

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE ADAIR	)	
COUNTY WATER DISTRICT FOR A	)	
CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY TO CONSTRUCT A	)	CASE NO.
SYSTEM IMPROVEMENTS PROJECT AND	)	2020-00308
AN ORDER APPROVING A CHANGE IN	)	
RATES AND AUTHORIZING THE ISSUANCE	)	
OF SECURITIES PURSUANT TO KRS 278.023	)	

ORDER

On September 25, 2020, Adair County Water District (Adair 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 and approval of the proposed plan of financing the project. No party has sought intervention in this matter.

Adair District, a water district organized under KRS Chapter 74, provides retail water service to approximately 7,842 water customers<sup>1</sup> in Adair County, Kentucky.<sup>2</sup>

The Commission's Division of Inspections last inspected Adair District on October 29, 2018. Based on the inspector's observations, no deficiencies were identified.

The Commission notes that its records indicate Adair District has not sought a general adjustment in base rates since at least 1985. Adair District's last change in rates

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<sup>1</sup> *Annual Report of Adair County Water District for the Year Ended December 31, 2019* at 49.

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

came by way of another KRS 278.023 case.<sup>3</sup> In the present case, Adair District has 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 Adair 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 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

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<sup>3</sup> Case No. 2012-00018, *Application of the Adair County Water District, a Water District Organized Pursuant To Chapter 74 of the Kentucky Revised Statutes in Adair County, Kentucky for (1) a Certificate of Public Convenience and Necessity Authorizing and Permitting Said Water District to Construct Water Distribution System Improvements, (2) Approval of the District's Plan of Financing Said Improvements Through the Issuance of the District's Water Revenue Bonds, and (3) the Approval of Increases in the District's Rates and Charges for Water Service* (Ky. PSC Feb. 3, 2012).

its financial records.<sup>4</sup> 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.<sup>5</sup> Pursuant to this recommendation, in Case No. 2020-00148, the Commission ordered Adair District to file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 by September 4, 2021, to ensure its revenue is sufficient to support adequate and reliable service.<sup>6</sup>

The Commission notes that, according to Adair Sewer District's audit and annual reports, Adair District has a negative net income and a negative cash basis income for the years 2016 through 2019 as shown below.<sup>7</sup>

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

<sup>5</sup> *Id.*

<sup>6</sup> Case No. 2020-00148, *Electronic Application of the Adair County Water District to Issue Securities in the Approximate Principal Amount of \$5,405,000 for the Purpose of Refunding Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Sept. 4, 2020)

<sup>7</sup> Adair Sewer District's Audit and annual reports can be found on the Commission's website at: [https://psc.ky.gov/Utility\\_Financial\\_Reports\\_Net/uploaded/support/SD\\_9003500\\_2018\\_1.pdf](https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_9003500_2018_1.pdf)  
[https://psc.ky.gov/Utility\\_Financial\\_Reports\\_Net/uploaded/support/SD\\_9003500\\_2017\\_1.pdf](https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_9003500_2017_1.pdf)  
[https://psc.ky.gov/Utility\\_Financial\\_Reports\\_Net/uploaded/support/SD\\_9003500\\_2016\\_1.pdf](https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_9003500_2016_1.pdf)  
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[https://psc.ky.gov/ufr\\_pdf/Sewer/2016/9003500\\_Adair\\_County\\_Water\\_District.pdf](https://psc.ky.gov/ufr_pdf/Sewer/2016/9003500_Adair_County_Water_District.pdf)

Year	2016	2017	2018	2019
Net Income	\$ (553,328)	\$ (573,945)	\$ (653,237)	\$ (585,260)
Add: Depreciation Expense	549,006	544,375	534,491	519,689
Cash Basis Income	\$ (4,322)	\$ (29,570)	\$ (118,746)	\$ (65,571)

Year	2016	2017	2018	2019
Cash and Cash Equivalents	\$ 10,215	\$ 30,277	\$ 16,123	\$ 27,727
Depreciation Reserve	129,130	108,097	113,448	106,099
Net Increase (Decrease) in Cash	4,153	971	8,803	(4,255)

Based on the above review, the Commission finds that Adair District's Sewer Operations shall also file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 by September 4, 2021.

The proposed project consists of improvements to both the water and wastewater systems of Adair District. The improvements include:

- Installation of 8-inch water main around the KY 55 Bypass
- Replacement of approximately 2,800 linear feet of water main on Liberty Road
- Extension of water lines on White Oak and Acree Road
- Installation of telemetry on 19 existing sites
- Installation of three new influent pumps at the wastewater treatment plant<sup>8</sup>

The installation of an 8-inch water main around the KY 55 Bypass will allow Adair District to serve this potentially high growth area with water.<sup>9</sup> According to Adair District,

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<sup>8</sup> Final Engineering Report at 1.

<sup>9</sup> Application, Exhibit A.

