

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WESTERN)	
PULASKI COUNTY WATER DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	CASE NO.
AND NECESSITY TO CONSTRUCT A WATER)	2020-00119
IMPROVEMENTS PROJECT PURSUANT TO)	
KRS 278.020 AND KAR 5:001)	

ORDER

On April 14, 2020, Western Pulaski County Water District (Western Pulaski District) filed an application seeking a Certificate of Public Convenience and Necessity (CPCN) to construct Phase II of a two-phase waterworks improvement project. On May 22, 2020, Western Pulaski District filed an amended application (Amended Application) in which it clarified that Phase II includes waterline improvements and replacements along Heartland Drive, Slate Branch Road, and Oak Hill Road. In Case No. 2017-00063,¹ the Commission granted Western Pulaski District a CPCN for Phase I of the project, which consisted of one 300,000-gallon elevated water storage tank at Hickory Nut Ridge along Hopeful Church Road in the northwestern portion of Western Pulaski District. The Commission also authorized Western Pulaski District to borrow \$3,304,000 from the Kentucky Infrastructure Authority (KIA), and authorized Western Pulaski District to use \$1,114,422.41 of the proceeds from the Assistance Agreement with KIA for construction

¹ Case No. 2017-00063, *Application of Western Pulaski County Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water Improvements Project and Authorizing the Issuance of Securities for the Purpose of Financing Said Project Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Apr. 6, 2017).

of Phase I. Western Pulaski District proposes to use the remainder of the proceeds from the KIA loan to finance Phase II. Western Pulaski District is not seeking a rate increase at this time. Western Pulaski District responded to two rounds of discovery. No party has sought intervention in this matter and Western Pulaski District has not requested a hearing. The record for this case is complete, and the matter stands ready for a decision.

Western Pulaski District, a water district organized under KRS Chapter 74, provides retail water service to approximately 8,577² water customers in Pulaski, Russell, and Wayne counties, Kentucky.³

EXCESSIVE WATER LOSS

The Commission notes that Western Pulaski District's reported water loss increased from 21.67 percent when the Commission granted a CPCN for Phase 1 of this project in Case No. 2017-00063⁴ to 27.99 percent as reported in Western Pulaski District's 2018 Annual Report.⁵ Commission regulation 807 KAR 5:066(6)(3) states that, for ratemaking purposes, a utility's 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 Pulaski District's water loss to 15 percent would result

² *Annual Report of Western Pulaski County Water District for the Year ended December 31, 2018*, at 49. (Western Pulaski District was granted an extension until June 30, 2020, to file its 2019 Annual Report, and has recently applied for another extension).

³*Id.* at 12.

⁴ Case No. 2017-00063, *Application of Western Pulaski County Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water Improvements Project and Authorizing the Issuance of Securities for the Purpose of Financing Said Project Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC April 6, 2017).

⁵ *Annual Report of Western Pulaski County Water District for the Year ended December 31, 2018*, at 57.

in an approximate \$183,221 decrease to its cost of water annually.⁶ The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent water loss threshold and strongly encourages Western Pulaski District to pursue reasonable actions to reduce its water loss. Failure by Western Pulaski District to make significant progress towards reducing water loss may cause the Commission to pursue additional action with the utility.

A key general recommendation that resulted from the investigation of Commission Case No. 2019-00041 was that water districts with sustained excessive water loss should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁷ The Commission notes that its records indicate the three most recent rate adjustments granted to Western Pulaski District were in connection with financing cases through the United States Department of Agriculture Rural Development (RD),⁸ the Commission’s review of records in a RD financing case is limited and very different from the comprehensive review of a utility’s total financial stability and operational viability that takes place in a traditional rate adjustment case or

⁶ Purchased Water	\$ 1,321,510
Purchased Power	<u>88,971</u>
Cost of Water	1,410,481
Multiply By Water Loss Percentage above 15%	<u>12.99%</u>
Expense Reduction to Cost of Water	\$ 183,221

⁷ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

⁸ See Case No. 2018-00203, *Application of Western Pulaski County Water District for a Certificate of Public Convenience and Necessity to Construct a Water Improvements Project and an Order Authorizing the Issuance of Securities and Increase Rates Pursuant to KRS 278.023* (Ky. PSC July 16, 2018), and Case No. 2014-00157, *Application of the Western Pulaski County Water District for a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and Increase Rates Pursuant to KRS 278.023*, (Ky. PSC June 2, 2014), and Case No. 2009-00532, *Application of Western Pulaski County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Jan. 6, 2010).

an alternative rate adjustment. The increase in Western Pulaski District's water loss, coupled with the fact that its last three rate adjustments were in connection with RD financing cases, indicates to the Commission that Western Pulaski District should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of entry of this Order to ensure its financial situation is sufficient to combat excessive water loss.

