

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GARRISON-QUINCY-KY-O-)
HEIGHTS WATER DISTRICT FOR APPROVAL) CASE NO.
OF A CERTIFICATE OF PUBLIC CONVENIENCE) 2015-00052
AND NECESSITY AND APPROVAL OF)
FINANCING)

O R D E R

Garrison-Quincy-Ky-O-Heights Water District ("Garrison-Quincy") has applied for a Certificate of Public Convenience and Necessity ("CPCN") to construct a waterworks project known as the New Well and Water Treatment Plant ("WTP") Improvement Project and for approval of its plan to finance the proposed project.

In Case No. 2013-00350, the Commission reviewed an application by Garrison-Quincy to adjust water service rates that included a request for rate recovery of the Kentucky Infrastructure Authority ("KIA") loan Assistance Agreement ("Assistance Agreement") that is the subject of this proceeding.¹ Commission Staff ("Staff") issued a report on January 17, 2014, wherein it found that rate recovery was not appropriate because Garrison-Quincy had neither sought nor received the Commission's

¹ Case No. 2013-00350, *Alternative Rate Adjustment Filing Garrison-Quincy-KY-O-Heights Water District* (Ky. PSC Feb. 19, 2014).

authorization to assume the KIA loan as of the date of the Staff's report.² The Commission authorized water rates that did not include the loan's recovery.³

In this application, Garrison-Quincy requests that the Commission authorize it to enter into the Assistance Agreement; however, it does not request to increase water rates to include recovery of the KIA loan's annual payments. Garrison-Quincy states that there have been no material changes to its operations since the issuance of Staff's report dated January 17, 2014, and Garrison-Quincy states that it appears that the revenues that will be generated from the rates authorized by the Commission in Case No. 2013-00350 are sufficient to meet the Debt Service Coverage ("DSC") ratio that will be required by the Assistance Agreement.⁴ Garrison-Quincy requests that the Commission enter a specific finding in this case confirming that the authorized rates will produce revenues that are sufficient to meet KIA's DSC ratio requirement.⁵ KIA requires that Garrison-Quincy charge rates that produce net revenues that are at least 100 percent of its annual payments on all loans.⁶

As shown in the following table, by adding the annual principal and interest payments to be made on the proposed KIA loan, in the amount of \$35,175, to the pro forma financial information included in Staff's report issued in Case No. 2013-00350,

² *Id.*, Commission Staff Report (Ky. PSC Jan. 17, 2014) at 28.

³ *Id.*, Final Order (Ky. PSC Feb. 19, 2014) at 3. Staff found that Garrison-Quincy could justify a sewer service rate increase that would generate as much as \$139,615 in additional annual revenue and advised Garrison Quincy to consider filing an application to adjust its sewer service rates. Garrison-Quincy has not sought an adjustment of its sewer rates since Staff's findings in Case No. 2013-00350.

⁴ Application, paragraph 13.

⁵ Application at 5.

⁶ Letter from John E. Covington, III, Executive Director, Kentucky Infrastructure Authority, to Luke Bentley, Chairman, Garrison-Quincy-KY-O-Heights Water District (Mar. 17, 2015), Supplemental Information filed Mar. 17, 2015, Exhibit 3.

Garrison-Quincy's authorized water and sewer rates will produce a DSC ratio from water operations, sewer operations, and combined operations of 187 percent, -6 percent, and 139 percent, respectively.

	Water Division	Sewer Division	Combined Operations
Annual Revenues After Rate Increase	\$497,369 ⁷	\$163,487	\$572,600
Less: Oper. and Maint. Expense	(315,511)	(159,351)	(474,862)
Taxes	<u>(9,870)</u>	<u>(5,851)</u>	<u>(15,721)</u>
Net Revenues	171,988	(1,715)	170,273
Divide by: Average Annual Principal and Interest Payments	<u>\$ 91,943⁸</u>	<u>\$ 30,400</u>	<u>\$ 122,343</u>
Debt Service Coverage Ratio	<u>187%</u>	<u>-6%</u>	<u>139%</u>

Having reviewed the application and being otherwise sufficiently advised, the Commission finds that:

