

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH)	
WOODFORD COUNTY WATER DISTRICT FOR)	
AUTHORIZATION TO EXECUTE AN)	
ASSISTANCE AGREEMENT WITH THE)	CASE NO.
KENTUCKY INFRASTRUCTURE AUTHORITY)	2023-00322
AND A CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY FOR CERTAIN SYSTEM)	
IMPROVEMENTS)	

ORDER

On February 5, 2024, South Woodford County Water District (South Woodford District) filed¹ an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a booster pump station to replace an existing pump station (collectively, the Proposed Facilities) and to purchase and install approximately 1,765 radio read water meters and related equipment;² and for approval of its plan to finance the proposed project via a loan agreement with the Kentucky Infrastructure Authority (KIA) to borrow an amount not to exceed \$2,230,000.³ No party requested intervention in this proceeding. South Woodford District responded to one round of discovery. This matter now stands submitted for decision by the Commission.

¹ South Woodford tendered an application on January 31, 2024, that was rejected for filing due to certain deficiencies. On February 5, 2024, South Woodford filed documents that cured the filing deficiencies, and the application was deemed filed as of February 5, 2024.

² Application at 1.

³ Application at 1.

BACKGROUND

South Woodford District is a water district organized under KRS Chapter 74⁴ that provides retail water service to approximately 1,729 customers.⁵ As of December 31, 2022, South Woodford District's plant in service was \$6,159,258 and its accumulated depreciation \$3,233,537.⁶

Meter Equipment

The first project for which South Woodford District requests a CPCN is to purchase a total of 1,765 Sensus iPerl water meters (1,160 5/8-inch x 3/4-inch meters and 605 one-inch meters) and transceivers to replace most of its existing water meters.⁷ It further proposes to purchase the equipment and computer software necessary to establish an automated meter reading (AMR) system.⁸ South Woodford District stated that the proposed replacement of current meters is necessary due to their age and poor condition. South Woodford District indicated that at least 875 of the District's approximately 1,700 meters have been in service since 1988 or before.⁹ South Woodford District estimates that 800 of the remaining meters were placed in service between 1988 and 2010.¹⁰

South Woodford District acknowledged that it has historically maintained poor meter testing records and therefore is unable to confirm the last date that most meters in

⁴ Application at 2.

⁵ *Annual Report of South Woodford County Water District to the Public Service Commission for the year ending December 31, 2022* (filed on March 31, 2023) (2022 Annual Report) at 49.

⁶ 2022 Annual Report at 24-25.

⁷ Application at 3.

⁸ Application at 3.

⁹ Application at 7.

¹⁰ Application at 7.

service were tested.¹¹ However, South Woodford District stated that a recent audit of its meters discovered more than 100 active meters had ceased measuring water flow.¹² Further, South Woodford District stated it experienced an average unaccounted-for water loss rate of 28.06 percent during the period from 2017 to 2022 and that the poor condition and age of South Woodford District's meters have contributed to that excessive water loss.¹³ South Woodford District expects that new meters would reduce its unaccounted-for water loss.

South Woodford District stated that the use of an AMR drive-by system is estimated to reduce meter reading labor costs by \$30,000 annually.¹⁴ The District stated that currently two contract employees manually read its meters and each employee is assigned a vehicle and spends approximately 40 hours per month reading meters, for a total of 80 hours each month. However, after the installation of the proposed metering equipment, a single contractor employee is expected to spend 24 hours performing meter reading each month.¹⁵ Further, South Woodford District stated it will increase its revenues by recording water usage that previously went unmeasured because of malfunctioning meters or a meter's inability to measure low water flow, reducing the need to estimate bills and eliminating human errors in reading meters.¹⁶ Finally, South

¹¹ Application at 7.

¹² Application at 7.

¹³ Application at 7.

¹⁴ South Woodford District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 23, 2024), Item 11.

¹⁵ Application at 5.

¹⁶ Application at 6.

