

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE)	
WESTERN MASON COUNTY WATER)	
DISTRICT FOR A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY TO)	CASE NO.
CONSTRUCT A SYSTEM IMPROVEMENTS)	2020-00198
PROJECT AND AN ORDER APPROVING A)	
CHANGE IN RATES AND AUTHORIZING THE)	
ISSUANCE OF SECURITIES PURSUANT TO)	
KRS 278.023)	

ORDER

On August 24, 2020, Western Mason County Water District (Western Mason District) filed an application (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.

Western Mason District, a water district organized under KRS Chapter 74, provides retail water service to approximately 1,156 water customers¹ in Mason and Bracken counties, Kentucky.²

The Commission's Division of Inspections last inspected Western Mason District on May 29, 2019. Western Mason District was notified of one deficiency identified by the

¹ *Annual Report of Western Mason County Water District for the Year Ended December 31, 2019*, at 49.

² *Id.* at 12.

Commission in a letter of June 10, 2019: “Western Mason Water District is not instructing their employees who, in the course of their work, are subject to the hazards of electrical shock, asphyxiation, or drowning, in accepted methods of artificial respiration as required by 807 KAR 5:006, Section 25(3).” Western Mason District filed a response to its Inspection Report stating that its employees were in the process of obtaining their updated CPR instruction cards. On July 23, 2019, Commission Staff (Staff) sent a letter to Western Mason District acknowledging that the water district had responded to the deficiency, that Western Mason District has met the regulatory requirements of the Commission, and that the Commission will verify compliance of the deficiency at the next inspection.

The Commission notes that its records indicate Western Mason District has not sought a general adjustment in base rates since its last rate case in 2015.³ In the present case, Western Mason District submitted its Application pursuant to KRS 278.023. The Commission is required, pursuant to KRS 278.023, to accept agreements between water utilities and the United States Department of Agriculture, Rural Development (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 Mason 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

³ Case No. 2014-00421, *Alternative Rate Adjustment Filing of Western Mason County Water District* (Ky. PSC May 15, 2015).

of record indicates that a water utility's proposed construction 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.

The Commission's review of records in a financing case, filed pursuant to KRS 278.023, 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 an alternative rate adjustment. The Commission recently noted that some utilities file Applications to increase rates pursuant to KRS 278.023 to intentionally avoid a review of its financial records.⁴ A key general recommendation that resulted from the investigation in Commission Case No. 2019-00041 was that water utilities should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁵

In a review of Commission records, Staff found that Western Mason District has filed only one audit report in the past five years. Such reports are necessary for the Commission to fully evaluate the financial status of Western Mason District. The Commission finds that Western Mason District should respond to Staff's requests for information in Appendix B of this Order to supplement the financial information filed in this matter.

⁴ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

⁵ *Id.*

Western Mason District states in its Application that it has a need to improve its overall service from a water quality and reliability standpoint to its customers, especially in the central portion of its distribution system near the cities of Dover and Minerva.⁶ The proposed project is to upgrade, enlarge and replace approximately 11.3 miles of predominantly asbestos cement distribution mains and replace approximately 280 customer service meters with new radio read meters.⁷ Western Mason District avers that due to the age and material of these asbestos cement distribution water mains, breaks are more common and have led to issues with continuity of service. This exposes some customers to poor quality water and limits the amount of water available to them.

The proposed project is also designed to improve water turnover/water age by eliminating older, problematic distribution mains and removing dead ends by looping some of the existing water lines.⁸ Western Mason District believes that the proposed project will improve the quality of water for residents in these particular areas and will also provide alternatives for service during emergency outages by providing alternative feeds during emergency situations.⁹

Western Mason District states in its Application that the replacement of the 280 meters with radio read meters will create efficiencies for the water district in reading meters, detecting leaks, and providing improved service to its customers.¹⁰

⁶ Application, Exhibit A.

⁷ *Id.*

⁸ Final Engineering Report (filed August 24, 2020) at 3.

⁹ *Id.*

¹⁰ Application, Exhibit A.