Adair County has been experiencing steady population growth and it anticipates continual growth in this area.<sup>10</sup> The water line on Liberty Road is a lower class rated pipe, and as a result of this, the pump station serving the area must be run at lower than optimal pressure. This results in the pump station running more than would be necessary if the line was rated for higher pressures.<sup>11</sup> The approximate 25 households on White Oak and Acree Road currently rely on groundwater wells or cisterns for water. By extending water to these two areas, Adair District states that a safer quality of water will be offered to these households.<sup>12</sup> The installation of telemetry at the 19 existing sites would give Adair District the ability to control the function of these facilities and control water pressure, flow, and water loss.<sup>13</sup> According to Adair District, three out of five influent pumps at Adair District's wastewater treatment plant are old and the suction piping on these three pumps must be repaired often. The proposed project will allow for the replacement of the three old pumps to three new submersible pumps.<sup>14</sup>

If any funds remain from the proposed project, Adair District would like to make additional improvements. These additional improvements include water line extensions on Corbin Richards Road, Canaan Land Road, and Garman Road; telemetry improvements to additional facilities; improvements to the carbon feed system at the

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<sup>10</sup> Final Engineering Report at 1.

<sup>11</sup> Application, Exhibit A.

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

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

water treatment plant; and a grit conveyor replacement at the wastewater treatment plant.<sup>15</sup>

The total estimated cost of the proposed project, including but not limited to legal expenses, land and rights, engineering, construction, and contingencies, is approximately \$2,592,930.<sup>16</sup> Adair District proposes to finance the \$2,592,930 cost of the project through the issuance of \$1.945 million of its Utility Revenue Bonds and a USDA/RD grant in the amount of \$647,930. Adair District has a commitment from USDA/RD to purchase the \$1.945 million in bonds maturing over a 40 years, at an interest rate not to exceed 1.375 percent per annum.<sup>17</sup>

The proposed rates contained in the application are the minimum rates and charges required under the agreement with USDA/RD. Adair District's proposed rates meet the total revenue requirements recommended in the engineering reports. The monthly bill of an average residential water customer who uses 3,826 gallons<sup>18</sup> will increase from \$32.68 to \$39.68, an increase of \$7.00 or approximately 21.400 percent. The monthly bill of an average residential sewer customer who uses 5,473 gallons<sup>19</sup> will increase from \$33.46 to \$46.41, an increase of \$12.95 or approximately 38.700 percent.

IT IS THEREFORE ORDERED that:

1. Adair District is granted a CPCN for the proposed project as submitted.

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<sup>15</sup> Final Engineering Report at 2.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*, Application, Exhibit B.

<sup>18</sup> Affidavit of Publication of Notice of Proposed Rates (filed Oct. 2, 2020) (Average Usage for a Water Customer with a 5/8- x 3/4-Inch Meter).

<sup>19</sup> *Id.* (Average Usage for a Sewer Customer).

2. Adair District's proposed plan of financing is approved.
3. Adair District is authorized to issue \$1,945,000 of its Utility Revenue Bonds in the amount of \$1,945,000 maturing over 40 years at an interest rate not to exceed 1.375 percent per annum.
4. The proceeds from the issuance of the Utility Revenue Bonds shall be used only for the purposes specified in Adair District's application.
5. Adair District is authorized to obtain a grant in the amount of \$647,930 from USDA/RD.
6. Adair 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, Adair 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 Adair District's rates for service. Adair District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.
8. Adair 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. Adair 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. Adair 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. Adair 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 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 Adair District’s showing of good cause for such extension.

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

15. Within 20 days of the date of this Order, Adair 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.



16. Both Adair District's Water and Sewer Operations shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 by September 4, 2021.

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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Deputy Executive Director

Case No. 2020-00308

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2020-00308 DATED OCT 21 2020

The following rates and charges are prescribed for the customers in the area served by Adair 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

5/8- x 3/4-Inch Meter

First	1,000 gallons	\$19.90	Minimum bill
Next	4,000 gallons	7.00	per 1,000 gallons
Next	5,000 gallons	6.25	per 1,000 gallons
Next	15,000 gallons	5.20	per 1,000 gallons
Over	25,000 gallons	4.45	per 1,000 gallons

1-Inch Meter

First	5,000 gallons	\$47.90	Minimum bill
Next	5,000 gallons	6.25	per 1,000 gallons
Next	15,000 gallons	5.20	per 1,000 gallons
Over	25,000 gallons	4.45	per 1,000 gallons

1 1/2-Inch Meter

First	10,000 gallons	\$79.15	Minimum bill
Next	15,000 gallons	5.20	per 1,000 gallons
Over	25,000 gallons	4.45	per 1,000 gallons

2-Inch Meter

First	16,000 gallons	\$110.35	Minimum bill
Next	15,000 gallons	5.20	per 1,000 gallons
Over	25,000 gallons	4.45	per 1,000 gallons

Wholesale Rates

City of Edmonton		2.25	per 1,000 gallons
Green-Taylor Water District		2.50	per 1,000 gallons
East Casey County Water District		2.50	per 1,000 gallons

Sewer Rates

First	0 gallons	\$7.00	Minimum bill
Over	0 gallons	7.20	per 1,000 gallons

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