The Commission also notes that according to the Commission's Division of Inspections' December 11, 2019 Periodic Compliance Inspection Report, Western Pulaski District is not in compliance with 807 KAR 5:066, Section 16(1).⁹ Western Pulaski District's master meters are not being tested annually as required, and the district has approximately 4,629 meters that are over ten years old and have not been tested.¹⁰ The Quarterly Meter Reports filed by Western Pulaski District in response to Commission Staff's First Request for Information indicate that 13 percent to 50 percent of the meters tested in any given quarter between the first quarter of 2018 through the first quarter of 2020 were found to be nonregistering.¹¹ The Commission finds this to be excessive and may pursue additional action with the utility to address this issue. Given the rapidly increasing water loss of Western Pulaski District, the Commission questions why the utility has not adopted a written plan to address water loss, and why the utility estimates it will take five years to replace all of its meters that are out of compliance due to being over ten years old and untested.¹²

⁹ *Periodic Compliance Inspection Report*, (filed Ky. PSC Dec. 11, 2019), at 14, 16.

¹⁰ Western Pulaski District's Response to Staff's First Request for Information (Response to Staff's First Request), Item 3, and Item 8.

¹¹ *Id.* at Exhibit A.

The Commission is aware that Western Pulaski District purchases water from the city of Somerset, and that the city of Somerset owns the master meters for Western Pulaski District's system. However, Western Pulaski District is responsible for ensuring that the master meters are in compliance with the minimum testing requirements found in 807 KAR 5:066, Section 16(1). Western Pulaski District should request the city of Somerset test the master meters on an annual basis and should file a copy of the written request with the Commission. A copy of the results should be filed with the Commission's Division of Inspections.

WATERLINE IMPROVEMENTS AND REPLACEMENTS ALONG HEARTLAND
DRIVE, SLATE BRANCH ROAD, AND OAK HILL ROAD

The waterline improvement and replacement along Heartland Drive, Slate Branch Road, and Oak Hill Road was included in KIA's loan approval and Assistance Agreement with Western Pulaski District in Case No. 2017-00063.¹³ Western Pulaski District expected these improvements to be part of Phase II and anticipated using KIA funds to complete them. According to the Commission's Order in Case No. 2017-00063, Western Pulaski District is not permitted to use any of the proceeds from the Assistance Agreement for the construction of any other project prior to obtaining Commission approval.¹⁴ In June 2019, Western Pulaski District experienced a leak on a six-inch water main at the intersection of Oak Hill Road and Slate Branch Road.¹⁵ The repair of the leak was

¹² *Id.* at Item 4 and Item 8.

¹³ Case No. 2017-00063 at Application Exhibit C, and Post Case Referenced Correspondence, Assistance Agreement.

¹⁴ Case No. 2017-00063, Order at ordering paragraph 6.

¹⁵ Western Pulaski District's Supplemental Response to Staff's Second Request for Information (Supplemental Response to Staff's Second Request).

complicated by the lack of accessible control valves in the vicinity of the leak. The control valves in the area were inaccessible following roadway improvements to the Somerset bypass in 2014. Western Pulaski District considered another leak in the area to be likely. Given the expected difficulty of repairing a subsequent leak in the area, the large number of customers potentially affected, and the stagnant nature of negotiations with the city of Somerset concerning other components of the planned Phase II project, Western Pulaski District proceeded with emergency installation of a segment of water line to allow it to bypass the area where the leak occurred.¹⁶

The estimated cost of the waterline improvement and replacement along Heartland Drive, Slate Branch Road and Oak Hill Road is \$94,992.¹⁷ No KIA loan funds have been spent for this project to date.¹⁸ As a stand-alone project this construction would be an exception to the CPCN requirement,¹⁹ as it is a water line improvement or extension project conducted by a water district created under KRS Chapter 74 and it will not cost more than five hundred thousand dollars. The Commission notes that Western Pulaski District maintains that it has received assurances from KIA that reimbursement for this portion of the project will be forthcoming upon the issuance of a CPCN for Phase II.²⁰ The Commission will consider Western Pulaski District's application as amended and will include the improvements and replacements along Heartland Drive, Slate Branch Road, and Oak Hill Road in its evaluation of Phase II.

