

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE LAUREL)	
COUNTY WATER DISTRICT NO. 2 FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY TO CONSTRUCT A SYSTEM)	CASE NO.
IMPROVEMENTS PROJECT AND AN ORDER)	2020-00079
APPROVING A CHANGE IN RATES AND)	
AUTHORIZING THE ISSUANCE OF SECURITIES)	
PURSUANT TO KRS 278.023)	

ORDER

On March 19, 2020, Laurel County Water District No. 2 (Laurel District No. 2) 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. No party has sought intervention in this matter. The record for this case is complete, and the matter stands ready for decision.

Laurel District No. 2, a water district organized under KRS Chapter 274, provides retail water service to approximately 6,041 water customers¹ in Knox and Laurel Counties, Kentucky.²

¹ *Annual Report of Laurel County Water District No. 2 for the Year Ended December 31, 2018*, at 49.

² *Id.* at 12.

The Commission notes that Laurel District No. 2 reported a water loss of 11.27 percent in its 2018 Annual Report.³ 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. The Commission commends Laurel District No. 2 on maintaining its water loss within the regulation guidelines because the Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold.

The Commission notes that its records indicate Laurel District No. 2 has not sought a general adjustment in base rates since its last rate case in 2016.⁴ Pursuant to the general findings of the Commission in the November 22, 2019 Order of Case No. 2019-00041,⁵ the Commission recommends water utilities review its rate sufficiency on a monthly or, at the very least, an annual basis. The Commission also recommends that Laurel District No. 2 should file an application for a traditional adjustment in rates or an alternative rate adjustment approximately every three to five years to ensure its financial situation is sufficient.

The proposed project has two components: construction of various interconnects as required to abandon the remaining 14-inch water main along the CSX Railway and the

³ Annual Report of Laurel County Water District No. 2 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018 at 57.

⁴ Case No. 2015-00341, *Application of Laurel County Water District No. 2 for Rate Adjustment Pursuant to 807 KAR 5:076*, (Ky. PSC Mar.14, 2016).

⁵ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

construction of a new 500,000-gallon water storage tank.⁶ The abandonment of the 14-inch waterlines is necessary because when Laurel District No. 2 was first established, it purchased the existing 14-inch cast iron line from the railway. The line was originally used in the early 1900s to transport non-potable water to steam engines. The line was later converted to transport potable water. However, it is located directly adjacent to the rail bed, which makes it virtually impossible for Laurel District No. 2 to repair and maintain. Given the significance of this transmission main to the distribution system, the situation represents a risk to the overall system's integrity and reliability.⁷

The existing storage tanks in the Lily community (500,000 gallons) and Oak Ridge Church (1,000,000 gallons) are in need of rehabilitation due to having reached the end of their useful service lives and need to be removed from service for several months. Therefore, the construction of the proposed 500,000-gallon tank will allow Laurel District No. 2 to maintain service during the rehabilitation and will provide additional storage capacity for future demand growth.⁸

The total cost of the proposed project, including but not limited to engineering, development, legal and administrative, interest, plus contingencies, is \$2,700,000.⁹ This project will be financed with the issuance of Series 2020A Waterworks Revenue Bonds of \$1,850,000, Issuance of Series 2020B Waterworks Revenue Bonds of \$350,000, and a Rural Development (USDA/RD) Grant of \$500,000.¹⁰

⁶ Final Engineering Report at 2.

⁷ Preliminary Engineering Report at 4.

⁸ *Id.*

⁹ Application at paragraph 28; Final Engineering Report at 9.

¹⁰ Application at 5; Final Engineering Report at 11.

The proposed rates contained in the application are the minimum rates and charges required under the agreement with RD. Laurel District No. 2's proposed rates meet the total revenue requirements recommended in the engineering reports. The monthly bill of an average residential water customer who uses 4,084 gallons¹¹ will increase from \$25.47 to \$33.07, which is an increase of \$7.60 or approximately 29.84 percent.

Laurel District No. 2 has submitted its application pursuant to KRS 278.023. The Commission is required, pursuant to KRS 278.023, to accept agreements between water associations and the 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 Laurel District No. 2 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.

¹¹ Average Usage for a Customer with a 5/8 x 3/4-Inch Meter, as stated in the public notice in the Application.