Woodford District stated that the use of the AMR system would create a more accurate picture of system water usage and increase South Woodford District's ability to promptly identify major water breaks and leaks and reduce its unaccounted-for water loss, and notify customers quickly if they exceed a threshold of water usage.¹⁷

South Woodford District indicated that it chose the AMR meters it is proposing, Sensus iPrel meters, based on cost and other utilities' positive experiences with the meters. South Woodford District also indicated that it gave weight to the city of Versailles (Versailles) use of the Sensus iPrel meters, because using the same meters as Versailles, which operates a nearby system, could allow South Woodford District to integrate its operations more closely with Versailles in the future if appropriate. Considering the possibility of such integration was a reasonable choice given South Woodford District's size and its historic operation issues.¹⁸

South Woodford District solicited bids for the new meters, though only one bid was submitted. The submitted bid was from C.I. Thornburg Company, Inc., of Huntington, West Virginia for \$742,798.50, for purchase and installation.¹⁹ South Woodford District's engineer recommended approval of the bid based on the amount of the bid and the engineer's previous experiences working with the contractor.²⁰

¹⁷ Application at 6.

¹⁸ South Woodford District's Response to Staff's First Request, Item 10.

¹⁹ Application at 9.

²⁰ Application, Exhibit 10.

Pump Station

The second project for which South Woodford District requested a CPCN is a project to replace the Kentucky 33 Pump Station located in Woodford County, Kentucky, near the intersection of Kentucky Highway 33 and Kentucky Highway 2113.²¹ South Woodford District indicated the current pump station has two pumps that have an individual pumping capacity of 500 gallons of water per minute. South Woodford District stated that the pump station has been in service since 1992 and is at the end of its useful life.²² South Woodford District stated that the pumps and the control mechanisms are in poor condition and have a high risk of failure.²³ Further, South Woodford District stated that the pump station's metal housing is deteriorating and presents an increased risk of structural collapse or ground water flooding. South Woodford District stated that major repairs will be necessary at the station within the next five years if it is not replaced.²⁴

South Woodford District stated that repair work to the pump station would require replacement of its existing pumps, electrical controls, and electrical panel at an estimated cost of \$150,000.²⁵ Additionally, South Woodford District stated that the metal floor and walls are severely rusted, the flooring is unstable, and repairs to remedy these issues would require major excavation and replacement of the plant's metal work, and it is unclear whether the station's metal shell can be repaired.²⁶ Further, South Woodford

²¹ Application at 10.

²² South Woodford District's Response to Staff's First Request, Item 5.

²³ Application at 10.

²⁴ Application at 10.

²⁵ South Woodford District's Response to Staff's First Request, Item 4.

²⁶ South Woodford District's Response to Staff's First Request, Item 4.

District stated that even if repairs to the metal framework would extend the current pump station's useful life, the current pump station would lack sufficient space to install the larger pumps necessary to service the proposed elevated water storage tank that is planned to be constructed within the next three to five years to replace South Woodford District's existing Kentucky Highway 33 Water Storage Standpipe, rendering the existing pump station obsolete.²⁷

South Woodford District proposed to construct a new above ground pump station in place of the existing pump station. South Woodford District indicated that the replacement station will house two variable frequency drive pumps and that each pump will have a maximum pumping capacity of 750 gallons per minute.²⁸ The proposed pump station has an estimated useful life of 30 years.²⁹

South Woodford District received four bids on the contract to construct the proposed pump station and demolish the existing pump station. The lowest bid was a bid of \$680,400 from United Pipeline, Inc. of Tompkinsville, Kentucky. Haworth-Meyer-Boleyn Professional Engineers, Inc, the Project Engineer, reviewed the submitted bids and determined that United Pipeline, Inc. was qualified to perform the contract work and recommended its bid be accepted.³⁰

²⁷ South Woodford District's Response to Staff's First Request, Item 5.

²⁸ Application at 11.

²⁹ Application at 11.

³⁰ Application at 12-13.