¹⁶ *Id.*, and Amended Application, Exhibit A, Statement of Public Necessity.

¹⁷ Amended Application, Exhibit E, Final Budget.

¹⁸ Supplemental Response to Staff's Second Request.

¹⁹ KRS 278.020(1)(a)(3).

²⁰ Supplemental Response to Staff's Second Request.

THE PROJECT

The original Phase II of Western Pulaski District's construction project consisted of the installation of 7,400 linear feet of 16-inch ductile iron water transmission main, 7,600 linear feet of 12-inch Polyvinyl Chloride (PVC) water transmission main, and one water booster pump station along the right-of-way of Kentucky Highway 914 Bypass (Somerset Bypass).²¹ The cost of the original construction project as bid is \$1,598,480, and the total project cost, including contingency funds of \$353,135 and other overhead construction costs of \$214,720, is \$2,166,335.²² As previously discussed, Western Pulaski amended its Phase II project to include extending approximately 1,580 linear feet of 6-inch PVC SDR 21 water main and appurtenances from Heartland Drive to Slate Branch Road and 500 linear feet of 6-inch line on Oak Hill Road.²³ The final budget for this portion of Phase II is \$94,992.²⁴ The source of funds for the entirety of Phase II is a portion of the \$3,304,000 loan from KIA, which was approved in Case No. 2017-00063.²⁵

Western Pulaski District states that the project will benefit the northwestern and northern portions of its water system.²⁶ The new water transmission main and booster pump station will transport water around the Kentucky Highway 914 Bypass, which will provide source water from the southern portion of Pulaski County to the northwestern and

²¹ Application, Exhibit A, Project Description.

²² *Id.* Exhibit E, Final Project Budget.

²³ Amended Application, Exhibit A, Project Description.

²⁴ *Id.* Exhibit E, Final Budget.

²⁵ Application at 3, and Amended Application at 3 and Exhibit A, Project Description.

²⁶ Application, Exhibit A, Project Description.

western portions of the county.²⁷ The transmission main will have a connection to the city of Somerset with which Western Pulaski District currently has a purchase water agreement.²⁸ The transmission main and booster pump station will improve water service in a portion of Western Pulaski District's system that is experiencing growth.²⁹

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The proposed construction will not result in wasteful duplication of existing facilities.
2. The proposed construction does not conflict with any existing certificates or services of any other utility operating in the area.
3. Public convenience and necessity require the proposed construction, which will allow Western Pulaski District to provide reliable and adequate water service to its customers.
4. Kentucky Division of Water has approved the plans and specifications for this proposed project.
5. The Phase II project will be funded from a portion of the \$3,304,000 KIA loan approved by the Commission in Case No. 2017-00063.
6. Western Pulaski District's application does not include a proposal to adjust rates.

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.*

7. Western Pulaski District should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of entry of this Order.

IT IS THEREFORE ORDERED that:

1. Western Pulaski District is granted a CPCN to construct the proposed project as set forth in the Amended Application.

2. Western Pulaski District shall obtain approval from the Commission prior to performing any additional construction not expressly approved by this Order.

3. Western Pulaski District shall require construction to be inspected under 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 best practices of the construction trades involved in the project.

4. Western Pulaski District shall file with the Commission documentation of the total cost of the project within 60 days of the date that construction authorized under this CPCN is substantially completed. Construction costs shall be classified into the appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

5. Western Pulaski 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 authorized under this CPCN.

6. Within six months of the date of this Order Western Pulaski District shall request annual testing of its master meters by the city of Somerset, and shall file a copy of the request with the Commission.

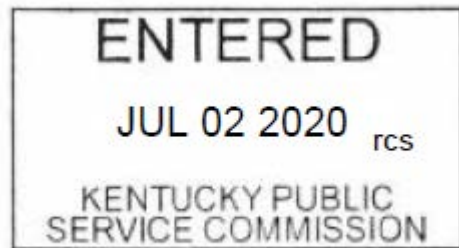
7. Any documents filed in the future pursuant to ordering paragraphs 4, 5, and 6 shall reference this case number and shall be retained in the post-case correspondence file.

8. Within one year of the filing date of this Order, Western Pulaski District shall request to adjust its rates for water service by filing an application for a traditional adjustment or an application for an alternative rate adjustment.

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

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

By the Commission



ATTEST:



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