

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

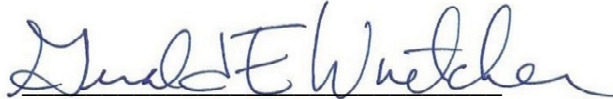
ELECTRONIC APPLICATION OF)	
MCCREARY COUNTY WATER DISTRICT)	
FOR AUTHORIZATION TO EXECUTE AN)	
ASSISTANCE AGREEMENT WITH THE)	
KENTUCKY INFRASTRUCTURE)	CASE NO. 2020-00399
AUTHORITY AND FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY)	
TO CONSTRUCT THE SANITARY SEWER)	
COLLECTION SYSTEM EXPANSION)	
PHASE 1 PROJECT)	

**RESPONSE OF MCCREARY COUNTY WATER DISTRICT
TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

McCreary County Water District submits its Response to Commission Staff's First Request
for Information.

Dated: February 19, 2021

Respectfully submitted,

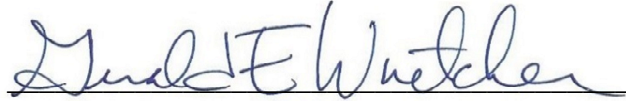


Gerald E. Wuetcher
gerald.wuetcher@skofirm.com
Stoll Keenon Ogden PLLC
300 West Vine St. Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000
Fax: (859) 259-3517

Counsel for McCreary County Water District

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that McCreary County Water District's electronic filing of this Response is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Public Service Commission on February 19, 2021; that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding; and that within 30 days following the end of the state of emergency announced in Executive Order 2020-215 this Response in paper medium will be delivered to the Public Service Commission.

A handwritten signature in blue ink, reading "Gerald E. Wetcher". The signature is written in a cursive style with a horizontal line underneath the name.

Counsel for McCreary County Water District

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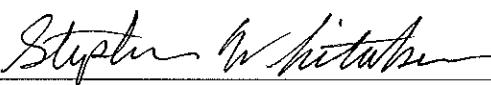
RESPONSE OF
MCCREARY COUNTY WATER DISTRICT
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

FILED: February 19, 2021

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF MCCREARY)

The undersigned, Stephen Whitaker, being duly sworn, deposes and states that he is the General Manager/Superintendent of McCreary County Water District and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



Stephen Whitaker
General Manager/Superintendent
McCreary County Water District

Subscribed and sworn to before me, a Notary Public in and before said County and State,
this 19 day of February, 2021.



Notary Public

My Commission Expires: 7/13/22

Notary ID: 603026

MCCREARY COUNTY WATER DISTRICT

Response to Commission Staff's First Request for Information Case No. 2020-00399

Question No. 1

Responding Witness: Alan Robinson/Stephen Whitaker

Q-1. Refer to the Application, paragraph 9. McCreary District states that its proposed construction project includes the installation of 240 grinder pump stations. However, Exhibit 3 of the Application, page 1 states that the plans include the installation of 414 grinder pump stations. Additionally, paragraph 9 states that the number of additional sewer customers will be approximately 305. Provide an explanation for the discrepancy between these figures.

A-1. Because McCreary County does not require property owners to connect to municipal sewer facilities when such facilities become available, the number of new customers for the project is difficult to estimate. Based upon the total number of residences in the proposed project area and past experience with sewer expansions, an estimate of 305 new customers was used in the preliminary engineering report and in the Water Resource Information System Project Profile.

The plans and specifications submitted to the Kentucky Division of Water were for the base plan and Additive Alternates No. 1 and No. 2. The total project involved the installation of 414 grinder pump stations. Based upon the bids submitted in response to the advertisement for bids, the total cost of constructing the entire project exceeded the available funds. McCreary County Water District has available funds to construct the base project and Additive Alternative No. 1. The total number of grinder pump stations in the base project (209) and Additive Alternative No. 1 (31) is 240. These 240 grinder pumps will serve 253 new customers since some homes will share a single grinder (e.g., family structures, multiple structures on a single parcel).

Additive Alternative No. 2 involves the construction of an additional 174 grinder pumping stations that has the potential to serve 209 residences. Since funding is not currently available for this additive, the proposed project will not serve these potential customers. McCreary District intends to connect as many residences as possible and, if project funding permits, will connect some residences located in the area that Additive Alternative No. 2 would have served.

MCCREARY COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00399**

Question No. 2

Responding Witness: Alan R. Robinson/Stephen Whitaker

- Q-2. Refer to the Application, paragraph 9. McCreary District states that the project will add approximately 305 new sewer customers.**
- a. Provide a detailed explanation of how the estimate of 305 new sewer customers was determined.**
 - b. Provide the number of customers in the project area that have contracted for service from McCreary District.**
- A-2.
- a. See Response to Question 1.
 - b. McCreary District began publishing notice of the availability of sewer service in the project area in the local newspaper last month. As of February 18, 2021, 23 persons have executed user agreements with McCreary District.

