

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCCREARY)	
COUNTY WATER DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY TO CONSTRUCT A)	CASE NO.
SYSTEM IMPROVEMENTS PROJECT AND)	2021-00021
AN ORDER APPROVING A CHANGE IN)	
RATES AND AUTHORIZING THE ISSUANCE)	
OF SECURITIES PURSUANT TO KRS 278.023)	

ORDER

On January 27, 2021, McCreary County Water District (McCreary 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.

McCreary District, a water district organized under KRS Chapter 74, provides retail water service to approximately 6,148 water customers¹ in McCreary County, Kentucky.²

The Commission's Division of Inspections last inspected McCreary District on May 3, 2019. Based on the inspector's observations, no deficiencies were identified.

The Commission notes that its records reflect that McCreary District has not sought a general adjustment in rates by any other means than through financing approval or in conjunction with an application for a CPCN. The practical result of such policy is that

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

² *Id.* at 12.

McCreary District has managed to avoid Commission review of its financial records and operational structure for more than 40 years. While McCreary District 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, McCreary 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 McCreary 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 its financial records.³ 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.⁴ Pursuant to this recommendation, in Case No. 2020-00151,⁵ the Commission ordered McCreary 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 June 26, 2021, to ensure its revenue is sufficient to support adequate and reliable service.⁶

Based on the above review and pursuant to the Order entered in Case No. 2020-00151, the Commission finds that McCreary District should still file an application for a general rate adjustment pursuant to KRS 278.190 and 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 by June 26, 2021.

³ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

⁴ *Id.*

⁵ Case No. 2020-00151, *Electronic Application of the McCreary County Water District to Issue Securities in the Approximate Principal Amount of \$1,702,000 for the Purpose of Refunding Certain Outstanding Obligations of the District and Refinancing of a Short Term Obligation Pursuant to the Provisions of KRS 278.300 AND 807 KAR 5:001* (Ky. PSC June 26, 2020).

⁶ *Id.*

The proposed project consists of replacement of approximately 30,785 linear feet of waterline on Marsh Creek Road along the corridor from US 27 to KY 92.⁷ The existing waterlines along this corridor date back to the 1960s, consist of 2-inch, 3-inch and 4-inch waterlines, and are prone to frequent breaks.⁸ The corridor has an extreme elevation change from 1,430 +/- on the west end near US 27 to 1,050 +/- on the east end at KY 92. McCreary District states that from the Strunk storage tank overflow elevation of 1,588, static pressure of over 230 psi exists in some areas at lower elevations, and when leaks at this pressure occur on the existing 2-inch waterline, a large pressure drop occurs and leave the residents at the higher elevation with very low pressure if any at times.⁹

McCreary District also points out the proposed waterline will serve as a transmission main moving water further to the east to the existing New Liberty storage tank and continuing to the Whitley County Water District (Whitley District), one of McCreary District's wholesale customers.¹⁰ McCreary District states that customers on the west end of Whitley District have been low or without water on occasion due to line breaks on the undersized, unreliable existing waterlines from which McCreary feeds them.¹¹ Ultimately, McCreary District proposes this project will ensure more of its customers will have safe and reliable water service; fire protection flowrates will be made available to a part of the county where it does not currently exist; and allow McCreary

⁷ Application, Exhibit A

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

District to grow and expand its water distribution system in the Marsh Creek area without adding any stress to the system.¹²

The total estimated cost of the proposed project, including but not limited to legal expenses, land and rights, engineering, construction, and contingencies, is approximately \$1,444,710.¹³ McCreary District proposes to finance the \$1,444,710 cost of the project through the issuance of \$542,000 of its Water System Revenue Bonds, a USDA/RD grant of \$180,710, and a Community Development Block Grant of \$722,000.¹⁴ McCreary District has a commitment from USDA/RD to purchase the \$542,000 in bonds maturing over a 40 years, at an interest rate not to exceed 1.875 percent per annum.¹⁵

The proposed rates contained in the application are the minimum rates and charges required under the agreement with USDA/RD. McCreary 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 2,000 gallons¹⁶ will increase from \$21.98 to \$22.50, an increase of \$0.52 or approximately 2.4 percent.

IT IS THEREFORE ORDERED that:

1. McCreary District is granted a CPCN for the proposed project as submitted.
2. McCreary District's proposed plan of financing is approved.

¹² Final Engineering Report at 9.

¹³ Final Engineering Report, Appendix D.

¹⁴ Application at 1–2.

¹⁵ *Id.*

¹⁶ Affidavit of Publication and Tear Sheet (filed Feb. 2, 2021) (Average Usage for a Water Customer with a 5/8- x 3/4-Inch Meter).

3. McCreary District is authorized to issue \$542,000 of its Water System Revenue Bonds in the amount of \$542,000 maturing over 40 years at an interest rate not to exceed 1.875 percent per annum.

4. The proceeds from the issuance of the Water System Revenue Bonds shall be used only for the purposes specified in McCreary District's application.

5. McCreary District is authorized to obtain a grant in the amount of \$180,710 from USDA/RD.

6. McCreary District is authorized to obtain a Community Development Block grant in the amount of \$722,000.

7. McCreary District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

8. McCreary 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. McCreary 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. McCreary 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. McCreary 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 McCreary 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 McCreary District renders on and after the date of this Order.

15. Within 20 days of the date of this Order, McCreary 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. McCreary District 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 June 26, 2021.

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



ATTEST:


Executive Director

Case No. 2021-00021

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00021 DATED FEB 22 2021

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

<u>Residential & Non-Residential</u>	
First 2,000 Gallons	\$22.50 Minimum Bill
Over 2,000 Gallons	0.00925 Per Gallon
<u>Federal Correctional Facility</u>	
First 1,950,000 Gallons	\$14,215.50 Minimum Bill
Over 1,950,000 Gallons	0.00729 Per Gallon
<u>Cumberland Falls State Park</u>	
First 600,000 Gallons	\$4,374.00 Minimum Bill
Over 600,000 Gallons	0.00729 Per Gallon
<u>Fibrotex USA</u>	0.00729 Per Gallon
<u>Pine Knot Job Center</u>	0.00729 Per Gallon
<u>McCreary County Housing Authority</u>	0.00729 Per Gallon
<u>City of Oneida, TN</u>	0.00729 Per Gallon
<u>Whitley County Water District</u>	0.00729 Per Gallon

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