

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MONROE COUNTY WATER)	
DISTRICT FOR AUTHORIZATION TO ENTER AN)	CASE NO.
ASSISTANCE AGREEMENT WITH THE)	2015-00315
KENTUCKY INFRASTRUCTURE AUTHORITY)	
AND FOR A CERTIFICATE OF PUBLIC)	
CONVENIENCE TO CONSTRUCT A WATER)	
TREATMENT FACILITY, ELEVATED STORAGE)	
TANK, AND WATER TRANSMISSION AND)	
DISTRIBUTION MAINS)	

ORDER

Monroe County Water District (“Monroe District”) has applied for a Certificate of Public Convenience and Necessity (“CPCN”) to construct a regional water treatment plant, associated facilities, a 600,000-gallon elevated water storage tank and transmission lines, and for approval of its plan to finance the proposed project.¹

Monroe District tendered an application for a CPCN and approval of financing on February 19, 2016. On February 26, 2016, the application was rejected as deficient because it did not include certain permits from the U.S. Army Corps of Engineers (“USACE”) and the Kentucky Department of Highways (“Highways Department”). In addition, four documents did not comply with 807 KAR 5:001, Section 4(13), because they did not contain the seal or stamp and signature of a professional engineer or land surveyor.²

¹ Application at 1.

² Order (Ky. PSC Mar. 11, 2016) at 1.

On March 1, 2016, Monroe District filed four revised exhibits to the application. On March 3, 2016, Monroe District submitted a motion for Acceptance of Filing or, in the Alternative, for a Deviation (“Motion for Acceptance or Deviation”). Monroe District stated that it had applied for the USACE and Highways Department permits and expected the permits to be issued shortly thereafter.³ Monroe District requested that its application be accepted for filing in the absence of the permits.⁴

On March 11, 2016, the Commission entered an Order which found that the March 1, 2016 filings cured the deficiencies relating to 807 KAR 5:001, Section 4(13),⁵ and that Monroe District had explained the omission of the permits from its application and, further, that Monroe District had demonstrated good cause for the omission.⁶ Finding that the omission of the permits would not impede the Commission’s investigation and review of the application, the Commission granted Monroe District’s request for a deviation and ordered the application filed as of the date of the Order, March 11, 2016.⁷ The Commission further required Monroe District to file the USACE and Highways Department permits within ten days of obtaining each permit or approval.⁸ On March 16, 2016, Monroe District filed the USACE permit which had been

³ Motion for Acceptance or Deviation (filed Mar. 3, 2016) at 5 and 6.

⁴ *Id.* at 6.

⁵ Order (Ky. PSC Mar. 11, 2016) at 4.

⁶ *Id.* at 5.

⁷ *Id.*

⁸ *Id.*

issued to Monroe District by the USACE on March 16, 2016.⁹ Monroe District has not requested a hearing in this matter.

Monroe District, a water district organized under KRS Chapter 74,¹⁰ provides retail water service to approximately 3,411 water customers¹¹ in Monroe County, Kentucky. Monroe District currently purchases all of its water from the city of Tompkinsville, Kentucky.

This CPCN is for construction of a two million-gallons-per-day (“MGD”) water treatment facility;¹² approximately 25,500 linear feet of 16-inch ductile iron, and 28,900 linear feet of 10-inch polyvinyl chloride (“PVC”) water main;¹³ and a 600,000-gallon elevated water storage tank.¹⁴ The total construction cost of the proposed project, including engineering design, construction supervision, inspection, easement acquisition, and contingency, is \$15,962,694.¹⁵

Monroe District intends to finance this project with \$15,564,032 from a State Revolving Fund (“SRF”) loan administered by the Kentucky Infrastructure Authority (“KIA”). On December 7, 2015, KIA approved this loan, which is to be repaid over a 30-year term at an interest rate of 0.75 percent per annum with a loan servicing fee of 0.25 percent of the annual outstanding loan balance payable to KIA with each interest

⁹ Notice of Filing (Mar. 16, 2016) at 1.

¹⁰ Application at 1.

¹¹ *Annual Report of Monroe County Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2014* at 53.

¹² Application at 2.

¹³ *Id.*, Exhibit 12.

¹⁴ *Id.*

¹⁵ *Id.*

payment. Monroe District is to enter an assistance agreement with KIA for the loan before July 6, 2016.¹⁶

Monroe District will finance part of this project with appropriations of \$398,362 from the Kentucky General Assembly.¹⁷

Monroe District does not plan to adjust rates at this time to recover the payment of the SRF loan.¹⁸

A Preliminary Engineering Report for this project was prepared by Stigall Engineering Associates, Inc. of Nashville, Tennessee. Reasons cited to justify the construction of a new water treatment plant included water supply shortages in 2006 and 2007; health concerns associated with the formation of potentially harmful compounds from disinfection byproducts; and customer demand exceeding 95 percent of the Tompkinsville water treatment plant's capacity. As an alternative to constructing a new treatment plant, Monroe District considered constructing a pipeline to Glasgow at comparable cost. The cost to Monroe District of producing water is lower than the cost of purchasing water from Glasgow. There were also concerns that future growth of Glasgow could limit the availability of water for future peak demands.¹⁹

Monroe District has consistently purchased more water than is authorized by its contract with Tompkinsville. The current contract allows Monroe District to purchase up

¹⁶ *Id.*, Exhibit 28.

