

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

**In the Matter of:**

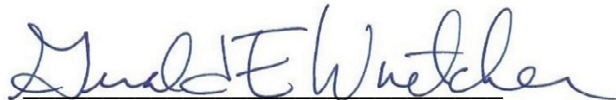
**ELECTRONIC APPLICATION OF MCCREARY )  
COUNTY WATER DISTRICT FOR )  
AUTHORIZATION TO ENTER AN ASSISTANCE )  
AGREEMENT WITH THE KENTUCKY )  
INFRASTRUCTURE AUTHORITY TO BORROW ) CASE NO. 2021-00452  
\$270,000 TO FINANCE THE CONSTRUCTION OF )  
THE CATRON/NEEDLE ROAD WATER LINE )  
PROJECT AND A DECLARATION THAT )  
PROJECT DOES NOT REQUIRE A CERTIFICATE )  
OF PUBLIC CONVENIENCE AND NECESSITY )**

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

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

Dated: January 7, 2022

Respectfully submitted,

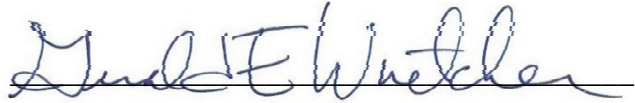


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gerald.wuetcher@skofirm.com

*Counsel for McCreary County Water District*

## **CERTIFICATE OF SERVICE**

In accordance with 807 KAR 5:001, Section 8, and the Public Service Commission's Order of July 22, 2021 in Case No. 2020-00085, I certify that this document was transmitted to the Public Service Commission on January 7, 2022 and that there is currently no party that the Public Service Commission has excused from participation by electronic means in this proceeding.

A handwritten signature in blue ink, appearing to read "David E. Wheeler", written over a horizontal line.

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

**FILED: January 7, 2022**

## MCCREARY COUNTY WATER DISTRICT

### Response to Commission Staff's First Request for Information Case No. 2021-00452

#### Question No. 1

Responding Witnesses: Stephen Whitaker/Legal Counsel

**Q-1. Provide an explanation, accompanied by any supporting documentation, as to why this project was not included in the applications in Case No. 2021-00300 or No. 2021-00301 [footnotes omitted].**

A-1. The application in Case No. 2021-00300 involves a request for an adjustment of rates for sewer service. The proposed Catron/Needle Road Water Line Project involves an extension of a water main and is unrelated to water service.

Under the Public Service Commission's Orders in Cases No. 2020-00151 and No. 2021-00021, McCreary County Water District was required to submit applications for rate adjustment for its water and sewer operations no later than June 26, 2021. The Public Service Commission subsequently extended the time in which to submit these applications to September 24, 2021. McCreary District submitted its application for an adjustment of water rates on September 24, 2021. At the time of the application's submission, the Division of Water had not yet approved the plans and specifications for the proposed Catron/Needle Road Water Line Project. The Division of Water did not grant its approval of the plans and specifications until October 25, 2021. Moreover, bids for constructing the project were not received until November 10, 2021 and the contract for construction of the proposed project was not tentatively awarded until November 30, 2021. Accordingly, the project had not been finalized at the time an application for rate adjustment nor was the precise cost of the project known.

Furthermore, under the terms of Kentucky Infrastructure Authority loan, the loan agreement could not be executed until McCreary District obtained from the Public Service Commission a certificate of public convenience and necessity for the project or a declaratory order that no certificate was required.

McCreary District also assumes that the Public Service Commission's ratemaking methodology will not allow consideration of the project's debt service costs and depreciation expense because of timing considerations. The application for rate adjustment in Case No. 2021-00301 is based upon a 2020 test period. Completion of the project is likely not to occur until late Spring 2022. The project is well outside the test period and is not likely to be completed and placed into service until after a final decision is issued in this proceeding. The Public Service Commission has previously held that depreciation expense utility plant not in service at the time of hearing on a proposed rate adjustment will not be considered for ratemaking purposes.

# MCCREARY COUNTY WATER DISTRICT

## Response to Commission Staff's First Request for Information Case No. 2021-00452

### Question No. 2

Responding Witness: Stephen Whitaker

**Q-2. Provide documentary evidence that the utility will be able to meet its monthly debt service obligations.**

A-2. See the Workbook entitled "Q2\_DebtServiceObligation" that is embedded in this Response and filed separately with this Response. Worksheet "Schedule of Adjusted Operations" is based upon the Schedule of Adjustment Operations filed in Case No. 2021-00301. This worksheet has been modified to reflect proforma revenues and expenses using both current rates and proposed Phase 1 water service rates. Additionally, expenses in the current rate and proposed rate scenarios have been adjusted to eliminate adjustments for expected Commission disallowances to employee benefit expenses.

