

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE NEBO	)	
WATER DISTRICT FOR A CERTIFICATE OF	)	
PUBLIC CONVENIENCE AND NECESSITY TO	)	
CONSTRUCT A SYSTEM IMPROVEMENTS	)	CASE NO.
PROJECT AND AN ORDER APPROVING A	)	2024-00062
CHANGE IN RATES AND AUTHORIZING THE	)	
ISSUANCE OF SECURITIES PURSUANT TO KRS	)	
278.023	)	

ORDER

On March 27, 2024, Nebo Water District (Nebo District) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct replace an existing pump station, upgrade its SCADA system, and replace approximately 1,615 meters, and for approval of its plan to finance the proposed project via a loan agreement with the United States Department of Agriculture Rural Development (RD), as well as two grants from Kentucky Infrastructure Authority (KIA), and approval of a rate increase as required by the RD loan.

Nebo District is a water district organized under KRS Chapter 74 and provides retail water service to approximately 1,556 Residential Customers, 21 Commercial Customers, and 10 Industrial Customers who reside in Hopkins County, Kentucky.<sup>1</sup>

This matter stands submitted for decision.

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<sup>1</sup> *Annual Report of Nebo District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 12 and 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 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

Nebo District is seeking to replace an existing pump station. HMB Professional Engineers, Inc. (HMB) drafted a Preliminary Engineering Report,<sup>2</sup> which stated that the existing metal building covering the pump station has reached the end of its useful life and that the metal is rusted and decayed beyond repair.<sup>3</sup>

Nebo District is also seeking to make improvements to its SCADA system. HMB stated that the existing system has reached the end of its useful life and that due to the age of the system, replacement parts have become difficult to acquire replacement parts when parts fail.<sup>4</sup> HMB stated that the improvements will include the installation of new systems at three tanks and three pump stations as well as upgrades to the existing system at Nebo District's office.<sup>5</sup>

Nebo District also requested approval to replace 1,615 meters with AMR meters and to purchase and install the required AMR equipment. HMB stated that the majority of the existing water meters have reached the end of their useful life.<sup>6</sup> HMB stated that upgrading the meters from manual read meters to AMR meters that can be read from a vehicle as it drives by the meters location will save Nebo District three days of work, thus freeing up the five employees who are currently assigned to read the meters for other work.<sup>7</sup>

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<sup>2</sup> Preliminary Engineering Report (filed on Mar. 27, 2024).

<sup>3</sup> Preliminary Engineering Report at unnumbered pages 3.

<sup>4</sup> Preliminary Engineering Report at unnumbered page 4.

<sup>5</sup> Preliminary Engineering Report at unnumbered page 4.

<sup>6</sup> Preliminary Engineering Report at unnumbered page 4.

<sup>7</sup> Preliminary Engineering Report at unnumbered page 4.

Nebo District proposes to finance the construction of the project through first, a loan of \$1,542,000 from RD that will be secured by the issuance of \$1,542,000 of its Series 2024 Waterworks Revenue Bonds;<sup>8</sup> second, KIA grant 21 CWW095 in the amount of \$160,000;<sup>9</sup> and finally, KIA grant 22 CWW001 in the amount of \$65,000.<sup>10</sup>

Nebo District has a commitment from RD to purchase said \$1,542,000 of Bonds maturing over a 40-year period at an interest rate not to exceed 3.50 percent per annum to secure the loan.<sup>11</sup> The agreement with RD requires that Nebo District's rates and charges must at least be adequate to meet the cost of maintaining, repairing, and operating the water system while meeting required principal and interest payments and deposits to debt service and depreciation reserves.<sup>12</sup> The new rates exceed Nebo District's current rates. The increases in rates are as follows:<sup>13</sup>

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<sup>8</sup> Application, paragraph 5, and Exhibit B at 4.

<sup>9</sup> Application, paragraph 5.

<sup>10</sup> Application, paragraph 5.

<sup>11</sup> Application, paragraph 5.

<sup>12</sup> Application, Exhibit B at 4.

<sup>13</sup> Application, Exhibit E.

