

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MORGAN)	
COUNTY WATER DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY TO CONSTRUCT A SYSTEM)	CASE NO.
IMPROVEMENTS PROJECT AND AN ORDER)	2021-00146
APPROVING A CHANGE IN RATES AND)	
AUTHORIZING THE ISSUANCE OF)	
SECURITIES PURSUANT TO KRS 278.023)	

ORDER

On March 31, 2021, Morgan County Water District (Morgan 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, approval of the proposed plan of financing the project, and approval of the proposed rates in its application.¹ No party has sought intervention in this matter.

Morgan District, a water district organized under KRS Chapter 74, provides retail water service to approximately 2,835 water customers² in Morgan County, Kentucky.³ The Commission's Division of Inspections last inspected Morgan District on September 25, 2019. Commission Staff noted four deficiencies in a letter that it furnished to Morgan District on October 14, 2019. Morgan District responded to the deficiencies by

¹ Application at 4.

² *Annual Report of Morgan County Water District for the Year Ended December 31, 2019* at 49.

³ *Id.* at 12.

letter dated October 29, 2019, wherein Morgan District stated that in addition to adopting a safety manual, it had begun the process of documenting its inspection of valves, meters, and meter settings, it had also been approved for a loan with the United States Department of Agriculture Rural Development (USDA/RD) to replace approximately 265 meters, purchase leak detection equipment, replace aging water lines, and zone its systems.

In the present case, Morgan 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 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 Morgan 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 notes that Morgan District is currently undergoing an investigation of the reasonableness of its current rates in Morgan District's application for Alternative Rate Filing pursuant to 807 KAR 5:076 in Case No. 2020-00386. As a result of the timing of

the filing of the rate case pursuant to Commission Order,⁴ and the filing of the pending case, the result was that the Commission Staff Report (Staff Report) did not include the additional debt service, nor depreciation expense on the project proposed in this case. This issue was noted in Morgan District's comments to the Staff Report, which included as an attachment the debt service schedule on the proposed debt in this proceeding.⁵ The Commission finds that it should address the issue of any additional debt service that should be included in the final calculation of rates in Case No. 2020-00386.

The proposed project consists of the purchase and installation of approximately 12,700 linear feet of six-inch PVC waterline and 1,300 linear feet of two-inch PVC waterline designed to replace existing waterline located along Old Highway 172 and along Walter Litteral Road in Morgan District's service territory.⁶ Additionally, Morgan District intends to install four flushing hydrants to be used for the maintenance of the new waterline, and the replacement of 59 water meters and service lines that connect to the mains being replaced in this project.⁷ Morgan District states that it will acquire leak detection equipment, purchase flow metering equipment, purchase a water meter test bench, and install leak detection vaults throughout the system to locate leaks.⁸ Finally,

⁴ Case No. 2019-00041, *Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Oct. 13, 2020) at 5.

⁵ Case No. 2020-00386, *Electronic Application of Morgan County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (filed on Apr. 13, 2021), Response to Staff Report.

⁶ Application, Exhibit A, Project Description.

⁷ *Id.*

⁸ *Id.*

Morgan District plans to rehabilitate the chlorine room of the KY 437 pump station near Mima.⁹

The total estimated cost of the proposed project, including but not limited to development, legal expenses, engineering, construction, and contingencies, is approximately \$1,200,000.¹⁰ Morgan District proposes to finance the \$1,200,000 cost of the project through the issuance of \$315,000 of Waterworks Revenue Bonds, a USDA/RD grant of \$85,000, and an Appalachian Regional Commission (ARC) grant of \$800,000.¹¹ Morgan District has a commitment from USDA/RD to purchase the \$315,000 in bonds maturing over 40 years, at an interest rate not to exceed 1.125 percent per annum.¹²

The proposed rates contained in the application are the minimum rates and charges required under the agreement with USDA/RD.¹³ Morgan District's proposed rates meet the total revenue requirements recommended in the summary addendum to its application.¹⁴ The monthly bill of an average residential water customer who uses 3,272 gallons will increase from \$41.17 to \$45.89, an increase of \$4.72 or approximately 11.46 percent.¹⁵

⁹ *Id.*

¹⁰ Application, Exhibit B, RD Letter of Conditions and Forms RD 1940-1, March 29, 2021 letter at 2.

¹¹ Application at 1–2, paragraph 5.

¹² *Id.*

¹³ Application, Exhibit B, RD Letter of Conditions and Forms RD 1940-1 at 12.

¹⁴ See Summary Addendum filed separately with application entitled "Summary_Addendum_3-36-31.pdf" at 32 and Excel spreadsheet filed separately with application entitled "MCWD_Billing_Analysis_Prop_Rates_-_2019_cust_5_rate_blls_2-11-2021.xlsx."

¹⁵ Application, Exhibit E at 2.

IT IS THEREFORE ORDERED that:

1. Morgan District is granted a CPCN for the proposed project as submitted.
2. Morgan District's proposed plan of financing is approved.
3. Morgan District is authorized to issue \$315,000 of its Waterworks Revenue Bonds in the amount of \$315,000 maturing over 40 years at an interest rate not to exceed 1.125 percent per annum.
4. The proceeds from the issuance of the Water System Revenue Bonds shall be used only for the purposes specified in Morgan District's application.
5. Morgan District is authorized to obtain a grant in the amount of \$85,000 from USDA/RD.
6. Morgan District is authorized to obtain a grant from ARC in the amount of \$800,000.
7. Morgan District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
8. Morgan 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. Morgan 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. Morgan 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. Morgan 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 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 Morgan District's showing of good cause for such extension.

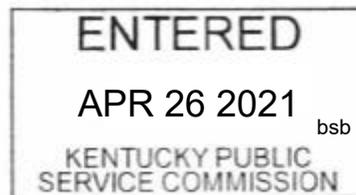
14. The rates set forth in the Appendix to this Order are approved for service that Morgan District renders on and after the date of this Order.

15. Within 20 days of the date of this Order, Morgan 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. This case is closed and removed from the Commission's docket.

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:

A handwritten signature in blue ink that reads "Linda C. Rudwell". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00146 DATED APR 26 2021

The following rates and charges are prescribed for the customers in the area served by Morgan 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	2,000	Gallons	\$28.34	Minimum bill
Next	3,000	Gallons	0.01049	Per Gallon
Next	5,000	Gallons	0.00972	Per Gallon
Next	5,000	Gallons	0.00895	Per Gallon
Over	15,000	Gallons	0.00818	Per Gallon

1-Inch Meter

First	5,000	Gallons	\$59.97	Minimum bill
Next	5,000	Gallons	0.00972	Per Gallon
Next	5,000	Gallons	0.00895	Per Gallon
Over	15,000	Gallons	0.00818	Per Gallon

2-Inch Meter

First	15,000	Gallons	\$152.06	Minimum bill
Over	15,000	Gallons	0.00818	Per Gallon

6-Inch Meter

First	100,000	Gallons	\$848.86	Minimum bill
Over	100,000	Gallons	0.00818	Per Gallon

Wholesale Rates * Connection for Emergency Use Only

City of Campton	0.00475	Per Gallon
City of Frenchburg	0.00475	Per Gallon

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