1. Garrison-Quincy, a water district organized under KRS Chapter 74, owns and operates water treatment and distribution facilities that serve approximately 1,203

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2012 Revenues Prior to Water Rate Increase	\$ 409,113
Plus: Additional Revenue from Water Rate Increase	<u>88,256</u>
Projected Annual Revenues	<u>\$ 497,369</u>

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Average Annual Payments on Existing Indebtedness	\$ 56,768
Plus: Average Annual Payment on Proposed KIA Loan	<u>91,943</u>
Total	<u>\$ 148,711</u>

customers in Lewis County, Kentucky.⁹ It also provides wastewater service to approximately 316 customers in Lewis County, Kentucky.¹⁰

2. Garrison-Quincy's initial application, which was received on March 6, 2015, was supplemented and accepted as filed with the Commission on March 20, 2015. No person has sought intervention in this matter. Garrison-Quincy has not requested a hearing in this matter and the Commission finds the record complete.

3. Garrison-Quincy proposes to construct a new 200-gallon-per-minute gravel-packed ground-water well and related appurtenances.¹¹ Garrison-Quincy states that this new well replaces an existing well which is no longer capable of meeting service demand.¹² For its WTP Improvement Project, Garrison-Quincy will also refurbish another existing well, install two vertical pressure filters to replace two existing pressure filters, an air wash blower, piping, valves, controls, meters for measuring inplant water usage, electrical work, and a dehumidifier.¹³

4. Garrison-Quincy states that the proposed WTP improvements will enable it to achieve improved iron and manganese removal from the water produced.¹⁴

5. Total cost of the proposed project, including administrative, legal, engineering, construction, and contingencies costs, is approximately \$831,000.

⁹ *Annual Report of Garrison-Quincy-Ky-O-Heights Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2013* at 12 and 53.

¹⁰ *Annual Report of Garrison-Quincy-Ky-O-Heights Water District Wastewater Division to the Kentucky Public Service Commission for the Year Ended December 31, 2013* at 25.

¹¹ Application, paragraph 14.

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

6. HMB Professional Engineers, Inc. of Frankfort, Kentucky, prepared the plans and specifications for the proposed project.

7. The Kentucky Division of Water ("KDOW") has approved the plans and specifications for the proposed project.¹⁵

8. The proposed construction will not result in wasteful duplication of existing facilities.

9. The proposed construction does not conflict with any existing certificates or the service of any other utility operating in the area.

10. Public convenience and necessity require the proposed construction, which allows Garrison-Quincy to continue to provide reliable and adequate water service to its customers.

11. Garrison-Quincy intends to finance the proposed construction project with a State Revolving Fund Loan from the KIA in the amount of \$831,000.¹⁶

12. On October 4, 2013, the KIA approved a loan of \$831,000 from the Drinking Water State Revolving Fund to finance Garrison-Quincy's New Well and WTP Improvement Project. KIA offered to provide a loan to be repaid over a 20-year term at an interest rate of 0.75 percent per annum with principal forgiveness of 25 percent.¹⁷

¹⁵ Letter from Mark Rasche, Professional Engineer, Supervisor, Engineering Section, Water Infrastructure Branch, KDOW, to John Pierce, Garrison-Quincy-KY-O-Heights Water District (Mar. 13, 2015), Supplemental Information filed Mar. 17, 2015.

¹⁶ Application, paragraph 5.

¹⁷ Letter from Tammy J. McCall, Financial Analyst, Kentucky Infrastructure Authority, to Jonathan Bivens, Chairman, Garrison-Quincy-KY-O-Heights Water District (Oct. 4, 2013), Application, Exhibit 1.

13. KIA also states that there will be an additional loan-servicing fee of 0.25 percent of the annual outstanding loan balance that will be payable to KIA as a part of each interest payment.¹⁸

14. KIA has placed as a condition to the loan that Garrison-Quincy execute an Assistance Agreement with KIA no later than October 4, 2014.

15. KIA extended the time period for executing the Assistance Agreement to April 4, 2015.¹⁹

16. Garrison-Quincy's failure to execute the proposed Assistance Agreement with KIA by April 4, 2015 will result in the rescission of KIA's commitment to fund the project.