<u>Size of Water Meter Connection</u>		<u>Current Rates</u>	<u>Proposed Rates</u>		<u>Amount Increase</u>	<u>Percentage Increase</u>
<b>5/8" x 3/4" Meter</b>						
First	2,000 gallons	\$23.15	\$ 28.40	Minimum Bill	\$ 5.25	22.68%
Next	2,000 gallons	9.57	10.50	per 1,000 gallons	\$ 0.93	9.72%
Next	6,000 gallons	9.07	10.00	per 1,000 gallons	\$ 0.93	10.25%
Next	10,000 gallons	8.58	9.51	per 1,000 gallons	\$ 0.93	10.84%
All Over	20,000 gallons	8.08	9.01	per 1,000 gallons	\$ 0.93	11.51%
<b>1" Meter</b>						
First	4,000 gallons	42.28	\$ 49.40	Minimum Bill	\$ 7.12	16.84%
Next	6,000 gallons	9.07	10.00	per 1,000 gallons	\$ 0.93	10.25%
Next	10,000 gallons	8.58	9.51	per 1,000 gallons	\$ 0.93	10.84%
All Over	20,000 gallons	8.08	9.01	per 1,000 gallons	\$ 0.93	11.51%
<b>1-1/2" Meter</b>						
First	10,000 gallons	96.71	\$ 109.40	Minimum Bill	\$ 12.69	13.12%
Next	10,000 gallons	8.58	9.51	per 1,000 gallons	\$ 0.93	10.84%
All Over	20,000 gallons	8.08	9.01	per 1,000 gallons	\$ 0.93	11.51%
<b>2" Meter</b>						
First	20,000 gallons	182.51	\$ 204.50	Minimum Bill	\$ 21.99	12.05%
All Over	20,000 gallons	8.08	9.01	per 1,000 gallons	\$ 0.93	11.51%
<b>3" Meter</b>						
First	30,000 gallons	263.31	\$ 294.60	Minimum Bill	\$ 31.29	11.88%
All Over	30,000 gallons	8.08	9.01	per 1,000 gallons	\$ 0.93	11.51%
<b>4" Meter</b>						
First	50,000 gallons	424.91	\$ 474.80	Minimum Bill	\$ 49.89	11.74%
All Over	50,000 gallons	8.08	9.01	per 1,000 gallons	\$ 0.93	11.51%

## DISCUSSION AND FINDINGS

Commission Staff performed a limited review of Nebo District's financial records that are on file for the immediately preceding five years. A summary is presented in the table below. Change in net position is adjusted to remove grant income, contributed capital, and tap fees, which are a component of contributed capital.

Description / Year	Audited 2018	Audited 2019	Audited 2020	Audited 2021	Audited 2022
<i>Adjusted Net Income</i>					
Change in Net Position	\$ (76,622)	\$ 15,307	\$ (30,847)	\$ 77,286	\$ (58,813)
Less Grant Income, Tap Fees, Contributed Capital ( )	(8,800)	(12,100)	(14,650)	(58,173)	(34,200)
<b>Adjusted Net Income / (Loss) before Contributions</b>	<b>\$ (85,422)</b>	<b>\$ 3,207</b>	<b>\$ (45,497)</b>	<b>\$ 19,113</b>	<b>\$ (93,013)</b>
Subtract: Principal Payments ( )	(16,096)	(19,780)	(52,999)	(54,329)	(40,536)
<b>Rate Based Income</b>	<b>\$ (101,518)</b>	<b>\$ (16,573)</b>	<b>\$ (98,496)</b>	<b>\$ (35,216)</b>	<b>\$ (133,549)</b>
Add: Depreciation Expense	117,441	118,236	119,590	79,550	73,097
<b>Cash Basis Income</b>	<b>\$ 15,923</b>	<b>\$ 101,663</b>	<b>\$ 21,094</b>	<b>\$ 44,334</b>	<b>\$ (60,452)</b>
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 26,478	\$ 94,936	\$ 125,821	\$ 143,752	\$ 90,687
Restricted Funds	332,621	356,869	381,117	406,457	152,223
Adjusted Cash Balances	359,099	451,805	506,938	550,209	242,910
Net Increase (Decrease) in Cash		\$ 92,706	\$ 55,133	\$ 43,271	\$ (307,299)
<i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	1,579	1,591	1,600	1,607	1,605
Gallons Purchased	105,087	102,969	114,286	100,252	100,761
Gallons Sold	82,584	82,401	91,054	84,077	81,781
Gallons Used for Internal Use	3,719	3,741	1,888	1,560	1,615
Water Loss Gallons	18,784	16,827	21,344	14,615	17,365
System Use Percentage	3.5390%	3.6331%	1.6520%	1.5561%	1.6028%
Water Loss Percentage	17.8747%	16.3418%	18.6760%	14.5783%	17.2339%

