

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|  |   |            |
|--|---|------------|
| ELECTRONIC APPLICATION OF WESTERN      | ) |            |
| FLEMING COUNTY WATER DISTRICT FOR A    | ) |            |
| CERTIFICATE OF PUBLIC CONVENIENCE AND  | ) |            |
| NECESSITY TO CONSTRUCT A SYSTEM        | ) | CASE NO.   |
| IMPROVEMENTS PROJECT AND AN ORDER      | ) | 2019-00456 |
| APPROVING A CHANGE IN RATES AND        | ) |            |
| AUTHORIZING THE ISSUANCE OF SECURITIES | ) |            |
| PURSUANT TO KRS 278.023                | ) |            |

ORDER

On January 6, 2020, Western Fleming County Water District (Western Fleming District) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a water system improvements project, as described below, and approval of the proposed plan of financing the project, with an accompanying adjustment in rates. After Western Fleming District cured deficiencies, the application was accepted as complete on March 5, 2020. No party has sought intervention in this matter. The record for this case is complete, and the matter stands ready for decision.

Western Fleming District, a water district organized under KRS Chapter 274, provides retail water service to approximately 1,504 water customers<sup>1</sup> in Fleming, Mason, Nicholas, and Robertson counties, Kentucky.<sup>2</sup>

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<sup>1</sup> *Annual Report of Western Fleming County Water District for the Year Ended December 31, 2018*, at 49.

<sup>2</sup> *Id.* at 12.

The Commission notes that Western Fleming District reported a water loss of 18.28 percent in its 2018 Annual Report.<sup>3</sup> Commission regulation 807 KAR 5:066(6)(3) states that, for ratemaking purposes, a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. Reduction of Western Fleming District's unaccounted-for water loss to 15 percent would result in an approximate \$11,061 decrease to its cost of water.<sup>4</sup> The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Western Fleming District is to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Western Fleming District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

The Commission notes that its records indicate Western Fleming District has not sought a general adjustment in base rates since its last rate case in 2014.<sup>5</sup> The lack of

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<sup>3</sup> *Id.* at 57.

<sup>4</sup> *Id.* at 50.

|                                    |                  |
|------------------------------------|------------------|
| Cost of Water                      |                  |
| Purchased Water                    | \$68,876         |
| Transmission and Distribution      | \$109,857        |
| Chemicals                          | <u>\$158,496</u> |
| <br>                               |                  |
| Total Cost of Water                | \$337,229        |
| Multiply by Water Loss % above 15% | <u>3.28%</u>     |
| <br>                               |                  |
| Expense Reduction to Cost of Water | <u>\$11,061</u>  |

<sup>5</sup> Case No. 2014-00048, *Application of Western Fleming County Water District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076*, (Ky. PSC Oct. 27, 2014).

insight into Western Fleming District's financial records and Western Fleming District's excessive water loss indicates to the Commission that Western Fleming District should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of this Order to ensure its revenue is sufficient to support adequate and reliable service.

Western Fleming District proposes to replace 43,000 linear feet of existing asbestos cement (AC) water line with PVC water line. The project is necessary due to the AC lines degrading over time, contributing to water loss and posing a health hazard. In addition, Western Fleming District proposes to upgrade, from 6-inch diameter to 8-inch diameter, a water main along KY 32 to better service to Fleming County High School and Ewing Elementary School.<sup>6</sup>

The total cost of the proposed project, including but not limited to development, engineering, legal and administrative, permitting and insurance, interest, plus contingencies, is \$2,080,000.<sup>7</sup> This project will be financed with the issuance of a U.S. Department of Agriculture Rural Development (USDA/RD) Grant of \$270,000, an Appalachian Regional Commission (ARC) grant of \$300,000, a Community Development Block Grant of \$700,000, and a USDA/RD Loan of \$810,000 with an interest rate not to exceed 2.75 percent for a 40-year term.<sup>8</sup>

The proposed rates contained in the application are the minimum rates and charges required under the agreement with USDA/RD. Western Fleming's proposed

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<sup>6</sup> Preliminary Engineering Report Sections 4 and 5.

<sup>7</sup> Final Engineering Report.

<sup>8</sup> *Id.*

rates meet the total revenue requirements recommended in the engineering reports. The monthly bill of an average residential water customer using 4,319 gallons will increase from \$44.02 to \$52.75, an increase of \$8.73, or approximately 19.83 percent.<sup>9</sup>

Western Fleming District has submitted its application pursuant to KRS 278.023. The Commission is required, pursuant to KRS 278.023, to accept agreements between water districts and USDA/RD regarding construction projects, and to issue the necessary orders to implement the terms of such agreements no later than 30 days after filing the application with the Commission. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between the USDA/RD and Western Fleming District 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 utility's proposed facilities will result in the wasteful duplication of facilities, result in an excessive investment, or its proposed rates are unfair, unjust, or 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. Western Fleming District is granted a CPCN for the proposed project as submitted.
2. Western Fleming District's proposed plan of financing is approved.

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<sup>9</sup> Average Usage for a Customer with a 5/8 x 3/4-Inch Meter, as stated in the revised public notice provided on March 5, 2020.

3. Western Fleming District is authorized to enter into a loan agreement for a Rural Development loan not to exceed \$810,000.

4. The proceeds from the loan agreement shall be used only for the purposes specified in Western Fleming District's application.

5. Western Fleming District is authorized to obtain grants not to exceed \$270,000 from USDA/RD, \$300,000 from ARC, and a Community Development Block Grant in the amount of \$700,000.

6. Western Fleming District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

7. Notwithstanding ordering paragraphs 4 and 6, if surplus funds remain after the approved construction has been completed, Western Fleming District may use such surplus to construct additional plant facilities if USDA/RD approves of the use and the additional construction, and it will not result in a change in Western Fleming District's rates for service. Western Fleming District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

8. Western Fleming 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 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.

9. Western Fleming District 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.

10. Western Fleming District 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.

11. Western Fleming District shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

12. Any documents filed in the future pursuant to ordering paragraphs 6, 7, 8, 9, and 11 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

13. The Commission directs Western Fleming District to the Commission's March 16, 2020 Order in Case No. 2020-00085 regarding the filing of physical documents with the Commission. The Commission expects that the original documents will be filed with the Commission within 30 days of the lifting of the current state of emergency. Any electronic email filed in this matter should be sent to [PSCED@ky.gov](mailto:PSCED@ky.gov), and each message should include the case number in the subject line of the message and a read receipt to ensure the Commission received the message and documents.

14. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Western Fleming District's showing of good cause for such extension.

15. The rates set forth in the Appendix to this Order are approved for service that Western Fleming District renders on and after the date of this Order.

16. Within 20 days of the date of this Order, Western Fleming District 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.

17. Western Fleming District shall file for an adjustment in its base rates or file an alternative rate filing within one year of the date of this Order.

18. This case is closed and removed from the Commission's docket.

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

By the Commission

ENTERED  
MAR 30 2020 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:



Executive Director



APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2019-00456 DATED MAR 30 2020

The following rates and charges are prescribed for the customers in the area served by Western Fleming County Water District. 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

All Meter Sizes

|       |        |         |         |                   |
|-------|--------|---------|---------|-------------------|
| First | 1,000  | Gallons | \$18.63 | Minimum bill      |
| Next  | 6,000  | Gallons | 10.28   | per 1,000 Gallons |
| Next  | 3,000  | Gallons | 8.46    | per 1,000 Gallons |
| Over  | 10,000 | Gallons | 6.77    | per 1,000 Gallons |

Wholesale Sale Rate: \$2.14 per 1,000 Gallons

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