

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 AND	)	CASE NO.
NECESSITY TO CONSTRUCT A SYSTEM	)	2023-00117
IMPROVEMENTS PROJECT AND AN ORDER	)	
AUTHORIZING THE ISSUANCE OF SECURITIES	)	
PURSUANT TO KRS 278.023	)	

ORDER

On June 7, 2023, Grayson County Water District (Grayson District) filed an amended application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a waterworks improvement project and for approval of its plan to finance the proposed project. There were no requests for intervention or a public hearing. The record for this case is complete, and the matter stands ready for decision.

LEGAL STANDARD

Notwithstanding the Commission's general responsibilities and discretion regarding CPCNs as laid out in KRS 278.020(1), KRS 278.190, and KRS 278.300, KRS 278.023(1) requires the Commission to accept agreements between water districts and the United States Department of Agriculture Rural Development (RD), and to issue the necessary orders to implement the terms of such agreements no later than 30 days after the application is filed with the Commission. Additionally, the Commission has no discretionary authority to modify or reject any portion of the agreement between RD and

the water district, nor to defer the issuance of all necessary orders to implement the terms of that agreement. As explained in KRS 278.023(1), the Commission's review is truncated because federal financing of these projects entails prior review and oversight by a federal agency and obligates the utility to take certain actions; conflicting requirements between the federal agency and the Commission may jeopardize the project and place the utility in an untenable position.

Therefore, the Commission is unable to review this application utilizing the standards applicable in cases not filed pursuant to KRS 278.023. The legal standard established in KRS 278.023 requires that (1) the applicant be a water utility formed under KRS Chapter 74 or 273; and (2) the construction project must be funded in whole or in part under terms of an agreement between the water utility, RD or the United States Department of Housing and Urban Development. The Commission is not, however, prohibited by KRS 278.023 from requiring a utility seeking approval of such an agreement to subsequently file reports or other information in order to monitor the utility's ability to repay the loan, meet other financial or regulatory obligations, or otherwise establish its financial condition.

#### BACKGROUND AND PROJECT DESCRIPTION

Grayson District, a water district organized under KRS Chapter 74 provides retail water service to approximately 7,536 residential customers and 297 commercial customers.<sup>1</sup>

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<sup>1</sup> *Annual Report of Grayson County Water District to the Public Service Commission for the Year Ending December 31, 2022* (2022 Annual Report) at 49. Although Grayson District stated in its application, Exhibit E page 10 that it had 6,700 residential customers, and more than 350 commercial customers, its 2022 Annual Report indicates that Grayson District had 7,536 residential customers and 297 commercial customers.

The project is multifaceted and includes adding ultraviolet light to the water treatment plant to reduce the presence of the parasite cryptosporidium, upgrading high service pumps, and adding a third granulated activated carbon vessel.<sup>2</sup> Additionally, Grayson District plans to replace old water lines, and construct new lines along Salt River Road, and Duff Road because existing lines are too small to serve the current demand. Grayson district stated that it also plans to construct new water lines along KY 259 North to connect to the district's water source. Grayson District stated that it plans to construct water lines along the Bypass to serve currently unserved areas.<sup>3</sup> The project also includes installing Supervisory Control and Data Acquisition (SCADA) equipment and security fencing and cameras at the water treatment plant. Grayson District stated that this project will permit Grayson District to supply water from its production to approximately 40 percent of the district's customer base that currently receives their supply from the city of Leitchfield as well as to serve new customers.<sup>4</sup> Grayson District stated that reducing the number of its customers currently supplied by water purchased from the city of Leitchfield will eliminate a chronic problem with trihalomethanes in the city's water supply.

Grayson District proposed to finance the construction of this project through the issuance of \$5,619,000 of its Water System Revenue Bonds, an RD grant in the amount of \$911,000; and a loan from the Kentucky Infrastructure Authority (KIA) Drinking Water State Revolving Fund F in the amount of \$7,231,000 issued pursuant to an Assistance

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<sup>2</sup> Grayson District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed June 7, 2023), Item 1.

<sup>3</sup> Grayson District's Response to Staff's First Request, Item 1.

<sup>4</sup> Grayson District's Response to Staff's First Request, Item 1.

Agreement.<sup>5</sup> RD has committed to purchase the \$5,619,000 of issued bonds maturing over a 40-year term at an interest rate not to exceed 1.75 percent per annum.<sup>6</sup> The KIA loan will mature over a 30-year period at an interest rate of 0.25 percent per annum.<sup>7</sup> Grayson District stated in its application that current rates will produce the total revenue requirements recommended in the final engineering report and the utility is not seeking an increase in its current rates.<sup>8</sup>

### DISCUSSION AND FINDINGS

Commission Staff performed a limited review of Grayson District's financial records that are on file for the immediately preceding five years. A summary is presented in the table below.

