

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE U.S. 60)	
WATER DISTRICT FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY TO)	
CONSTRUCT A SYSTEM IMPROVEMENTS)	CASE NO.
PROJECT AND AN ORDER APPROVING A)	2023-00340
CHANGE IN RATES AND AUTHORIZING THE)	
ISSUANCE OF SECURITIES PURSUANT TO KRS)	
278.023)	

ORDER

On October 23, 2023, U.S. 60 Water District of Shelby and Franklin counties (U.S. 60 District) filed an application, pursuant to KRS 278.023, requesting (1) a Certificate of Public Convenience and Necessity (CPCN) to construct a waterworks improvement project, (2) an order approving increased water rates, and (3) an order authorizing the issuance of securities, and for approval of its plan to finance the proposed project via a loan agreement with United States Department of Agriculture Rural Development (RD).

U.S. 60 District is a water district organized under KRS Chapter 74 and provides retail water service to approximately 2,579 residential customers, 9 commercial customers, and 8 public authorities in Shelby and Franklin counties, Kentucky.¹

This matter stands submitted for decision.

¹ *Annual Report of U.S. 60 Water District to the Public Service Commission for the Year Ending December 31, 2022* (2022 Annual Report) at 49.

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 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.

PROJECT DESCRIPTION

U.S. 60 District's proposed project entails construction under two contracts, Contract 1 and Contract 2. Under these contracts, U.S. 60 District proposed a complete replacement of the Grafenburg booster pump station, and a full-scale rehabilitation of the District's existing Driscoll Water Storage Tank. According to U.S. 60 District, the Grafenburg booster pump station has deteriorated, lacks the capacity needed to supply the area, and is below grade and subject to being inundated by runoff during periods of heavy rain. U.S. 60 District further asserted that the Driscoll water storage tank is showing signs of pitting and metal loss, and the piping arraignment is such that water is both piped into and withdrawn from the bottom of the tank, causing issues with water turnover, which has led to water quality issues. Additionally, U.S. 60 District stated that it seeks to replace 1,000 existing conventional customer meters with radio read meters.²

U.S. 60 District proposed to finance the construction of the project through (1) the issuance of an RUS loan in the amount of \$1,600,000, and (2) a contribution from U.S. 60 District in the amount of \$440,000. The agreement with RD requires that U.S. 60 District's rates and charges must be at least adequate to meet the cost of maintaining, repairing, and operating the water system, meet the required principal and interest payments, and the required deposits to debt service and/or depreciation reserve.³ The new rates exceed U.S. 60 District's current rates. The new rates represent an increase of approximately 4.43 percent for residential customers.⁴

² Application, Exhibit A.

³ Application, Exhibit B, Item 5.

⁴ Application, Exhibit E.

DISCUSSION AND FINDINGS

Commission Staff performed a limited review of U.S. 60 District's annual reports and audited financial statements 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	\$ 148,732	\$ 258,366	\$ 258,687	\$ 351,728	\$ 350,909
Principal Payments ()	(186,040)	(188,924)	(192,746)	(171,809)	(174,213)
Rate Based Income	\$ (37,308)	\$ 69,442	\$ 65,941	\$ 179,919	\$ 176,696
Depreciation Expense	215,953	220,101	224,104	225,009	226,588
Cash Basis Income	\$ 178,645	\$ 289,543	\$ 290,045	\$ 404,928	\$ 403,284
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 1,164,494	\$ 1,169,230	\$ 1,170,961	\$ 1,182,170	\$ 1,183,614
Restricted Funds (exclude construction funds from bond proceeds)	1,230,002	1,421,303	666,100	1,060,246	1,905,740
Adjusted Cash Balances	2,394,496	2,590,533	1,837,061	2,242,416	3,089,354
Net Increase (Decrease) in Cash	\$ 120,864	\$ 196,037	\$ (753,472)	\$ 405,355	\$ 846,938
<i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	2,476	2,495	2,526	2,562	2,599
Gallons Purchased	167,908	180,069	176,497	173,527	187,277
Gallons Sold	142,676	142,593	147,110	144,862	148,761
Gallons Used for Internal Use	13,943	13,599	13,714	11,010	15,992
Water Loss Gallons	11,289	23,877	15,673	17,655	22,524
System Use Percentage	8.30%	7.55%	7.77%	6.34%	8.54%
Water Loss Percentage	6.72%	13.26%	8.88%	10.17%	12.03%
Average Gallons Per Customer Per Month	4,802	4,763	4,853	4,712	4,770
Revenue	\$ 1,348,958	\$ 1,485,317	\$ 1,535,037	\$ 1,529,097	\$ 1,549,112
Purchased Water Expense	427,056	451,488	466,606	416,133	442,842
Purchased Water Expense Over 15% Water Loss	0	0	0	0	0
Water Loss Expense Over 15% as Percentage of Total Revenue	0.00%	0.00%	0.00%	0.00%	0.00%