Financing

South Woodford District proposed to fund the project to enter an assistance agreement with KIA to borrow an amount not to exceed \$2,230,000 from the State Infrastructure Revolving Fund (Fund B). The loan would bear an interest rate of 2 percent per annum and must be repaid over a period not to exceed 20 years. The loan will include a 0.20 percent service fee based on the outstanding loan balance.³¹ South Woodford District stated that the total cost of the two projects would be \$1,754,568.50.³² South Woodford District stated that if KIA authorized the use of any funds in excess of the cost of the two projects that South Woodford District would seek Commission approval to use those funds.³³ South Woodford District stated that it is not seeking an increase of rates to repay the KIA loan. South Woodford District stated that among the conditions set forth by KIA was for South Woodford District to increase rates to meet the loan requirements, but that as a result of a recent rate increase that requirement has already been met.³⁴

LEGAL STANDARD

The Commission's standard of review regarding a CPCN is well settled. No utility may construct or acquire any facility to be used in providing utility service to the public

³¹ Application at 13.

³² Application, Exhibit 24.

³³ South Woodford District's Response to Staff's First Request, Item 9.

³⁴ Application at 14.

until it has obtained a CPCN from this Commission.³⁵ To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.³⁶

“Need” requires:

[A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.

[T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management, or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.³⁷

“Wasteful duplication” is defined as “an excess of capacity over need” and “an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties.”³⁸ To demonstrate that a proposed facility does not result in wasteful duplication, the Commission has held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.³⁹ Although cost is a factor, selection of a proposal that ultimately costs more than an

³⁵ KRS 278.020(1). Although the statute exempts certain types of projects from the requirement to obtain a CPCN, the exemptions are not applicable.

³⁶ *Kentucky Utilities Co. v. Public Service Com’n*, 252 S.W.2d 885,890 (Ky. Ct. App. 1952).

³⁷ *Kentucky Utilities Co.*, 252 S.W.2d at 890.

³⁸ *Kentucky Utilities Co.*, 252 S.W.2d 885, 890.

³⁹ Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005), Order at 11.

alternative does not necessarily result in wasteful duplication.⁴⁰ All relevant factors must be balanced.⁴¹ KRS 278.300 requires Commission authorization before a utility may “issue any securities or evidence of indebtedness or assume any obligation or liability in respect to the securities or evidence of indebtedness of any other person.”⁴² KRS 278.300(3) establishes the legal standard and clarifies the scope of Commission review, stating:

The commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

DISCUSSION AND FINDINGS

Having considered the application and all evidence in the record, the Commission finds that the CPCN should be granted. As noted above, the majority of meters currently on South Woodford District’s system are well past the expected useful life and are in poor condition. Further, while South Woodford District has failed to keep adequate testing records in the past, South Woodford District indicated that a recent audit indicated that more than 100 active meters had ceased measuring water flow. South Woodford District

⁴⁰ See *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 390 S.W.2d 168, 175 (Ky. 1965). See also Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005), Order at 6.

⁴¹ Case No. 2005-00089, Aug. 19, 2005 Order at 6.

⁴² KRS 278.300(1).

also has excessive unaccounted-for water loss, which is likely partially caused by the current condition of the meters on its system as alleged by South Woodford District. Thus, the Commission finds there is a need for the proposed meter replacement project.

The evidence also indicates that South Woodford District's Kentucky 33 Pump Station has been in service since 1992 and is reaching the end of its useful life. South Woodford District also indicated that the pumps and the control mechanisms are in poor condition and have a high risk of failure such that they would need significant repairs and likely replacement even if the pump station itself were not replaced. However, the current pump station is a prefabricated metal underground pump station that is deteriorating and at an increased risk of collapse such that additional investment in the existing pump station would be questionable. Finally, South Woodford District also stated that it intends to install a new water storage tank in the next three to five years in the vicinity of the pump station and that the pumps in the current pump station would be inadequate to supply the new water storage tank. Thus, the Commission finds there is a need for the proposed pump station project.

South Woodford District also established that the projects will not result in wasteful duplication. With respect to the proposed water meter replacement project, South Woodford District considered different brands of water meters as well as different meter reading technologies, including manual read meters, advanced metering infrastructure and automated meter reading systems. South Woodford District also stated it took into consideration the use of other nearby water utilities use of the iPerl in part of its selection of what meter to use, to allow easier integration of operations with the other utilities if that is needed in the future. Considering the possibility of such integration was a reasonable

choice given South Woodford District's size and its historic operation issues. South Woodford District also solicited bids for this project and though only one response was received, the project engineer recommended accepting the bid. Thus, the Commission finds that South Woodford District's proposed meter replacement project will not result in wasteful duplication, and therefore, finds that the CPCN for that project should be granted.

