

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GRAYSON	)	
COUNTY WATER DISTRICT FOR A	)	
CERTIFICATE OF PUBLIC CONVENIENCE	)	CASE NO.
AND NECESSITY TO CONSTRUCT A SYSTEM	)	2021-00152
IMPROVEMENTS PROJECT AND AN ORDER	)	
AUTHORIZING THE ISSUANCE OF	)	
SECURITIES PURSUANT TO KRS 278.023	)	

ORDER

On April 6, 2021, Grayson County Water District (Grayson 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 issuance of securities in its application.<sup>1</sup> No party has sought intervention in this matter.

Grayson District, a water district organized under KRS Chapter 74, provides retail water service to approximately 6,806 water customers<sup>2</sup> in Grayson County, Kentucky.<sup>3</sup> The Commission's Division of Inspections last inspected Grayson District on February 27, 2019. Commission Staff noted zero deficiencies in a letter that it furnished to Grayson District on March 12, 2019.

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<sup>1</sup> Application at 1–2.

<sup>2</sup> *Annual Report of Grayson County Water District to the Kentucky Public Service Commission (Annual Report of Grayson District) for the Year Ended December 31, 2019* at 49.

<sup>3</sup> *Id.* at 12.

In the instant case, Grayson 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 Grayson 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 proposed project consists of the replacement of the Salt River pump station and installation of variable frequency drives. The new pump station will be constructed above ground with larger motors allowing Grayson District to pump more water more efficiently.<sup>4</sup> Additionally, Grayson District asserts that the above ground pump station will enhance operational safety.<sup>5</sup>

The total estimated cost of the proposed project, including but not limited to development, legal expenses, engineering, construction, and contingencies, is

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<sup>4</sup> Application, Exhibit A, Project Description.

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

approximately \$568,000.<sup>6</sup> Grayson District proposes to finance the construction of the Project through the issuance of \$568,000 of its Water System Revenue Bonds as set out in the USDA/RD Letter of Conditions.<sup>7</sup> Grayson District has a commitment from USDA/RD to purchase the \$568,000 in bonds maturing over 40 years, at an interest rate not to exceed 1.50 percent per annum.<sup>8</sup> Grayson District is not seeking a revision to its rates in this application. The Commission notes that its records indicate that Grayson District has not sought a general adjustment in base rates by any other means than through a financing approval or in conjunction with an application for a Certificate of Public Convenience and Necessity since 2008. While Grayson District has increased its rates as part of financing cases through the USDA/RD, the Commission's review of records in a USDA/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>9</sup> The Commission has reviewed Grayson District's financial records available for the last five years.<sup>10</sup> Despite a net loss in 2019 due to an unusual sale of an asset, overall Grayson District is performing at a net

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<sup>6</sup> Application, Exhibit B, RD Letter of Conditions and Forms RD 1940-1 at 10.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 11–12.

<sup>9</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

<sup>10</sup> 2015 Annual Report of Grayson District, 2016 Annual Report of Grayson District, 2017 Annual Report of Grayson District, 2018 Annual Report of Grayson District, and 2019 Annual Report of Grayson District.

income, as well as maintaining a depreciation reserve.<sup>11</sup> Therefore, the Commission finds that Grayson District should file a rate study within three years from the date of this Order to determine if Grayson District needs to file for a general adjustment in base rate.

IT IS THEREFORE ORDERED that:

1. Grayson District is granted a CPCN for the proposed project as submitted.
2. Grayson District’s proposed plan of financing is approved.
3. Grayson District is authorized to issue \$568,000 of its Waterworks Revenue Bonds in the amount of \$568,000 maturing over 40 years at an interest rate not to exceed 1.5 percent per annum.
4. The proceeds from the issuance of the Water System Revenue Bonds shall be used only for the purposes specified in Grayson District’s application.
5. Grayson District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
6. Grayson 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

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<u>Year</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net Income	\$ 95,772	\$ 108,161	\$ 185,054	\$ 205,098	\$ (20,136)
Add: Depreciation Expense	<u>826,167</u>	<u>834,325</u>	<u>837,434</u>	<u>857,823</u>	<u>844,075</u>
Cash Basis Income	\$ 921,939	\$ 942,486	\$ 1,022,488	\$ 1,062,921	\$ 823,939
<u>Year</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 45,301	\$ 50,260	\$ 116,725	\$ 25,784	\$ 38,845
Depreciation Fund	843,569	100,792	927,837	1,093,459	1,199,250
Net Increase (Decrease) in Cash	(72,177)	259,534	(264,887)	164,469	(120,716)

accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

7. Grayson 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.

8. Grayson 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.

9. Grayson District shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

10. 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.

11. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Grayson District’s showing of good cause for such extension.

12. Grayson District shall file a rate study within three years from the date of this Order to determine whether Grayson District should file for a general adjustment in base rate.

13. 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.

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By the Commission



ATTEST:

  
Executive Director

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