U.S. 60 District's most recent rate adjustment in Case No. 2017-00338 was approved by the Commission on March 21, 2018, with a required revenue increase of \$217,834, or 18.9 percent.⁵ Pursuant to Commission Staff's limited review of U.S. 60 District's financial condition, the Commission finds that U.S. 60 District should not be required to file a general rate adjustment or alternative rate filing application at this time because U.S. 60 District fully funded depreciation in each of the past four years. The

⁵ Case No. 2017-00338, *Electronic Application of U.S. 60 Water District of Shelby and Franklin Counties for an Alternative Rate Adjustment* (Ky. PSC Mar. 21, 2018), Order at 4.

Commission notes that the utility's water loss has been under 15 percent each of the last five years.

Based upon the evidence of record, the Commission concludes that the KRS 278.023 legal standard to approve the proposed financing is met because U.S. 60 District is a water district organized under KRS Chapter 74 and the financing for the proposed project is subject to an agreement between USDA, Rural Development, and U.S. 60 District. Therefore, the Commission finds that the CPCN is granted, and the plan of financing is approved.

IT IS THEREFORE ORDERED that:

1. U.S. 60 District is granted a CPCN for the proposed project as submitted.
2. U.S. 60 District's proposed plan of financing is approved.
3. U.S. 60 District is authorized to execute the USDA, RD loan as provided.
4. U.S. 60 District shall charge rates, set forth in the Appendix attached to this Order, not to exceed the minimum rates required by the RD agreement but not less than its current rates.
5. Within 20 days of the date of service of this Order, U.S. 60 District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
6. The proceeds of the loans shall be used only for the purposes specified in U.S. 60 District's application.
7. U.S. 60 District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

8. U.S. 60 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. U.S. 60 District shall notify the Commission in writing one week prior to the actual start of construction.

10. U.S. 60 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 5 and 8 of this Order shall reference this case number and shall be retained in U.S. 60 District'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 U.S. 60 District's showing of good cause for such extension.

13. Nothing contained in this Order 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



Vice Chairman



Commissioner

ENTERED
NOV 20 2023 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00340 DATED NOV 20 2023

The following rates and charges are prescribed for the customers in the area service by U.S. 60 Water District of Shelby and Franklin counties, Kentucky. 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

5/8 Inch Meter

First	1,000 Gallons	\$	18.57 Minimum Bill
Next	2,000 Gallons		0.00997 Per Gallon
Next	2,000 Gallons		0.00847 Per Gallon
Over	5,000 Gallons		0.00777 Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	55.45 Minimum Bill
Over	5,000 Gallons		0.00777 Per Gallon

1-1/2-Inch Meter

First	15,000 Gallons	\$	133.15 Minimum Bill
Over	15,000 Gallons		0.00777 Per Gallon

2-Inch Meter

First	25,000 Gallons	\$	210.85 Minimum Bill
Over	25,000 Gallons		0.00777 Per Gallon

Bulk User Rate

First	1,000 Gallons	\$	14.97 Minimum Bill
Over	1,000 Gallons		0.00997 Per Gallon

Wholesale Water Rates

First	25,000 Gallons	\$	186.25 Minimum Bill
Over	25,000 Gallons		0.00677 Per Gallon

*Lee Mudd, P.E.
Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KENTUCKY 40342

*U.S. 60 Water District of Shelby and Franklin
4596 Bagdad Road
P. O. Box 97
Bagdad, KY 40003

*David Hedges
North Shelby Water Company
4596 Bagdad Road
P. O. Box 97
Bagdad, KY 40003

*Honorable W. Randall Jones
Attorney at Law
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, KENTUCKY 40202