IT IS THEREFORE ORDERED that:

1. Laurel District No. 2 is granted a CPCN for the proposed project as submitted.
2. Laurel District No. 2's proposed plan of financing is approved.
3. Laurel District No. 2 is authorized to issue Waterworks Revenue Bonds loan not to exceed \$2,200,000 (\$1,850,000 initial and \$350,000 subsequent) from USDA/RD.
4. The proceeds from the Bond Issuance shall be used only for the purposes specified in Laurel District No. 2's application.
5. Laurel District No. 2 is authorized to obtain a grant not to exceed \$500,000 from the USDA/RD.
6. Laurel District No. 2 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, Laurel District No. 2 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 Laurel District No. 2's rates for service. Laurel District No. 2 shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.
8. Laurel District No. 2 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. Laurel District No. 2 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. Laurel District No. 2 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. Laurel District No. 2 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 Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Laurel District No. 2’s showing of good cause for such extension.

14. The rates set forth in the Appendix to this Order are approved for service that Laurel District No. 2 renders on and after the date of this Order.

15. Within 20 days of the date of this Order, Laurel District No. 2 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.

16. Laurel District No. 2 shall file for an adjustment in its base rates or file an alternative rate filing within one year of the date of this Order.

17. 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.

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By the Commission



ATTEST:

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Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00079 DATED APR 08 2020

The following rates and charges are prescribed for the customers in the area served by Laurel County Water District No. 2. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8-Inch Meter

	<u>Rate</u>
First 1,000 gallons	\$ 15.00 Minimum Bill
Next 99,000 gallons	5.86 per 1,000 gallons
Over 100,000 gallons	5.23 per 1,000 gallons

1-Inch Meter

First 5,000 gallons	\$ 38.44 Minimum Bill
Next 95,000 gallons	5.86 per 1,000 gallons
Over 100,000 gallons	5.23 per 1,000 gallons

1½-Inch Meter

First 10,000 gallons	\$ 67.74 Minimum Bill
Next 90,000 gallons	5.86 per 1,000 gallons
Over 100,000 gallons	5.23 per 1,000 gallons

2-Inch Meter

First 20,000 gallons	\$ 126.34 Minimum Bill
Next 80,000 gallons	5.86 per 1,000 gallons
Over 100,000 gallons	5.23 per 1,000 gallons

3-Inch Meter

First 30,000 gallons	\$184.94 Minimum Bill
Next 70,000 gallons	5.86 per 1,000 gallons
Over 100,000 gallons	5.23 per 1,000 gallons

4-Inch Meter

First 50,000 gallons	\$302.14 Minimum Bill
Next 50,000 gallons	5.86 per 1,000 gallons
Over 100,000 gallons	5.23 per 1,000 gallons

Campground Heights (Buildings 1-8)

First	4,000 gallons	\$ 51.86	Minimum Bill
Next	96,000 gallons	5.86	per 1,000 gallons
Over	100,000 gallons	5.23	per 1,000 gallons

Campground Heights (Building 9)

First	5,000 gallons	\$ 38.42	Minimum Bill
Next	95,000 gallons	5.86	per 1,000 gallons
Over	100,000 gallons	5.23	per 1,000 gallons

Manenterprises, LLC formerly

Benelly Investments, LLC (Mt. Hill Apartments)

First	22,000 gallons	\$ 273.07	Minimum Bill
Next	78,000 gallons	5.86	per 1,000 gallons
Over	100,000 gallons	5.23	per 1,000 gallons

KTR, LLC formerly Emma's Place Apartment

First	49,000 gallons	\$604.88	Minimum Bill
Next	51,000 gallons	5.86	per 1,000 gallons
Over	100,000 gallons	5.23	per 1,000 gallons

Chestnut Greene Limited Partnership

(Pine Grove #2 Apartments)

First	26,000 gallons	\$322.23	Minimum Bill
Next	74,000 gallons	5.86	per 1,000 gallons
Over	100,000 gallons	5.23	per 1,000 gallons

Corbin Manor Apartments

First	200,000 gallons	\$1,118.44	Minimum Bill
Over	200,000 gallons	5.23	per 1,000 gallons

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