

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

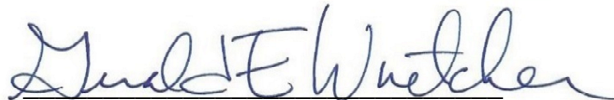
ELECTRONIC APPLICATION OF MCCREARY)
COUNTY WATER DISTRICT FOR)
AUTHORIZATION TO ENTER AN ASSISTANCE)
AGREEMENT WITH THE KENTUCKY)
INFRASTRUCTURE AUTHORITY TO BORROW) CASE NO. 2021-00452
\$270,000 TO FINANCE THE CONSTRUCTION OF)
THE CATRON/NEEDLE ROAD WATER LINE)
PROJECT AND A DECLARATION THAT)
PROJECT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

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

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

Dated: January 27, 2022

Respectfully submitted,

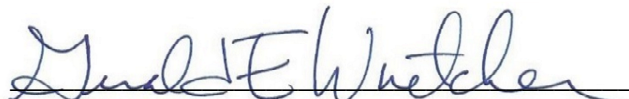


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Counsel for McCreary County Water District

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.



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

FILED: January 27, 2022

MCCREARY COUNTY WATER DISTRICT

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

(Revisions to original response are in bold face)

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 **sewer** 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 could not meet the filing requirements for an application for authorization to enter the proposed Assistance Agreement or for an order related to the construction of the proposed project until receiving bids on the proposed project and the total cost of the project was known.**

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 **adjustments to test period** depreciation expense **for depreciation on** utility plant **that is** not in service at the time of hearing **on a utility's** proposed rate adjustment **are inappropriate and** will not be considered for ratemaking purposes.

MCCREARY COUNTY WATER DISTRICT

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

(Revisions to original response are in bold face)

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.

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. **As current rates are sufficient to support the proposed Assistance Agreement, McCreary District is not proposing any adjustment in its rates for water service due to the proposed water main extension.**

MCCREARY COUNTY WATER DISTRICT

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

(Revisions to original response are in bold face)

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.

The statement merely reflects that the additional debt service obligation associated with the proposed assistance agreement is small (annually no more than approximately \$5,000) and does not require McCreary District to apply for an adjustment of rates to meet the debt service requirements contained in the proposed Assistance Agreement or McCreary District's existing debt instruments.

- 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. **Neither construction of the proposed water main extension nor the execution of the proposed Assistance Agreement requires an adjustment in McCreary District's rates for water service.**

- 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.