If funding allows, the proposed project further endeavors to perform repairs and improvements to Western Mason District's existing pump stations to include replacement of pumps, piping, and installation of variable frequency drive pumps (VFDs) and potentially installing necessary appurtenances for generator connection and a new generator.¹¹ Also, if funding is available, the proposed project will include repairs and maintenance to existing storage tanks throughout the system.¹² These repairs include, but are not limited to, installation of cathodic protection and potential repaint and touch up of necessary areas on the tanks.¹³

Western Mason District did explore alternatives to the proposed project. Alternatives considered included replacing asbestos cement distribution mains with like size distribution mains, but this does not provide Western Mason District with any hydraulic improvements needed.¹⁴ An additional alternative considered was to only replace the lines as they deteriorate to the point of failure. Western Mason District found this to be cost-prohibitive and found that it does not benefit the customers by providing a safe, dependable, high quality product.¹⁵

The total cost of the proposed project, including but not limited to engineering, construction, legal, administrative, environmental, rate study, acquisition costs plus

¹¹ Final Engineering Report at 3.

¹² Application, Exhibit A.

¹³ *Id.*

¹⁴ Final Engineering Report at 3-4.

¹⁵ *Id.* at 4.

interest, and contingencies, is approximately \$2,019,700.¹⁶ Western Mason District proposes to finance the construction of the project through the issuance of \$1,515,000 of its Water System Revenue Bonds and a grant of \$504,700 from USDA/RD.¹⁷ USDA/RD has committed to purchase \$1,515,000 of said Water System Revenue Bonds, with the bonds maturing over 40 years at an interest rate not to exceed 1.875 percent per annum.¹⁸ The increase in rates associated with the financing will increase the monthly bill of a typical residential customer using 5,000 gallons per month by \$6.85, from \$57.19 to \$64.04, or approximately 11.970 percent.¹⁹

IT IS THEREFORE ORDERED that:

1. Western Mason District is granted a CPCN for the proposed project as submitted.
2. Western Mason District's proposed plan of financing is approved.
3. Western Mason District is authorized to issue water revenue bonds in the amount of \$1,515,000 maturing over 40 years at an interest rate not to exceed 1.875 percent per annum that will be purchased by USDA/RD.
4. The proceeds from the water revenue bonds shall be used only for the purposes specified in Western Mason District's Application.
5. Western Mason District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

¹⁶ Final Engineering Report at 6.

¹⁷ Application at 2

¹⁸ *Id.*

¹⁹ Application, Exhibit E.

6. Notwithstanding ordering paragraphs 4 and 5, if surplus funds remain after the approved construction has been completed, Western Mason 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 Mason District's rates for service. Western Mason District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

7. Western Mason 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.

8. Western Mason 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.

9. Western Mason 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.

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

11. Any documents filed in the future pursuant to ordering paragraphs 5, 6, 7, 8, and 10 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

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

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

14. Within 20 days of the date of this Order, Western Mason District shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.

15. This case shall remain open in order for Western Mason District to respond to the information requests contained in Appendix B of this Order within 14 days of the date of service of this Order.

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
SEP 22 2020 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Acting Executive Director

Case No. 2020-00198

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00198 DATED SEP 22 2020

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

First	2,000 Gallons	\$44.60 Minimum Bill
Next	8,000 Gallons	6.48 Per 1,000 Gallons
Over	10,000 Gallons	5.68 Per 1,000 Gallons

<u>Bulk Water Sales</u>	6.83 Per 1,000 Gallons
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00198 DATED SEP 22 2020

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO WESTERN MASON COUNTY WATER DISTRICT

Western Mason County Water District (Western Mason District), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested herein is due on within fourteen days of the date of this request. The Commission directs Western Mason District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency. All responses in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

Western Mason District shall make timely amendment to any prior response if Western Mason District obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Western Mason District fails or refuses to furnish all or part of the requested information, Western Mason District shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Western Mason District shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. According to Commission records, in the past five years, Western Mason District has filed only one audit report, in 2018. Provide an explanation for why Western Mason District has filed only one audit report in the past five years.

2. Provide a timeline for when the missing audit reports will be filed.

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