17. Pursuant to 807 KAR 5:001 *et seq.*, Garrison-Quincy requested that it not be required to file financial data for a 12-month period ending within 90 days of the filing of the application.²⁰

18. A utility having less than \$5 million in gross annual revenues is no longer required to provide financial data for a 12-month period ending within 90 days of the filing of the application if the utility's most recent annual report is on file with the Commission, and the application contains information regarding any changes that have occurred since the period covered in the annual report.²¹ For the calendar year ending

¹⁸ *Id.* at 2.

¹⁹ Letter from John E. Covington, III, Executive Director, Kentucky Infrastructure Authority to Jonathan Bivens, Chairman, Garrison-Quincy-KY-O-Heights Water District (Sept. 11, 2014), Supplemental Information filed Mar. 20, 2015, Exhibit 2. April 4, 2015 is a Saturday.

²⁰ Application, paragraph 12.

²¹ 807 KAR 5:001, Section 12(1)(b).

December 31, 2013, Garrison-Quincy had total operating revenues of \$383,653.²² Garrison-Quincy stated in its Application that there has been no material change in its financial condition or operation since December 31, 2013.²³ Therefore, Garrison-Quincy is not required to file financial data for a 12-month period ending within 90 days of the filing of the Application.

19. Garrison-Quincy's 1.39 systemwide ratio exceeds the 1.0 minimum DSC ratio that will be required by the forth coming KIA Assistance Agreement.

20. Absent unforeseen changes to Garrison-Quincy's operations that materially affect the level of Garrison-Quincy's revenues or cost of operations shown in Staff's report, Garrison-Quincy's current water and sewer rates will produce annual revenues that are sufficient to meet KIA's requirements.

21. The proposed Assistance Agreement with KIA is for lawful objects within Garrison-Quincy's corporate purpose, is necessary, appropriate for and consistent with the proper performance of Garrison-Quincy's service to the public, will not impair Garrison-Quincy's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

IT IS THEREFORE ORDERED that:

1. Garrison-Quincy is granted a CPCN to proceed with the proposed construction as set forth in its application.

2. Suitable measuring devices installed at the water treatment process for the purpose of recording the quantity of water produced and utilized through the

²² Annual Report of Garrison-Quincy-KY-O-Heights Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2013 at 24.

²³ Application, paragraph 12.

treatment process in accordance with 807 KAR 5:066, Section 6(1), shall be routinely tested to the Commission's meter testing frequencies and accuracy standards pursuant to 807 KAR 5:066, Sections 15 and 16.

3. Garrison-Quincy shall notify the Commission prior to performing any additional construction not expressly authorized by this Order.

4. Any deviation from the construction approved shall be undertaken only with the prior approval of the Commission.

5. Garrison-Quincy's request for a deviation from the requirement to submit a financial exhibit covering a 12-month period ending not more than 90 days prior to the date the application is filed is denied as moot.

6. Garrison-Quincy 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, 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 water utilities prescribed by the Commission.

7. Garrison-Quincy shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

8. Garrison-Quincy shall require construction to be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in

accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

9. Garrison-Quincy is authorized to enter the proposed Assistance Agreement with KIA and, under the terms of that Agreement, to borrow from the KIA an amount not to exceed \$831,000 to be repaid over a 20-year period at an interest rate of 0.75 percent per annum with principal forgiveness of 25 percent.

10. Within 30 days of executing its proposed Assistance Agreement with KIA, Garrison-Quincy shall file with the Commission an executed copy of the Assistance Agreement. Garrison-Quincy shall use the proceeds from the proposed Assistance Agreement with KIA only for the lawful purposes set forth in its application. None of the proceeds, however, shall be used for the construction of any of the improvements or any other project except those clearly identified in Garrison-Quincy's Application in this proceeding, unless and until Garrison-Quincy is granted a CPCN to construct such improvements.

11. Any documents filed in the future pursuant to ordering paragraphs 3, 6, 7, and 10 shall reference this case number and shall be retained in the post case reference file.

12. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon Garrison-Quincy's showing of good cause for such extension.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

By the Commission

ENTERED
APR 02 2015
KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Stephanie Bell to JP

Executive Director

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