

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF HARDIN	)	
COUNTY WATER DISTRICT NO. 2 FOR A	)	CASE NO.
CERTIFICATE OF PUBLIC CONVENIENCE	)	2020-00207
AND NECESSITY	)	

ORDER

On August 11, 2020, Hardin County Water District No. 2 (Hardin District No. 2) filed an application seeking authority for a Certificate of Public Convenience and Necessity (CPCN) to construct a new headquarters facility.

Commission Staff issued, and Hardin District No. 2 responded to, one request for information. No person has sought intervention in this matter. The Commission finds that Hardin District No. 2's application is reasonable and should be approved. The matter now stands submitted for a decision based on the evidentiary record.

PROPOSED FACILITY

Hardin District No. 2 is a water district organized under KRS Chapter 74. Hardin District No. 2 provides retail water service to approximately 28,888 customers in Hardin County, except for the city of Radcliff, the northern portion of Hardin County, and portions of Larue and Hart counties, Kentucky. It began providing wastewater collection and conveyance service in January 2020 to portions of southern Hardin County, including 27 customers.<sup>1</sup>

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<sup>1</sup> Application at 2.

Hardin District No. 2 proposes to build (1) an approximate 16,000-square-foot, single-story Customer Service Center; (2) an approximate 3,000-square-foot Field Operations Building; (3) an approximate 18,750-square-foot Shop Building; and (4) an approximate 12,000-square-foot Equipment Building.<sup>2</sup>

The proposed project's total cost will be \$8,000,000. Hardin District No. 2 proposes to finance the construction of the project through the issuance of short-term debt (either a Bond Anticipation Note (BAN) or a conventional bank loan) not exceeding 23 months. The short-term debt will be partially paid by using the proceeds from the sale of two tracts of land: (1) the \$3.1 million proceeds from the sale of 7.153 acres of land upon which Hardin District No. 2's current Customer Service Center and other facilities are situated; and (2) the proceeds from the sale of another 10-acre tract of land located at 315 Ring Road. The 10-acre tract of land is listed with a realty company for \$1.8 million. The balance of the short-term debt, which is estimated to be approximately \$3.1 million once the sale proceeds from both tracts of land are applied to the debt, will be refinanced through the issuance of long-term bonds. Hardin District No. 2 will apply to the Commission for authorization to issue such bonds prior to the issuance.<sup>3</sup>

Regarding the project's impact on rates, Hardin District No. 2 asserts that it does not plan to increase its water service rates to its customers as a result of the proposed project.<sup>4</sup> The Commission notes its records indicate that Hardin District No. 2 has not sought a general adjustment in base rates by any other means than through a financing

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<sup>2</sup> *Id.* at 3.

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

<sup>4</sup> Hardin District No.2's responses to the Commission Staff's First Request for Information (filed Oct. 3, 2020) (Staff's First Request), Item 1.

approval or in conjunction with an application for a Certificate of Public Convenience and Necessity since the Commission began keeping such records in 1985. While Hardin District No. 2 has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD), 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 an alternative rate adjustment.<sup>5</sup> Based upon the fact that it has not sought a base rate adjustment since 1985, Hardin District No. 2 should consider the recommendation that resulted from the investigation of Commission Case No. 2019-00041 that water districts apply for base rate adjustments on a more frequent basis.<sup>6</sup>

## DISCUSSION

### Legal Standard

KRS 278.020(1) provides that no utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission. To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.<sup>7</sup>

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<sup>5</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019), Appendix L at 16–20.

<sup>6</sup> *Id.* The 2015-2019 Annual Reports filed by Hardin District No. 2 show it has not historically recorded sustained excessive water loss and when it was cited for excessive water loss in Commission Staff's Inspection on September 10, 2019, its management responded to Commission Staff's inspection in a letter dated October 29, 2019, with a reasonable plan to address the increased water loss due to acquiring the city of Elizabethtown's water system. As a general rule, however, Hardin District No. 2, should consider filing a base rate adjustment for its next rate adjustment to ensure that its financial and operational viability is sound and to establish a base line for future reference.

<sup>7</sup> *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 252 S.W.2d 885 (Ky. 1952).

“Need” requires:

[A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.

[T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.<sup>8</sup>

“Wasteful duplication” is defined as “an excess of capacity over need” and “an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties.”<sup>9</sup>

#### Need for New Facility

In February 2017, Hardin District No. 2 retained GRW, Inc. (GRW) to prepare a report addressing the ability of Hardin District No. 2’s facilities to accommodate current staff and customer needs and assess the impact of anticipated future staff and customer growth.<sup>10</sup> In its July 2017 Report, GRW identified the following inadequacies with Hardin District No. 2’s current facilities:

1. The customer service building does not meet the benchmarks for utility-sector offices established by the International Facilities Management Association, which

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<sup>8</sup> *Id.* at 890.

<sup>9</sup> *Id.* at 890.