¹⁷ *Id.* at 7.

¹⁸ *Id.* at 10.

¹⁹ *Id.*, Exhibit 11.

to 15 million gallons of water per month, but since 2005, annual purchases have been over 246 million gallons each year, or 20.5 million gallons per month.²⁰

When combined water demand of Monroe District and Tompkinsville exceeds 1.9 million gallons per day, higher elevations served by Tompkinsville, including areas where Monroe District provides water service, are without water. This prevents Monroe District from meeting its legal duties under KRS 278.030(2).²¹

Monroe District has proposed construction of a 600,000-gallon water storage tank. Without this water storage tank, Monroe District would have to pump treated water directly from the proposed water treatment plant to its Persimmon Tank, the most distant tank from the proposed treatment plant, which would create additional line losses. Also, the higher elevation of the Persimmon Tank and its distance from the treatment plant would result in water-line pressure of up to 558 psi, well in excess of the capability of the new ductile iron transmission lines and PVC lines that make up Monroe District's distribution system.²²

The Tompkinsville water system recently has received Notices of Violation from the Division of Water and referrals to the Division of Enforcement. Two separate Notices of Violation were issued on November 30, 2015, including one for an incident involving a release of superchlorinated water, or improper disinfection of a water storage tank, on water sent to Monroe District customers. Monroe District states that

²⁰ *Id.*, Exhibit 27.

²¹ *Id.*

²² Direct Testimony of Robert D. Stigall Testimony at 10–11.

this pattern of conduct has been occurring since 1994, with 88 instances of citations against Tompkinsville by the Division of Water.²³

Stigall Engineering Associates, Inc. prepared the plans and specifications for the proposed project.²⁴ Monroe District solicited bids on three contracts to construct the proposed facilities. Contract IB was approved by the Kentucky Division of Water ("KDOW") on July 15, 2015.²⁵ Contract IIB was approved by the KDOW on July 14, 2015.²⁶ Contract IIIB was approved by the KDOW on July 13, 2015.²⁷

Monroe District opened bids for this project on September 23, 2015. As extended, the three winning bids are effective until March 21, 2016.²⁸

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

1. The record for this case is complete.
2. The proposed construction will not result in wasteful duplication of existing facilities.
3. The proposed construction does not conflict with any existing certificates or the service of any other utility operating in the area.

²³ Application, Exhibit 27.

²⁴ *Id.*, Exhibit A.

²⁵ *Id.*, Exhibit 14.

²⁶ *Id.*, Exhibit 15.

²⁷ *Id.*, Exhibit 16.

²⁸ *Id.*, Exhibits 21–23.

4. Public convenience and necessity require the proposed construction, which will allow Monroe District to provide reliable and adequate water service to its customers.

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

6. Monroe District should be authorized to utilize \$15,564,032 of the proceeds of the Assistance Agreement on the project approved herein.

IT IS THEREFORE ORDERED that:

1. Monroe District is granted a CPCN to proceed with the proposed construction as set forth in its application.

2. Monroe District shall notify the Commission prior to performing any construction not expressly authorized by this Order.

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

4. Monroe District shall not begin construction on the project until the Kentucky Highways Department has issued its encroachment permits.²⁹ In accordance with ordering paragraph 4 of the Commission's March 11, 2016 Order, these permits shall be submitted to the Commission within 10 days of issuance.

5. Construction shall be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil or mechanical

²⁹ *Id.* at 6.

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.

6. Monroe District is authorized to enter the proposed Assistance Agreement with KIA and, under the terms of that Agreement, to borrow from KIA an amount not to exceed \$15,564,032 to be repaid over a 30-year period at an interest rate of 0.75 percent per annum.

7. Within 30 days of executing its proposed Assistance Agreement with KIA, Monroe District shall file with the Commission an executed copy of the Assistance Agreement.

8. Monroe District shall use \$15,564,032 of the proceeds from the proposed Assistance Agreement with KIA only for the lawful purposes set forth in its application. None of the proceeds shall be used for the construction of any project not approved by the Commission, except those clearly identified in Monroe District's Application in this proceeding, unless and until Monroe District obtains prior Commission approval for the use of the proceeds.

9. Monroe District 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, and administrative) within 60 days of the date that construction authorized under this CPCN 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.

10. Monroe District 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.

11. Any documents filed in the future pursuant to ordering paragraphs 2, 4, 7, 9, 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 Monroe District's showing of good cause for such extension.

By the Commission

ENTERED
MAR 18 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


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