent to its Order in this proceeding, the Commission in case 2020-00234¹ issued to LaRue District No. 1 a Certificate of Public Convenience and Necessity to construct a water systems improvements project, including an extension of water lines to all areas of the system, construction of a new office building, and cleaning and rehabilitation of three water tanks. The total estimated cost of these improvements is \$3,800,000. The Commission also authorized LaRue District No. 1 to issue revenue bonds in the total amount of \$2,800,000, and to obtain a grant in the amount of \$1,000,000 from the United States Department of Agriculture acting through Rural Development. The Commission also approved an adjustment in LaRue District No. 1’s rates for water service.

7. In Case No. 2020-00234, the Commission cited to the July 2, 2020 Order in this proceeding, and ordered that LaRue District No. 1 “shall file an application for a

¹ *Electronic Application of the LaRue County Water District No. 1 for a Certificate of Public Convenience and Necessity to Construct a Systems Improvement Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023, Case No. 2020-00234 (Ky. PSC Aug 26, 2020).*

traditional adjustment in rates or an alternative rate adjustment before July 2, 2021.”
Order at 6.

8. Construction of the waterworks improvements began on September 3, 2020 and is currently expected to be completed by December 2021. LaRue District No. 1 expects to issue the authorized revenue bonds upon substantial completion of the waterworks project. Interim financing for the construction was obtained through a loan from Kentucky Rural Water Finance Corp.

9. In Case No. 2020-00234, LaRue District No. 1 submitted a depreciation schedule for all of its assets for the period ending December 31, 2019², an amortization schedule for LaRue District No. 1’s outstanding bond issuances³, LaRue District No. 1’s general ledger for the year ended December 31, 2019⁴, and LaRue District No. 1’s adjusted trial balance showing unaudited balances, audit adjustments, and audited balances for the calendar year ended December 31, 2019⁵.

10. The Commission’s July 2, 2020 Order requires LaRue District No. 1 to apply for a traditional adjustment in rates or an alternative rate adjustment. Submission of an application for rate adjustment prior to completion of the new waterworks improvements is likely to result in rates that do not accurately reflect LaRue District No. 1’s cost of service. LaRue District No. 1 will be required to use its operations for the year

² LaRue District No. 1’s Response to Commission Staff’s First Request for Information, Item 3, Ex. B, Case No. 2020-00234 (Ky. PSC filed Aug. 11, 2020).

³ LaRue District No. 1’s Response to Commission Staff’s First Request for Information, Item 4, Ex. C, Case No. 2020-00234 (Ky. PSC filed Aug. 11, 2020).

⁴ LaRue District No. 1’s Response to Commission Staff’s First Request for Information, Item 5, Ex. D, Case No. 2020-00234 (Ky. PSC filed Aug. 11, 2020).

⁵ LaRue District No. 1’s Response to Commission Staff’s First Request for Information, Item 6, Ex. E, Case No. 2020-00234 (Ky. PSC filed Aug. 11, 2020).

ending December 31, 2020 as its test period.⁶ This period will not include the total expenses associated with the new waterworks improvements. As the improvements were still under construction in 2020, the operating costs associated with these facilities, as well as their depreciation expense, will not be reflected in test period operations. Unless the facilities are placed into service before the completion of the rate case proceeding, the Commission's rate making practices prevent depreciation expense related to the improvements from being considered for ratemaking purposes. If the facilities are placed into operation before the end of the rate proceeding, there will be very limited information regarding their operating costs and such information is likely not to meet the Commission's criteria of "known and measurable" to permit adjustments to test period expenses. Similarly, if the proposed revenue bonds are not issued prior to the completion of the rate proceeding, these debt service expenses will not meet the criteria of known and measurable and cannot be considered for ratemaking purposes.

11. In consideration of the above, LaRue District No. 1 requests that the Commission waive the requirement for an application for rate adjustment, or in the alternative, extend the time in which it must file an application for rate adjustment to July 2, 2022.⁷ This extension will permit inclusion of the costs related to the new waterworks improvements, including increased operation and maintenance expense, depreciation expense, and debt service. As the waterworks improvements will have been in operation

⁶ LaRue District No. 1 will file its application in accordance with the procedures set forth in 807 KAR 5:076. Section 9 of that regulation provides: "The reasonableness of the proposed rates shall be determined using a twelve (12) month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year." LaRue District No. 1's most recent annual report on file with the Commission is for the year ending December 31, 2020.

⁷ An extension until July 2, 2022 will permit LaRue District No. 1 to complete and file with the Commission its annual report for 2021, which must be filed no later than March 31, 2022, and allow three additional months to use the results of that report to prepare the application for rate adjustment and supporting rate study.

for several months as of July 2, 2022, the requested extension will allow LaRue District No. 1 to present evidence of the actual operational and maintenance costs related to these improvements and allow the Commission to establish rates based upon historic costs and thus clearly satisfy the “known and measurable” ratemaking criteria.

12. A review of LaRue District No. 1’s operations using a test period based on 2020 operations will not achieve the Commission’s stated purpose. Any review that does not consider the waterworks improvements, which will expand LaRue District No. 1’s net capital assets, or the approved bond issuance, which will increase its existing bonded debt, will not be a comprehensive review of the water district’s total financial stability and operational viability nor will it ensure the long-term adequacy of LaRue District No. 1’s rates. A premature filing of a rate application may necessitate the filing of a second application to ensure rates sufficient to recover the cost of the waterworks improvements that are currently under construction and the debt service costs for the authorized, yet presently unissued, revenue bonds. The proposed extension of time would avoid the need for a second rate proceeding and the significant expenditure of time and resources required for such proceeding.

WHEREFORE, LaRue District No. 1 requests that the Commission grant a deviation from its July 2, 2020 Order and waive the requirement of an application for rate adjustment, or in the alternative, that the Commission amend its July 2, 2020 Order and extend until July 2, 2022 the time in which LaRue District No. 1 must apply for rate adjustment.⁸

⁸ A duplicate motion is being filed this day in Case No. 2020-00234.

Dated: June 8, 2021

Respectfully submitted,

/s/ Thomas P. Claycomb

Thomas P. Claycomb

CLAYCOMB LAW OFFICE, PLLC

208 N. Lincoln Blvd., P. O. Box 288

Hodgenville, Kentucky 42748

Telephone: (270) 358-9620

tom@claycomblawoffice.com

Counsel for LaRue District No. 1

CERTIFICATE

In accordance with 807 KAR 5:001, Section 8, I certify that LaRue District No. 1's electronic filing of this document is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Commission on June 8, 2021; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that within 30 days following the termination of the state of emergency declared in Executive Order 2020-215, this document in paper medium will be delivered to the Commission.

/s/ Thomas P. Claycomb

Thomas P. Claycomb