MCCREARY COUNTY WATER DISTRICT

**Response to Commission Staff's First Request for Information
Case No. 2020-00399**

Question No. 3

Responding Witness: Stephen Whitaker

- Q-3. Provide a schedule in Excel spreadsheet format with all formulas unprotected and all rows and columns fully accessible with the calculation of McCreary District's debt service coverage using the coverage method most commonly accepted by the Commission for its sewer division for the calendar years 2017, 2018, and 2019.**
- A-3. See embedded spreadsheet, Tab Question 3. These calculations consider only McCreary District's sewer operations. The bond resolution for each debt issuance related to the sewer operations provides for a combined pledge of gross water and sewer. Compliance with the resolutions' debt service requirements is based upon the combined performance of McCreary District's water and sewer operations.

	2017	2018	2019
Operating Revenues			
Operating Revenue	\$ 952,735	\$ 931,635	\$ 1,105,734
Operating Expenses-Net Depreciation	<u>\$ 980,884</u>	<u>\$ 1,052,646</u>	<u>\$ 1,294,211</u>
Net Operating Income	\$ (28,149)	\$ (121,011)	\$ (188,477)
Non-Operating Income - Interest	<u>\$ 427</u>	<u>\$ 595</u>	<u>\$ 819</u>
Cash Available for Debt Service	\$ (27,722)	\$ (120,416)	\$ (187,658)
Divide by: Annual Debt Service	<u>\$ 122,295</u>	<u>\$ 110,557</u>	<u>\$ 103,411</u>
Debt Service Coverage	<u><u>(0.23)</u></u>	<u><u>(1.09)</u></u>	<u><u>(1.81)</u></u>

Operating Revenues			
Operating Revenue	\$ 952,735	\$ 931,635	\$ 1,105,734
Operating Expenses (Depreciation Included)	<u>\$ 1,519,706</u>	<u>\$ 1,589,968</u>	<u>\$ 1,826,652</u>
Net Operating Income	\$ (566,971)	\$ (658,333)	\$ (720,918)
Non-Operating Income - Interest	<u>\$ 427</u>	<u>\$ 595</u>	<u>\$ 819</u>
Cash Available for Debt Service	\$ (566,544)	\$ (657,738)	\$ (720,099)
Divide by: Annual Debt Service	<u>\$ 122,295</u>	<u>\$ 110,557</u>	<u>\$ 103,411</u>
Debt Service Coverage	<u><u>(4.63)</u></u>	<u><u>(5.95)</u></u>	<u><u>(6.96)</u></u>

MCCREARY COUNTY WATER DISTRICT

Response to Commission Staff's First Request for Information Case No. 2020-00399

Question No. 4

Responding Witness: Stephen Whitaker

- Q-4. Provide a schedule in Excel spreadsheet format with all formulas unprotected and all rows and columns fully accessible with calculations that show whether McCreary District's sewer division will meet the debt service coverage requirements of its lenders (existing and proposed long-term debt) for the three years following the estimated completion of its proposed construction project absent an increase to McCreary District's base sewer rates. Include all calculations, assumptions (customer growth and increases in operating expenses), and workpapers used by McCreary District in its response.**
- A-4. See embedded spreadsheet, Tab Question 4. These calculations consider only McCreary District's sewer operations. The bond resolution for each debt issuance related to the sewer operations provides for a combined pledge of gross water and sewer. Compliance with the resolutions' debt service requirements is based upon the combined performance of McCreary District's water and sewer operations.

Assumptions:

1. Proposed facilities will be completed by July 1, 2022.
2. As of July 1, 2022, 253 customers will have connected to the proposed facilities. Projected Year 2022 includes revenue from the addition of these customers is for the last six months of 2022. Projected Years 2023 and 2024 each include twelve months of revenue from these customers.
3. Each attaching customer will consume monthly an amount of water equal to the average water consumption (4,126 gallons).
4. All expenses, except electric, will increase two percent annually.
5. Electric expense will increase \$9,600 annually upon completion of the proposed facilities but will also be subject to two percent increase each year after 2021.
6. Debt service payments will begin in 2022 annually.
7. Annual debt service on the KIA loan will be \$106,016.
8. Debt Service on present debt:
2022 - \$111,434
2023 - \$114,456
2024 - \$112,844