McCreary County Water District understands that the question requests that it show that the rates assessed for water service and any other revenues generated from its water operations will be sufficient to meet the debt service requirements of debt issued to finance water operations that presently exist as well as those created by the proposed Assistance Agreement. McCreary District's existing debt obligations, as well as the proposed Assistance Agreement, require McCreary District to maintain rates sufficient to produce revenues to equal at least the sum of its operating and maintenance expenses, and 120 percent of its annual principal and interest payments. The debt service obligations do not consider depreciation expense.

Using reported 2020 revenues and expenses, adjusted to reflect known and measurable changes and the allocation of common expenses between McCreary District's water and sewer operations in accordance with the Public Service Commission's allocation rules, McCreary District determined that, under its current rates for water service, it would have total operating revenues of \$4,145,877.03 and total operating expenses (excluding depreciation and amortization expenses) of \$2,738,243.23 for a utility operating income of \$1,407,633.80. If the proposed Assistance Agreement is executed, McCreary District's average annual debt service for the period from 2022 to 2026 will be \$717,181.15. Assuming a 20 percent coverage requirement, the average annual coverage requirement will be \$143,436.23. Total average annual debt service requirement will be \$860,617.39.

Using reported 2020 revenues and expenses, adjusted to reflect known and measurable changes and the allocation of common expenses between McCreary District's water and sewer operations in accordance with the Public Service Commission's allocation rules, McCreary District determined that, under its proposed rates for water service (Phase 1), it would have total operating revenues of \$4,233,492.16 and total operating expenses

(excluding depreciation and amortization expenses) of \$2,738,818.16 for a utility operating income of \$1,495,073.48.

Under present conditions, McCreary District's current rates and its proposed rates for water service will generate sufficient revenues to meet current operating expenses and debt service coverage requirements.

## MCCREARY COUNTY WATER DISTRICT

### Response to Commission Staff's First Request for Information Case No. 2021-00452

Question No. 3

Responding Witness: Legal Counsel

**Q-3. Refer to the Application, paragraph 13. Provide support and documentation for the statement that given the size of the proposed water main extension and its funding source that no engineering report was required.**

A-3. Neither Kentucky nor federal law requires the preparation of an engineering report on the proposed water main extension.

401 KAR 8:100, Section 1(1)(a) requires a supplier of water to submit to the Kentucky Division of Water a preliminary engineering report prepared by a professional engineer on a proposed modification to an existing facility. Section 1(1)(b)2, however, expressly provides that a preliminary engineering report is not required for “[c]onstruction, extension or improvement of a distribution system.” The proposed water main extension is an extension of an existing distribution system. 401 KAR 8:100, Section 2(1)e requires the submission of final plans and specifications to the Kentucky Division of Water. McCreary District has made such submission and received the required approval of those plans and specifications. See Exhibit 3 to Application.

807 KAR 5:001, Section 16, which establishes the filing requirements for a certificate of public convenience and necessity for an extension of facilities, does not require the filing of an engineering report. Assuming that this regulation required the preparation of an engineering report, KRS 278.020(1) expressly exempts the proposed water main extension from the requirement to obtain a certificate as the proposed water main extension’s cost is less than \$500,000.

If the construction of proposed facilities is financed through funding from the U.S. Department of Agriculture, an application for a certificate of public convenience and necessity may be submitted for Public Service Commission review pursuant to KRS 278.023. (Projects financed with funding from the U.S. Department of Agriculture generally involved Rural Development loans or grants.) In such instances, 807 KAR 5:069, Section 2(4) requires the applicant to submit a copy of the preliminary and final engineering reports. This requirement acknowledges that, as part of its application to obtain Rural Development financing assistance, the funding recipient must have submitted a preliminary engineering report for the proposed facilities. *See* 7 CFR §1780.33. McCreary County Water District’s proposed water main extension is not funded with any funds from the U.S. Department of Agriculture.

Funding for the proposed water main extension is from the Kentucky State Drinking Water Revolving Fund, which is governed by 200 KAR 17:070. This regulation does not require the submission of an engineering report as part of the application process.

Attached to this response is the application that McCreary District submitted to the Division of Water (Form DW-1) for approval of the proposed water main extension. The project plans and specifications referenced in the Form DW-1 are found at Exhibits 7 and 8 of the Application filed with the Public Service Commission on December 14, 2021. The hydraulic analysis for the project is not included but will be provided upon request.



December 28, 2020

Mr. Terry Humphries  
Water Infrastructure Branch  
Kentucky Division of Water  
300 Sower Boulevard, 3<sup>rd</sup> Floor  
Frankfort, Kentucky 40601

Re: Catron – Needle Road Waterline Extension  
McCreary County Water District  
Whitley City, Kentucky  
Construction Permit Application  
WX#21147013  
KIA F21-025

Mr. Humphries:

On behalf of the McCreary County Water District, Eclipse Engineers is submitting for your review and approval plans for the above referenced project. The project will include the installation of approximately 8,100 LF of 3-inch PVC waterline, one pressure reducing valve vault, and related appurtenances.