Regarding the Kentucky 33 Pump Station, South Woodford District considered repairing the current pump station but determined that complete replacement with an above ground pump station was the best option. The Commission finds that this decision was reasonable given the severe level of deterioration of the existing station, the space limitations caused by its location underground, and the difficulties likely to arise in repairing the current station. Further, South Woodford District presented evidence indicating that the current pumping station would be inadequate to supply a new storage tank South Woodford District expects to install in the area in three to five years unless it is expended. South Woodford District also solicited competitive bids for the proposed pump station project and received four bids with the cost of the lowest bid being \$680,400 from United Pipeline, Inc., and the project engineer retained by South Woodford District recommended accepting the lowest bid, which South Woodford District intends to accept. Thus, the Commission finds that South Woodford District's proposed pumping station project will not result in wasteful duplication, and therefore, finds that the CPCN for that project should be granted.

The Commission finds that the requested financing is necessary for the completion of the projects discussed above and will not impair South Woodford District's ability to provide service. In fact, as noted above, the Commission finds that the projects at issue

are necessary and will not result in wasteful duplication. Further, the loan is being issued by KIA, the rates and terms are extremely favorable. Furthermore, South Woodford District will not need to increase its rates as a result of the financing as the required revenue increase to service the loan was met by a recent rate increase. Thus, the Commission finds that the financing for which South Woodford District requests approval is for a lawful object within the corporate purposes of South Woodford District's utility operations, is necessary and appropriate for and consistent with the proper performance of South Woodford District's service to the public, will not impair South Woodford District's ability to perform that service, and is reasonably necessary and appropriate for such purposes, and, therefore, the Commission finds that approval of the financing should be granted.

The Commission is encouraged by South Woodford District's efforts to improve its system and decrease water loss. The Commission also appreciated South Woodford District's consideration of the future when selecting meters by giving weight to the meters currently being used by Versailles to allow for an easier transition to Versailles' operation in the event the district enters into a management contract with Versailles or pursues a transfer of ownership or merger with Versailles' system. The Commission believes that considering such options, whether or not they are ultimately pursued, is prudent given South Woodford District's size, which makes economic operation more difficult, and South Woodford District's historic issues with water loss, among other things. While the Commission is not directing South Woodford District to take any action related to its overall management in this Order, the Commission would encourage South Woodford District to continue to consider all options available to it to provide least cost, reliable

water service to its customers, including management contracts, or a transfer to or merger with other nearby systems.

IT IS THEREFORE ORDERED that:

1. South Woodford District is granted a CPCN to purchase and install approximately 1,765 radio read water meters and related equipment, and to construct a booster pump station to replace the existing pump station as proposed in its application.

2. South Woodford District shall immediately notify the Commission upon knowledge of any material changes to the projects, including but not limited to increase in cost and any significant delays.

3. Any material deviation from the construction approved by this Order shall be undertaken only with prior approval of the Commission.

4. South Woodford District shall file with the Commission documentation of total costs of the projects, including the cost of construction and all other capitalized costs (e.g., engineering, legal, administrative, etc.) within 60 days of the date that the construction authorization under this CPCN 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.

5. South Woodford District shall file a copy of the as-built drawings of the proposed pump station project and a certified statement that the construction has been satisfactorily completed in accordance with the construction plans and specifications within in 60 days of the substantial completion of the construction discussed herein.

6. South Woodford District is authorized to issue the evidences of debt requested subject to the conditions discussed herein.

7. The proceeds from the issue of evidence of debt authorized shall be used only for the lawful purposes set out in the application.

8. South Woodford District shall only execute the KIA loan documents to the extent their terms and conditions are consistent with the loan described in its application, except as otherwise authorized herein.

9. South Woodford District shall file the KIA loan documents in this matter within ten days of executing them.


10. Any documents filed in the future pursuant to ordering paragraphs 4, 5, and 9 shall reference this case number and shall be retained in the post case correspondence file.

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

12. The case is closed and removed from the Commissions docket.

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.


PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ATTEST:



Executive Director

ENTERED
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