

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|------------|
| ELECTRONIC APPLICATION OF BUTLER COUNTY |) | |
| WATER SYSTEM, INC., BUTLER COUNTY, |) | |
| KENTUCKY, (1) FOR A CERTIFICATE OF PUBLIC |) | |
| CONVENIENCE AND NECESSITY AUTHORIZING |) | |
| SAID SYSTEM TO CONSTRUCT MAJOR |) | |
| IMPROVEMENTS AND ADDITIONS TO ITS |) | |
| EXISTING MUNICIPAL WATER DISTRIBUTION |) | CASE NO. |
| SYSTEM FINANCED BY RURAL ECONOMIC AND |) | 2018-00048 |
| COMMUNITY DEVELOPMENT SERVICE |) | |
| (FORMALLY FARMERS HOME ADMINISTRATION) |) | |
| PURSUANT TO THE PROVISIONS OF KRS 278.023 |) | |
| OF THE KENTUCKY REVISED STATUTES: AND (2) |) | |
| SEEKING APPROVAL OF THE ISSUANCE OF |) | |
| CERTAIN SECURITIES, AND (3) APPROVAL OF |) | |
| WATER RATES |) | |

ORDER

On January 31, 2018, Butler County Water System, Inc. (“Butler County”) filed an application, pursuant to KRS 278.023, for a Certificate of Public Convenience and Necessity (“CPCN”) to construct a waterworks improvement project, for approval of its plan to finance the proposed project, and for an increase in the water rates. No person has sought intervention in this matter, and Butler County has not requested a hearing. The record for this case is complete, and the matter stands ready for decision.

The Commission notes that in its 2016 Annual Report, Butler County reported a water loss of 18.0414 percent. Commission regulation 807 KAR 5:066, Section 6 (3) states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed

15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Butler County to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Butler County to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Butler County, a water association organized under KRS Chapter 273, provides retail water service to approximately 4,816 customers in Butler County, Kentucky.¹

The proposed project consists of the installation of approximately 22,860 feet of 4-inch polyvinyl chloride (“PVC”) water mains and appurtenances, approximately ten new meters to serve an additional 23 people previously unserved, and the modification of approximately 4,800 current meters with AMR technology and acoustic leak detection sensors.

The proposed project is intended to improve water quality, reduce disinfection byproducts in the drinking water, maintain a consistent disinfection approach throughout the distribution system, and meet existing and future system demands.²

The total cost of the project, including legal, administrative, development, and engineering, plus interest and contingencies cost, is \$1,734,500. This project is to be

¹ *Annual Report of Butler County District, Water Utilities Report to the Kentucky Public Service Commission for the Year Ended December 31, 2016* at 10 and 48.

² Application (filed Jan. 31, 2018), at Exhibit A2, Engineering Staff Warren County Water District, Final Engineering Report Project 18.

financed with a \$1,422,000 promissory note to the United States Department of Agriculture, Rural Utilities Service, Rural Development (“RD”), an RD grant in the amount of \$250,000, \$4,500 from customer contributions from connection fees, and a \$58,000 contribution from the utility. Butler County has a commitment from RD to purchase the \$1,422,000 promissory note. As set out in the RD Letter of Conditions as amended,³ the \$1,422,000 promissory note will mature over a 40-year period at an interest rate equal to the lower of the rate in effect at the time of loan approval or the rate in effect at the time of closing, but not to exceed 2.75 percent per annum.⁴

Under the proposed rates, the monthly bill of a residential water customer using 5,000 gallons of water will increase from \$34.65 to \$38.08, or approximately 9.9 percent.

Butler County has submitted its application pursuant to KRS 278.20 and KRS 278.023. Notwithstanding KRS 278.020(1), KRS 278.190, and KRS 278.300, KRS 278.023 requires the Commission to accept agreements between water associations and RD regarding construction projects, and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between RD and Butler County, or to defer the issuance of all necessary orders to implement the terms of that agreement. It further denies the Commission any authority to reject an application when the evidence of record indicates that a water association’s proposed facilities will result in the wasteful duplication of facilities or excessive investment or its proposed rates are unfair, unjust or

³ *Id.* at Exhibit A2.

⁴ *Id.* at Exhibit A2 at 3.

unreasonable. The Commission, therefore, is not able to review this application using the same standards that are used for applications that are not filed pursuant to KRS 278.023.