	2020 (Actual Unaudited)	2021 (Budget)	2022 Projected	2023 Projected	2024 Projected
Operating Revenues					
Operating Revenue:					
Sewer Service Revenues	\$ 1,295,632	\$ 1,300,000	\$ 1,683,265	\$ 2,067,501	\$ 2,067,501
Other Sales and Fees	\$ 92,169	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Total Operating Revenue	<u>\$ 1,387,801</u>	<u>\$ 1,320,000</u>	<u>\$ 1,703,265</u>	<u>\$ 2,087,501</u>	<u>\$ 2,087,501</u>
Operation and Maintenance Expenses					
Operation Expenses	\$ 278,029	\$ 281,000	\$ 291,516	\$ 302,340	\$ 308,387
Maintenance Expenses	\$ 219,183	\$ 252,450	\$ 257,499	\$ 262,649	\$ 267,902
Customer Accounts Expenses					
Administrative and General Expenses	\$ 560,474	\$ 684,769	\$ 698,464	\$ 712,434	\$ 726,682
Total Operation and Maintenance Expenses	<u>\$ 1,057,686</u>	<u>\$ 1,218,219</u>	<u>\$ 1,247,479</u>	<u>\$ 1,277,423</u>	<u>\$ 1,302,971</u>
Net Operating Income	\$ 330,115	\$ 101,781	\$ 455,786	\$ 810,078	\$ 784,530
Non-Operating Income - Interest	\$ 830	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Cash Available for Debt Service	\$ 330,945	\$ 102,781	\$ 456,786	\$ 811,078	\$ 785,530
Divide by: Annual Debt Service	<u>\$ 114,504</u>	<u>\$ 112,719</u>	<u>\$ 217,450</u>	<u>\$ 220,472</u>	<u>\$ 218,860</u>
Debt Service Coverage	<u>2.89</u>	<u>0.91</u>	<u>2.10</u>	<u>3.68</u>	<u>3.59</u>

MCCREARY COUNTY WATER DISTRICT

Response to Commission Staff's First Request for Information Case No. 2020-00399

Question No. 5

Responding Witness: Stephen Whitaker

- Q-5. Provide a schedule in Excel spreadsheet format with all formulas unprotected and all rows and columns fully accessible with calculations showing the debt service coverage for McCreary District's sewer division (existing and proposed long-term debt), including full recovery of its depreciation expense (existing plant and the completed project) for the three years following the completion of its proposed construction project. Include all calculations, assumptions (customer growth and increases in operating expenses), and workpapers used by McCreary District in its response.**
- A-5. See embedded spreadsheet, Tab Question 5. These calculations consider only McCreary District's sewer operations. The bond resolution for each debt issuance related to the sewer operations provides for a combined pledge of gross water and sewer. Compliance with the resolutions' debt service requirements is based upon the combined performance of McCreary District's water and sewer operations.

Assumptions:

1. Proposed facilities will be completed by July 1, 2022.
2. As of July 1, 2022, 253 customers will have connected to the proposed facilities. Projected Year 2022 includes revenue from the addition of these customers is for the last six months of 2022. Projected Years 2023 and 2024 each include twelve months of revenue from these customers.
3. Each attaching customer will consume monthly an amount of water equal to the average water consumption (4,126 gallons).
4. All expenses, except electric, will increase two percent annually.
5. Electric expense will increase \$9,600 annually upon completion of the proposed facilities but will also be subject to two percent increase each year after 2021.
6. Debt service payments will begin in 2022 annually.
7. Annual debt service on the KIA loan will be \$106,016.
8. Debt Service on present debt:
2022 - \$111,434
2023 - \$114,456
2024 - \$112,844
9. Increase in annual depreciation expense is \$126,543. Proposed facilities will only be in service for six months for 2022. Only 50% of depreciation expense is included for 2022.

	2020 (Actual Unaudited)	2021 (Budget)	2022 Projected	2023 Projected	2024 Projected
Operating Revenues					
Operating Revenue:					
Sewer Service Revenues	\$ 1,295,632	\$ 1,300,000	\$ 1,683,265	\$ 2,067,501	\$ 2,067,501
Other Sales and Fees	<u>\$ 92,169</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>
Total Operating Revenue	<u>\$ 1,387,801</u>	<u>\$ 1,320,000</u>	<u>\$ 1,703,265</u>	<u>\$ 2,087,501</u>	<u>\$ 2,087,501</u>
Operation and Maintenance Expenses					
Operation Expenses	\$ 278,029	\$ 281,000	\$ 291,516	\$ 302,340	\$ 308,387
Maintenance Expenses	\$ 219,183	\$ 252,450	\$ 257,499	\$ 262,649	\$ 267,902
Customer Accounts Expenses					
Administrative and General Expenses	\$ 560,474	\$ 684,769	\$ 698,464	\$ 712,434	\$ 726,682
Depreciation	<u>\$ 532,441</u>	<u>\$ 532,441</u>	<u>\$ 595,713</u>	<u>\$ 658,984</u>	<u>\$ 658,984</u>
Total Operation and Maintenance Expenses	<u>\$ 1,590,127</u>	<u>\$ 1,750,660</u>	<u>\$ 1,843,192</u>	<u>\$ 1,936,407</u>	<u>\$ 1,961,955</u>
Net Operating Income	\$ (202,326)	\$ (430,660)	\$ (139,927)	\$ 151,094	\$ 125,546
Non-Operating Income - Interest	<u>\$ 830</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Cash Available for Debt Service	\$ (201,496)	\$ (429,660)	\$ (138,927)	\$ 152,094	\$ 126,546
Divide by: Annual Debt Service	<u>\$ 114,504</u>	<u>\$ 112,719</u>	<u>\$ 217,450</u>	<u>\$ 220,472</u>	<u>\$ 218,860</u>
Debt Service Coverage	<u>(1.76)</u>	<u>(3.81)</u>	<u>(0.64)</u>	<u>0.69</u>	<u>0.58</u>