Description / Year	Audited 2018	Audited 2019	Audited 2020	Audited 2021	Audited 2022
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ 205,097	\$ (20,136)	\$ 133,702	\$ 268,146	\$ 54,099
<i>Exclusions</i>					
Gain On Sale of Equipment	(1,002)	0	0	(1,900)	(7,100)
Grant Income / Loan Forgiveness	(238,000)	0	(212,800)	(322,825)	(150,000)
Bond Issue Costs	0	34,724	0	69,996	0
<b>Adjusted Net Income / (Loss) before Contributions</b>	<b>\$ (33,905)</b>	<b>\$ 14,588</b>	<b>\$ (79,098)</b>	<b>\$ 13,417</b>	<b>\$ (103,001)</b>
Subtract: Principal Payments ( )	(1,202,081)	(600,648)	(617,119)	(656,162)	(441,777)
<b>Rate Based Income</b>	<b>\$ (1,235,986)</b>	<b>\$ (586,060)</b>	<b>\$ (696,217)</b>	<b>\$ (642,745)</b>	<b>\$ (544,778)</b>
Add: Depreciation Expense	857,823	844,075	859,101	869,816	899,619
<b>Cash Basis Income</b>	<b>\$ (378,163)</b>	<b>\$ 258,015</b>	<b>\$ 162,884</b>	<b>\$ 227,071</b>	<b>\$ 354,841</b>
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 146,555	\$ 70,382	\$ 188,098	\$ 244,447	\$ 221,371
Restricted Funds (exclude construction funds from bond proceeds)	2,586,103	2,541,560	2,581,140	1,407,515	1,595,755
Adjusted Cash Balances	<u>2,732,658</u>	<u>2,611,942</u>	<u>2,769,238</u>	<u>1,651,962</u>	<u>1,817,126</u>
Net Increase (Decrease) in Cash	<u>\$ 164,470</u>	<u>\$ (120,716)</u>	<u>\$ 157,296</u>	<u>\$ (1,117,276)</u>	<u>\$ 165,164</u>

Grayson District did not fully fund depreciation in any of the past five years. On June 16, 2020, the Commission ordered Grayson District to file an application for a

<sup>5</sup> Application at 1-2.

<sup>6</sup> Application at 2.

<sup>7</sup> Application at 2.

<sup>8</sup> Application at 2.

general rate adjustment or an alternative rate filing within one year.<sup>9</sup> As discussed in the final Order in Case No. 2020-00152, the Commission ordered the rate filing because records indicated that Grayson District had relied upon federal financing cases, such as this one, and purchased water adjustments for all if its rate increases since 2008. In compliance with the Commission's Order in Case No. 2020-00152, Grayson District filed an application for an alternative rate filing in Case No. 2021-00191.<sup>10</sup> Rates were increased by 5.25 percent, to provide an additional \$191,337 in revenues.<sup>11</sup> Despite the rate increase, Grayson District still did not fully fund depreciation for 2022.

Grayson District recently acquired the City of Caneyville's water system in Case No. 2021-00387.<sup>12</sup> Because Grayson District is expanding its system through construction and acquisition, the Commission urges Grayson District to monitor its cost structure and closely review its rate sufficiency every year. Grayson District is encouraged to file an application for a rate adjustment at least every three to five years. A gradual approach to rate increases avoids the burden to customers a single large rate increase imposes. At this time, Grayson District is not experiencing excessive unaccounted-for water loss, as Grayson District had water loss under fifteen percent over

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<sup>9</sup> Case No. 2020-00152, *Electronic Application of the Grayson County Water District for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023*. (Ky. PSC June 16, 2020).

<sup>10</sup> Case No. 2021-00191, *Electronic Application of Grayson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 14, 2021).

<sup>11</sup> Case No. 2021-00191, Dec. 14, 2021 Order.

<sup>12</sup> Case No. 2021-00387, *Electronic Joint Application of Grayson County Water District and the City of Caneyville for an Order Approving the Transfer of Ownership of the City of Caneyville's Water System and Approving Grayson County Water District's Assumption of Certain Debt Obligations of the City of Caneyville Pursuant to KRS 278.020, KRS 278.300, AND 807 KAR 5:001* (Ky. PSC Dec. 14, 2021).

the past five years.<sup>13</sup> The Commission urges Grayson District to continue to monitor its unaccounted-for water loss and take measures to address any increase.

Based upon the evidence of record, the Commission concludes that the KRS 278.023 legal standard to approve the proposed financing is met because Grayson District is a water association formed by KRS Chapter 74 and the financing for the proposed project is subject to an agreement between RD and Grayson District. Therefore, the Commission finds that the CPCN is granted, and the plan of financing is approved.

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 execute the RD loan as provided.
4. Grayson District is authorized to enter into a loan in the amount of \$ 911,000 with KIA, maturing over a period of 30 years and with an interest rate not to exceed 0.25 percent
5. The proceeds of the loans shall be used only for the purposes specified in Grayson District's application.
6. Grayson District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
7. 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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<sup>13</sup> 2018-2022 Annual Reports.

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

8. 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.

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. 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.

11. Any documents filed in the future pursuant to ordering paragraphs 6, 7, 8, and 9 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 Grayson District’s showing of good cause for such extension.

13. Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing, herein approved.

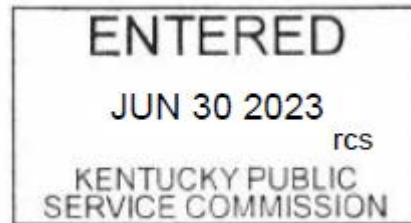
14. This case is closed and removed from the Commission’s docket.

PUBLIC SERVICE COMMISSION

  
\_\_\_\_\_  
Chairman

  
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Vice Chairman

  
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Commissioner



ATTEST:

  
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