We would ask for your expeditious review of this project. This project will be funded by KIA as referenced above.

Attached are the following:

- Form DW-1
- Plans and Specifications (digitally stamped and signed)
- SRF Plans and Specifications Review Checklists
- Hydraulic KY Pipe Analysis and USGS Location / Quad Map
- Letter of Acceptance from the McCreary County Water District

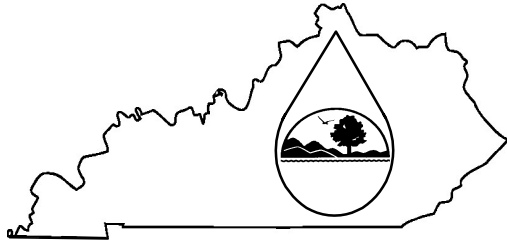
If you need any additional information or have any comments do not hesitate to call me at (606) 451-0959.

Sincerely,  
**Eclipse Engineers, PLLC**



Alan R. Robinson, P.E.  
President

cc: Stephen Whitaker, Superintendent, MCWD



**Commonwealth of Kentucky**  
 Energy and Environment Cabinet  
**Division of Water**

**Construction Application  
 For Drinking Water Distribution**

See the instructions for more information about selected portions of this application.  
 Questions on completing this application? Contact the Water Infrastructure Branch at 502/564-3410, by e-mail at [WIBEngineering@ky.gov](mailto:WIBEngineering@ky.gov) or visit our website at <http://water.ky.gov> for more information.

**I. Construction Project Information**

Project Name: Catron - Needle Road Waterline Extension

Project County: McCreary Estimated Project Cost: \$ 270,000

Project Latitude/Longitude (DMS): 84 deg 23' 22.95" W 36 deg 47' 03.03" N

Is this a federally funded project:

- DWSRF
- SPAP
- Other: \_\_\_\_\_

If yes, has an Environmental Information Document been reviewed and approved? Categorical Exclusion

If the project has been submitted to the State Clearinghouse for review, provide the SAI number: \_\_\_\_\_

Identify all other funding sources: \_\_\_\_\_

Does the project contain any of the following:

- Booster Pump Stations
- Water Storage Tanks
- Waterlines

Waterline Material	Waterline Size	Linear Feet
PVC	3"	8,100

Provide a DETAILED description of work to be performed for this project. Attach additional sheets as necessary:

The project will include the installation of approximately 8,100 LF of 3-inch PVC waterline, one pressure reducing valve vault, and related appurtenances.

Identify how the sanitary wastewater produced as a result of this project will be handled:

Sanitary Sewer

WWTP: McCreary WWTP

Septic Tank

Other: \_\_\_\_\_

## II. Utility Information

Utility Name: McCreary County Water District PWSID: \_\_\_\_\_

Street Address: 456 North US Hwy 27 County: McCreary

City, State, Zip: Whitley City, KY 42653

Phone #: (606) 376-2540 Fax #: \_\_\_\_\_ Email: stepwhitaker@gmail.com

If another utility will serve any portion of the proposed project, provide the name and PWSID No.

Utility Name: \_\_\_\_\_ PWSID No. \_\_\_\_\_

If the utility serving the project purchases water from another utility, provide the name and PWSID No. and purchase contract amount.

Utility Name: \_\_\_\_\_ PWSID No. \_\_\_\_\_ Purchase Contract Amount: \_\_\_\_\_

Utility Name: \_\_\_\_\_ PWSID No. \_\_\_\_\_ Purchase Contract Amount: \_\_\_\_\_

Utility Name: \_\_\_\_\_ PWSID No. \_\_\_\_\_ Purchase Contract Amount: \_\_\_\_\_

Is the system currently under any type of waterline or sewer sanctions? No

If yes, submit an exception request and attach supporting documentation to justify its approval.

## III. Design Considerations

### A. Plans and Specifications

Plans and specifications shall comply with **401 KAR 8:100** and “**Recommended Standards for Water Works**” **2012 Edition (Ten States’ Standards)**. All plans must contain a P.E. seal, signature and date of signature with at least one set having an original seal and signature. Provide detailed plans (**no larger than 24” X 36”**) which must comply with **401 KAR 8:100**. See the instructions for additional details.

### B. Design Engineer

Name: Alan R. Robinson P.E. Firm: Eclipse Engineers, PLLC.

