

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LEVEE)	
ROAD WATER ASSOCIATION, INC. FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY TO CONSTRUCT A)	CASE NO.
SYSTEM IMPROVEMENTS PROJECT AND)	2021-00015
AN ORDER APPROVING A CHANGE IN)	
RATES AND AUTHORIZING THE ISSUANCE)	
OF SECURITIES PURSUANT TO KRS 278.023)	

ORDER

On January 25, 2021, Levee Road Water Association, Inc. (Levee Road Water) 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.

Levee Road Water, a water association organized under KRS Chapter 273, provides retail water service to approximately 864 water customers¹ in Montgomery County, Kentucky.²

The Commission notes that its records indicate that since its last rate case in 1992,³ Levee Road Water has not sought a general adjustment in rates by any other

¹ *Annual Report of Levee Road Water Association, Inc. for the Year Ended December 31, 2019* at 49.

² *Id.* at 12.

³ Case No. 1992-00007, *Application of Levee Road Water Association, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 10, 1992).

means than through financing approval or in conjunction with an application for a CPCN. The practical result of such policy is that Levee Road Water has managed to avoid Commission review of its financial records and operational structure for almost 30 years. While Levee Road Water 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.

In the present case, Levee Road Water 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 Levee Road Water 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 filed pursuant to authority other than KRS 278.023.

Levee Road Water is proposing to replace approximately 3,700 feet of water main and 700 LF of creek crossings in various locations.⁴ The proposed project also consists of the installation of approximately ten gate valves, one new Chlorine booster station, twelve new flush hydrants, four new Auto-Flush Units, and two new fire hydrants and radio read meters throughout the system.⁵ The project will include a connection to the city of Jeffersonville's Water System, rehabilitation of the two tanks and purchasing and renovating a garage for the Levee Road Water Association office.⁶

Levee Road Water states that the proposed project to upgrade the transmission lines, provide flushing hydrants, provide a new Chlorine Booster Station, and repairs to the McKee Storage Tank will help to improve overall water quality while reducing water loss.⁷ Levee Road Water points to the fact there are several dead-end lines within the Levee Road Water system and regular flushing of these lines can help improve water quality in those areas.⁸ The installation of a Chlorine Booster Station will also provide proper chlorine residual for disinfection.⁹ The installation of a connection to the Jeffersonville water system will help improve the overall reliability of the system and provide alternatives for service during emergency outages.¹⁰ Further, the upgrading of transmission mains, replacing creek crossings, and repairs to both water storage tanks

⁴ Application, Exhibit A.

⁵ *Id.*

⁶ *Id.*

⁷ Final Engineering Report at 2.

⁸ *Id.* at 2–3.

⁹ *Id.* at 3.

¹⁰ *Id.*

will reduce the amount of operation and maintenance budget required for the Levee Road Water system and reduce water loss in the distribution system.¹¹ Ultimately, Levee Road Water submits that the proposed project will help to improve the overall service from a water quality and reliability standpoint to the Levee Road Water system customers.¹²

Levee Road Water avers that each item within this project is vital to maintaining the overall health and operation of the Levee Road Water system for the foreseeable future and there are no other technically feasible alternatives to correct the situation.¹³

The total cost of the proposed project, including but not limited to legal expenses, land and rights, engineering, construction, and contingencies, is approximately \$1,300,000.¹⁴ Levee Road Water proposes to finance the \$1,300,000 project cost through the issuance of a \$1,050,000 promissory note, and a grant of \$250,000 from the United States Department of Agriculture (USDA) acting through Rural Development (RD).¹⁵ RD has committed to purchase said \$1,050,000 promissory note, with the RD loan maturing over 40 years at an interest rate not to exceed 1.875 percent per annum.¹⁶

The proposed rates contained in the application are the minimum rates and charges required under the agreement with USDA/RD. Pursuant to Levee Road Water's application, the monthly bill of an average residential water customer who uses 4,015

¹¹ *Id.*

¹² *Id.* at 4.

¹³ *Id.* at 3.

¹⁴ *Id.* at 6.

¹⁵ Application at 2–3.

¹⁶ *Id.* at 3.

gallons¹⁷ will increase from \$21.62 to \$39.37, an increase of \$17.75 or approximately 82.1 percent. Levee Road Water submitted responses to Commission Staff's First Request for Information on February 2, 2021. Based on the information provided therein, the Commission Staff has concerns regarding whether Levee Road Water District's proposed rates meet the total revenue requirements recommended in the engineering reports. Therefore, Commission Staff will issue further Requests for Information to Levee Road Water to clarify this matter and gain further information regarding the Levee Road Water system.

IT IS THEREFORE ORDERED that:

1. Levee Road Water is granted a CPCN for the proposed project as submitted.
2. Levee Road Water's proposed plan of financing is approved.
3. Levee Road Water is authorized to obtain an RD loan in the amount of \$1,050,000 maturing over 40 years at an interest rate not to exceed 1.875 percent per annum.
4. The proceeds from the water revenue bonds shall be used only for the purposes specified in Levee Road Water's application.
5. Levee Road Water shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
6. Notwithstanding ordering paragraphs 4 and 5, if surplus funds remain after the approved construction has been completed, Levee Road Water may use such surplus

¹⁷ Application, Exhibit E, Notice of Proposed Rates (Average Usage for a Water Customer with a 5/8- x 3/4-Inch Meter).

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 Levee Road Water's rates for service. Levee Road Water shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.

7. Levee Road Water 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. Levee Road Water 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. Levee Road Water 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. Levee Road Water 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 Levee Road Water's showing of good cause for such extension.

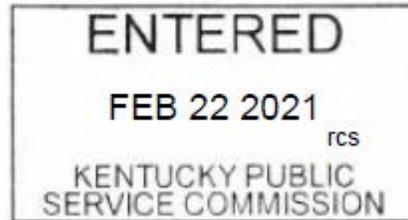
13. The rates set forth in the Appendix to this Order are approved for service that Levee Road Water renders on and after the date of this Order.

14. Within 20 days of the date of this Order, Levee Road Water 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.

15. This case shall remain open in order for Commission Staff to issue further Requests for Information, for Levee Road Water to submit its responses to the Commission Staff's Second Request for Information, and to allow the Commission ample time to review Levee Road Water's responses and evaluate Levee Road Water's financial information.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky, or any agency thereof.

By the Commission



ATTEST:


Executive Director

Case No. 2021-00015

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00015 DATED FEB 22 2021

The following rates and charges are prescribed for the customers in the area served by Levee Road Water Association. 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

All meter sizes

First	2,000 Gallons	\$23.25 Minimum Bill
Next	5,000 Gallons	0.00800 Per Gallon
Next	13,000 Gallons	0.00600 Per Gallon
Over	20,000 Gallons	0.00550 Per Gallon

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