IT IS THEREFORE ORDERED that:

1. Butler County is granted a CPCN for the proposed project as submitted.
2. Butler County's proposed plan of financing is approved.
3. Butler County is authorized to enter into a promissory note with RD in the amount of \$1,422,000, maturing over a 40-year period, at an interest rate not to exceed 2.75 percent per annum, and be equal to the lower of the rate in effect at the time of loan approval or the interest rate in effect at the time of closing.
4. The proceeds from the promissory note shall be used only for the purposes specified in Butler County's application.
5. Butler County shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
6. Notwithstanding ordering paragraphs 4 and 5, if surplus funds remain after the approved construction has been completed, Butler County may use such surplus to construct additional plant facilities if RD approves of the use and the additional construction will not result in a change in Butler County's rates for service. Butler County shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.
7. Butler County 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 is substantially completed. Construction cost shall be classified into appropriate plant

accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

8. Butler County shall file a copy of the “as-built” drawings and a certified statement from the engineer that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of substantial completion of the construction certified herein.

9. Butler County shall require the construction to be inspected under the general supervision of a 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.

10. Butler County shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

11. The rates set forth in the Appendix to this Order are approved for service that Butler County renders on and after the date of this Order.

12. Within 20 days of the date of entry of this Order, Butler County shall file revised tariff sheets with the Commission, using the Commission’s electronic Tariff Filing System, containing the rates set forth in the Appendix to this Order.

13. Any documents filed in the future pursuant to ordering paragraphs 7, 8, and 10 of this Order shall reference this case number and shall be retained in the utility’s post case correspondence file.

14. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Butler County'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.

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By the Commission

ENTERED
MAR 01 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2018-00048

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00048 DATED **MAR 0 1 2018**

The following rates and charges are prescribed for the customers in the area served by Butler County Water System, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8 X 3/4-Inch Meter

| | | | |
|-------|-----------------|---------|-------------------|
| First | 2,000 Gallons | \$20.38 | Minimum Bill |
| Next | 4,000 Gallons | 5.90 | per 1,000 Gallons |
| Next | 44,000 Gallons | 5.24 | per 1,000 Gallons |
| Next | 50,000 Gallons | 4.51 | per 1,000 Gallons |
| Over | 100,000 Gallons | 3.76 | per 1,000 Gallons |

1-Inch Meter

| | | | |
|-------|-----------------|---------|-------------------|
| First | 5,000 Gallons | \$38.68 | Minimum Bill |
| Next | 1,000 Gallons | 5.90 | per 1,000 Gallons |
| Next | 44,000 Gallons | 5.24 | per 1,000 Gallons |
| Next | 50,000 Gallons | 4.51 | per 1,000 Gallons |
| Over | 100,000 Gallons | 3.76 | per 1,000 Gallons |

1 1/2-Inch Meter

| | | | |
|-------|-----------------|---------|-------------------|
| First | 10,000 Gallons | \$69.11 | Minimum Bill |
| Next | 40,000 Gallons | 5.24 | per 1,000 Gallons |
| Next | 50,000 Gallons | 4.51 | per 1,000 Gallons |
| Over | 100,000 Gallons | 3.76 | per 1,000 Gallons |

2-Inch Meter

| | | | |
|-------|-----------------|----------|-------------------|
| First | 16,000 Gallons | \$101.44 | Minimum Bill |
| Next | 34,000 Gallons | 5.24 | per 1,000 Gallons |
| Next | 50,000 Gallons | 4.51 | per 1,000 Gallons |
| Over | 100,000 Gallons | 3.76 | per 1,000 Gallons |

3-Inch Meter

| | | | |
|-------|-----------------|----------|-------------------|
| First | 25,000 Gallons | \$164.67 | Minimum Bill |
| Next | 25,000 Gallons | 5.24 | per 1,000 Gallons |
| Next | 50,000 Gallons | 4.51 | per 1,000 Gallons |
| Over | 100,000 Gallons | 3.76 | per 1,000 Gallons |

4-Inch Meter

| | | | |
|-------|-----------------|----------|-------------------|
| First | 30,000 Gallons | \$227.81 | Minimum Bill |
| Next | 20,000 Gallons | 5.24 | per 1,000 Gallons |
| Next | 50,000 Gallons | 4.51 | per 1,000 Gallons |
| Over | 100,000 Gallons | 3.76 | per 1,000 Gallons |

6-Inch Meter

| | | | |
|-------|-----------------|----------|-------------------|
| First | 60,000 Gallons | \$397.91 | Minimum Bill |
| Next | 40,000 Gallons | 4.51 | per 1,000 Gallons |
| Over | 100,000 Gallons | 3.76 | per 1,000 Gallons |

8-Inch Meter

| | | | |
|-------|-----------------|----------|-------------------|
| First | 80,000 Gallons | \$504.71 | Minimum Bill |
| Next | 20,000 Gallons | 4.51 | per 1,000 Gallons |
| Over | 100,000 Gallons | 3.76 | per 1,000 Gallons |

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