Street Address: 113 West Mt. Vernon Street

City, State, Zip: Somerset

Phone #: 606-451-0959 Fax #: \_\_\_\_\_ Email: arobinson@eclipseengineers.net

### Design Capacities

Identify the number of new connections and the projected average daily demand: 13 new connections / Avg. Daily Demand 400 x 13 = 5,200 GPD

Identify the number of existing residents, and their projected water demand, that may be served as a result of this project:

Identify the number of connections in the service area: 7,000

**Other Information to be Submitted with the Project**

- 1. Provide a copy of the U.S.G.S. 7 ½ minute topographic map or a detailed vicinity map with the location(s) of the proposed project.
- 2. If the project includes a new or upgraded pump station(s), provide the pump sizing calculations and the proposed pump’s characteristics curve along with the efficiency, horsepower and NPSHR data. Also, identify each pump station’s locations coordinates (DMS).
- 3. If the project proposes the addition of storage tanks, provide engineering calculations which demonstrates a complete fill and drain cycle every 72 hours. Also, identify each storage tank’s location coordinates (DMS).
- 4. Provide engineering calculations or an electronic model demonstrating the availability of 30 psig in the waterline under peak demand conditions.
- 5. Provide engineering calculations or an electronic model that demonstrates if the proposed waterlines are capable of a 2.5 ft/sec flow velocity and show associated residual system pressures.
- 6. Provide a signed letter of acceptance from the utility, which states that the utility has reviewed and approved the plans and specifications and agrees to serve the proposed project upon completion. If another utility will own, operate and maintain any portion of this project provide an acceptance letter from that utility as well.
- 7. If the utility is a purchaser and the project demand is over 10,000 gallons per day or the utility has exceeded 85% of its purchase contract, provide a valid acceptance letter from the seller.
- 8. If the project will provide water service to existing residences, provide the names and addresses of all existing residences to be served by the project, if known.
- 9. If the project is funded by a State Revolving Fund Loan (SRF) provide a completed SRF Plans and Specifications Checklist along with 1 complete printed copy of the project specifications.

**IV. Environmental Benefits**

Identify the environmental benefit(s) of the project by checking all that apply.

- Construction of new waterlines serving existing residences previously without public water.
- Modifies/upgrades existing waterlines:
  - Inadequately sized waterlines.
  - Leaks, breaks, restrictive flow.
  - Replaces lead, copper or asbestos cement waterlines.
  - Other: \_\_\_\_\_
- Provides fire protection.
- Replaces tanks/pumps due to age/condition.
- Installation of high efficiency/energy saving pumps.
- Other. Provide a brief description in the space below. \_\_\_\_\_

## V. Fees

Check or money order must be made payable to "Kentucky State Treasurer" for the total amount. Fees do not apply to projects FUNDED by a municipality, water district, or other publicly owned utility.

Project Category: Municipality Total Amount: \$ 0

## MCCREARY COUNTY WATER DISTRICT

### Response to Commission Staff's First Request for Information Case No. 2021-00452

#### Question No. 4

Responding Witness: Stephen Whitaker

- Q-4. Refer to the Application, paragraph 30. McCreary District states that given the terms of the proposed assistance agreement, McCreary District does not anticipate the debt service requirements will significantly affect McCreary District's financial position.**
- a. Explain if this implies that McCreary District will not be filing for a rate increase in 2024.**
  - b. Explain whether McCreary District anticipates that the debt service coverage for the proposed assistance agreement will be included Case No. 2021-00301.**
  - c. Refer to the Application, paragraph 30. Explain if the statement that its financial position will not be impacted is dependent on whether or not McCreary District receives forgiveness for approximately \$135,000 of the principle amount.**
- A-4.
- a. The statement does not imply that McCreary District will not apply for a rate adjustment in 2024. In its Resolution of September 17, 2021, McCreary District's Board of Commissioners stated that "if the Kentucky Public Service Commission accepts and approves the [proposed] rates . . . or rates producing a comparable level of revenues, McCreary District will within 30 months of the issuance of an order authorizing such rates, file an application for rate adjustment with the Kentucky Public Service Commission to ensure its rates for water and sewer service remain at a sufficient level to ensure adequate and reliable service and that such application will be supported by a comprehensive cost-of-service study." The proposed project does not affect this offer.
  - b. For the reasons set forth in its response to Question 1 of this Request, McCreary District does not anticipate that the debt service coverage related to the proposed project will be considered in Public Service Commission's final decision in Case No. 2021-00301. As discussed in its response to Question 2, McCreary District believes the proposed rates will be sufficient to meet the debt service requirements for all of its existing debt obligations and the proposed loan from the Kentucky Infrastructure Authority.
  - c. The statement assumes the debt forgiveness will occur. Please note that, under the terms of the Assistance Agreement, debt forgiveness will occur upon release of liens on all contracts and disbursement of the final draw request by Kentucky Infrastructure Authority to McCreary County Water District. This event is

expected to occur shortly after completion of the proposed water main extension's construction.