The Commission notes that Nebo District's last rate case was filed in 2016,<sup>14</sup> with a wholesale rate adjustment in 2017,<sup>15</sup> and since then Nebo District only requested rate adjustments as part of Purchase Water Adjustment filings. Nebo District's incurred an adjusted net loss in three of the last five years and water loss was slightly higher than the recoverable 15 percent in four years. Nebo District submitted an application for an Alternative Rate Filing on January 29, 2024, the application was deemed filed on February 6, 2024, and it is currently pending. The application requested a 23.33 percent increase, which it expects will provide an additional \$204,278 in revenue.<sup>16</sup>

<sup>14</sup> Case 2016-00435, *Application for Rate Adjustment of Nebo Water District* (Ky. PSC June 5, 2017).

<sup>15</sup> Case No. 2017-00133, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Madisonville Water Distribution* (Ky. PSC Aug. 9, 2017).

<sup>16</sup> Case No. 2024-00002, *Electronic Application Of Nebo Water District for an Alternative Rate Filing Pursuant to 807 KAR 5:076* (filed Feb. 7, 2024).

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

IT IS THEREFORE ORDERED that:

1. Nebo District is granted a CPCN for the proposed project as submitted.
2. Nebo District's proposed plan of financing is approved.
3. Nebo District is authorized to execute the RD loan as provided.
4. Nebo District is authorized to enter into a loan in the amount of \$1,542,000 with RD, maturing over a period of 40 years and with an interest rate not to exceed 3.5 percent per annum.
5. Nebo District is authorized to issue bonds under with the same terms as the RD loan, to be purchased by RD to secure the loan.
6. Nebo 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.
7. Within 20 days of the date of service of this Order, Nebo 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.

8. The proceeds of the loans shall be used only for the purposes specified in Nebo District's application.

9. Nebo District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

10. Nebo 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.

11. Nebo District shall notify the Commission in writing one week prior to the actual start of construction.

12. Nebo 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.

13. Any documents filed in the future pursuant to ordering paragraphs 9, 10, and 11, of this Order shall reference this case number and shall be retained in Nebo District's post-case correspondence file.

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




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


16. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ENTERED  
APR 18 2024  
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KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00062 DATED APR 18 2024

The following rates and charges are prescribed for the customers in the area service by Nebo Water District. 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- X 3/4-Inch Meter

First	2,000 Gallons	\$28.40	Minimum Bill
Next	2,000 Gallons	0.01050	Per Gallon
Next	6,000 Gallons	0.01000	Per Gallon
Next	10,000 Gallons	0.00951	Per Gallon
Over	20,000 Gallons	0.00901	Per Gallon

1-Inch Meter

First	4,000 Gallons	\$49.40	Minimum Bill
Next	6,000 Gallons	0.01000	Per Gallon
Next	10,000 Gallons	0.00951	Per Gallon
Over	20,000 Gallons	0.00901	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$109.40	Minimum Bill
Next	10,000 Gallons	0.00951	Per Gallon
Over	20,000 Gallons	0.00901	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$204.50	Minimum Bill
Over	20,000 Gallons	0.00901	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$294.60	Minimum Bill
Over	30,000 Gallons	0.00901	Per Gallon

4-Inch Meter

First 50,000 Gallons  
Over 50,000 Gallons

\$474.80 Minimum Bill  
0.00901 Per Gallon

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