<sup>10</sup> Application at 6, paragraph 13.

recommends a mean sized standard for utility-sector office space of 442 square feet per employee while the current building only has 235 square feet per employee.<sup>11</sup>

2. The parking facilities lacks sufficient parking for the public and staff employees. Currently, there are 56 employee parking spaces, but it is projected that 80 parking spaces will be required to accommodate projected staffing levels.<sup>12</sup>

3. The single-lane drive-thru is inadequate because, during peak demand, vehicles waiting to make payments extend into the street entrance and block access to the staff parking area. An additional drive-thru station is necessary to alleviate this condition, but unfortunately, would significantly reduce staff parking and interfere with the safe and orderly flow of traffic.<sup>13</sup>

4. Due to blind corners and overcrowding at the maintenance compound parking area surrounding the maintenance shop and storage building, there are frequent vehicle accidents. In GRW's view, "[t]his area represents a significant safety issue for HCWD2, with the potential for continued workplace accidents"<sup>14</sup> and that these problems are likely to "become worse as the need for additional service vehicles grows with the customer base."<sup>15</sup>

5. There is a single-lane vehicle fueling area, with three fuel delivery stations (unleaded, diesel, and off-road diesel) for all maintenance vehicles, regardless of size or

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<sup>11</sup> Application, Exhibit 3 at 3.

<sup>12</sup> *Id.*, Exhibit 3 at 9.

<sup>13</sup> *Id.*, Exhibit 3 at 9.

<sup>14</sup> *Id.*, Exhibit 3 at 12.

<sup>15</sup> *Id.*, Exhibit 3 at 12.

type. This configuration created a “significant operational hindrance,”<sup>16</sup> delayed the dispatch of maintenance vehicles, and resulted in constant traffic congestion at the site.

6. The maintenance shop lacked sufficient space for vehicle maintenance or washing and to garage Hardin District No. 2’s pickup trucks and corresponding service equipment.<sup>17</sup>

7. The unconditioned storage building currently has currently has space to meet Hardin District No. 2’s present needs, but lacks the space that will be required to accommodate additional growth of Hardin District No. 2’s water operations or to meet the anticipated needs of Hardin District No. 2’s sanitary sewer operations.<sup>18</sup>

According to Hardin District No.2, GRW found the 360 Ring Road Property lacked sufficient space to make improvements to address the inadequacies noted above.<sup>19</sup> GRW also found that implementing limited measures to correct some inadequacies would likely exacerbate other inadequacies or significantly disrupt operations.<sup>20</sup>

The Commission finds that Hardin District No. 2 has demonstrated that the size, inefficiencies, design, and location of the existing buildings cannot adequately satisfy the current and future needs of Hardin District No. 2, and it is neither cost-effective nor feasible to renovate, expand, or retrofit the existing headquarters. Therefore, Hardin

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<sup>16</sup> *Id.*, Exhibit 3 at 11.

<sup>17</sup> *Id.*, Exhibit 3 at 15–16.

<sup>18</sup> *Id.*, Exhibit 3 at 12.

<sup>19</sup> Application at 10.

<sup>20</sup> *Id.*

District No. 2 has demonstrated, based on the evidence, that the new facilities are needed.

### Duplication of Facilities

Having determined that the new facilities are needed, the Commission now addresses whether the proposed facility will result in wasteful duplication of facilities.

Hardin District No. 2 asserts that the construction of the project will not result in the wasteful duplication of utility facilities or inefficient investment.<sup>21</sup>

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed facilities would reasonably satisfy Hardin District No. 2's near-term needs for office and warehouse space without jeopardizing its ability to expand in the future. The proposed facilities are not excessive in terms of investment or scope and thus will not result in a wasteful duplication of facilities.

Having reviewed the record and being sufficiently advised, the Commission finds that:

1. The record for this case is complete.
2. Hardin District No. 2's proposed new facilities are reasonable.
3. Hardin District No. 2's proposed new facilities are the least cost option after the utility researched alternatives.
4. Hardin District No. 2's proposed new facilities would not result in wasteful duplication.

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<sup>21</sup> Application at 17.

IT IS THEREFORE ORDERED that:

1. Hardin District No. 2 is granted a CPCN to proceed with the proposed construction as set forth in its application.

2. Hardin District No. 2 is also authorized to perform the necessary renovations set forth in its application.

3. Hardin District No. 2 shall notify the Commission prior to performing any additional renovations not expressly authorized by this Order.

4. Hardin District No. 2 shall furnish documentation of the total costs of this project, including the cost of construction and all other capitalized costs, together with, but not limited to, engineering, legal, and administrative expenses, within 60 days of the date of construction is substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for electric utilities as prescribed by the Commission.

5. Hardin District No. 2 shall file with the Commission 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 certified herein.

6. Hardin District No. 2 shall file with the Commission, within ten days of receipt from the proper authority, copies of all required permits referenced in paragraph 18 of the application.

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

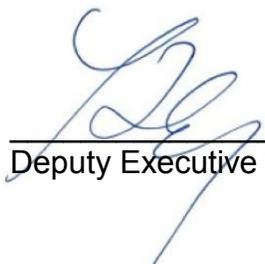
8. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:



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Deputy Executive Director

Case No. 2020-00207

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