

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE WESTERN)	
MASON COUNTY WATER DISTRICT FOR THE)	
ISSUANCE OF A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY TO)	CASE NO.
CONSTRUCT A WATER SYSTEM)	2024-00107
IMPROVEMENTS PROJECT AND AN ORDER)	
AUTHORIZING THE ISSUANCE OF SECURITIES)	
PURSUANT TO THE PROVISIONS OF KRS)	
278.020, 278.300, AND 807 KAR 5:001)	

ORDER

On April 24, 2024 Western Mason County Water District (Western Mason District), filed¹ an application, pursuant to KRS 278.020 and KRS 278.300, requesting approval of financing and a Certificate of Public Convenience and Necessity (CPCN) to construct a water systems improvements project located in Mason County. The project proposes the replacement and installation of approximately 17,500 LF of 6” water main, approximately 5,000 LF of 3” water main, approximately 600 LF of 2” water main and installation of a new above ground booster pump station and the installation of new radio read water meters to serve approximately 825 customers.² Western Mason District stated it would fund the project using Cleaner Water Grant funds and a loan from the Rural Water Financing Agency.³ No party requested intervention in this proceeding. Western Mason

¹ Western Mason District tendered an application on April 22, 2024 that was rejected for filing due to certain deficiencies. On April 24, 2024, Western Mason District filed documents that cured the filing deficiencies, and the application was deemed filed as of April 24, 2024.

² Application at 11.

³ Application at 3.

District responded to two information requests.⁴ This matter stands submitted for a decision by the Commission.

BACKGROUND

Western Mason District is a water district organized under KRS 74⁵ that provides water service to customers approximately 1,039 customers.⁶ As of December 31, 2022, Western Mason District's plant in service was \$8,703,960 and its accumulated depreciation was \$3,530,947.⁷

Replacement of Water Lines and Above Ground Booster Pump

Western Mason District requested a CPCN for the replacement and installation of approximately 17,500 LF of 6" water main, approximately 5,000 LF of 3" water main, and approximately 600 LF of 2" water main lines along Walton Pike and Germantown Road in Mason County.⁸ Western Mason District stated that the age of the existing deteriorated waterlines to be replaced range from the late 1950's to the early 1970's and the deterioration is caused by the age of the pipes and normal wear and tear,⁹ and the district has repaired numerous leaks on these mains which creates disruption of service to approximately 75 customers.¹⁰ Western Mason District stated that the diameter of pipe

⁴ Western Mason District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed May 15, 2024); Western Mason District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May 31, 2024).

⁵ Application at 1.

⁶ *Annual Report of Western Mason County Water District to the Public Service Commission for the year ending December 31, 2022* (2022 Annual Report) at 49.

⁷ 2022 Annual Report at 24-25.

⁸ Application at 11.

⁹ Western Mason District's Response to Staff's First Request, Item 1(c).

¹⁰ Application at 11.

for each section of the project was recommended by the project engineer at Bluegrass Engineering, PLLC after performing a hydraulic analysis of the distribution system.¹¹ Western Mason District considered using ductile iron, as an alternative to PVC but due to the cost of material and installation, the project engineer recommended PVC as the most economically feasible material for the system.¹²

Additionally, Western Mason District requested a CPCN to replace an above ground booster pump that is 25 years old and has previously been upgraded twice since its installation.¹³ Western Mason District stated its engineer performed a hydraulic analysis and found that replacing the booster pump is necessary after evaluating the current and future potable water demands and also found that upgrading the pump was cost prohibitive.¹⁴ Western Mason District currently has two booster pump stations that move water throughout the distribution system, however Western Mason District stated that only one pump station needs to be replaced.¹⁵

Western Mason District stated that the installation of the new above ground pump station will benefit approximately 50 percent of customers.¹⁶ The project engineer for Western Mason District noted that a below ground pump station was considered but due to OSHA regulations and confined space requirements, the above ground pump station

¹¹ Western Mason District's Response to Staff's First Request, Item 1(b).

¹² Western Mason District's Response to Staff's First Request, Item 1(a).

¹³ Western Mason District's Response to Staff's Second Request, Item 6.

¹⁴ Western Mason District's Response to Staff's Second Request, Item 6.

¹⁵ Western Mason District's Response to Staff's Second Request, Item 10.

¹⁶ Western Mason District's Response to Staff's First Request, Item 8.

was chosen.¹⁷ Western Mason District considered other locations for pump station but after review of the hydraulics, and in trying to provide the most cost-effective solution to its customer base, it was decided to use the selected site as it was already owned by Western Mason District and would not require the additional capital expenditure in purchasing additional property.¹⁸

Western Mason District solicited bids for replacement and installation of the water lines and above ground booster pump through publication.¹⁹ Two contactors tendered bids and upon reviewing the submitted bids, project engineer determined that B.P. Pipeline, LLC was qualified to perform the work, due to past experience with the company, references contacted and therefore recommended its bid of \$1,545,850 for the replacement and installation of the water lines and booster pump.²⁰

Western Mason District stated that the new booster pump will create a savings of approximately \$5,000 per year and these savings will be realized with a reduction in electrical and maintenance costs as the new pump station will utilize variable frequency drives which operate in a more efficient manner than the existing pump station.²¹ Western Mason District stated that the proposed pump station will operate for a period in excess of 20 years.²²

Meter Equipment

¹⁷ Western Mason District's Response to Staff's First Request, Item 4.

¹⁸ Western Mason District's Response to Staff's First Request, Item 5.

¹⁹ Western Mason District's Response to Staff's First Request, Item 31.

²⁰ Western Mason District's Response to Staff's First Request, Item 33, Exhibit 33.

²¹ Western Mason District's Response to Staff's Second Request, Item 12.

²² Western Mason District's Response to Staff's Second Request, Item 10.

Western Mason District requested a CPCN for the purchase and installation of 825 Master Meter Allegro 5/8" x 3/4" radio read meters into existing setters.²³ Western Mason District stated that it currently uses three AMR systems (Badger, Sensus, and Master Meters), however the proposed meters will eliminate the Badger and Sensus systems and integrate everything into one system, using only Master Meters,²⁴ reducing the amount of personnel time required to read the meters and allowing personnel to focus time on other needs of the system.²⁵ Additionally, Western Mason District anticipated the new meters would reduce water loss because new meters are able to more efficiently report water loss allowing leaks to be detected and repaired.²⁶ Western Mason District stated that no alternative meters were considered since approximately one-half of its customer meters are already using Master Meters²⁷ and replacing the existing meters with Master Meters would create a uniform meter system requiring no additional equipment, computers, or software as Western Mason District previously acquired all necessary equipment, computers and software in a prior project that was authorized pursuant to a CPCN granted in Case No. 2020-00198.²⁸

Western Mason District solicited bids for the water meters although only one bid was submitted.²⁹ Western Mason District stated that Ferguson Waterworks was the only

²³ Western Mason District's Response to Staff's First Request, Item 15.

²⁴ Western Mason District's Response to Staff's First Request, Item 13.

²⁵ Western Mason District's Response to Staff's Second Request, Item 5.

²⁶ Western Mason District's Response to Staff's First Request, Item 37.

²⁷ Western Mason District's Response to Staff's First Request, Item 17.

²⁸ Western Mason District's Response to Staff's First Request, Item 18.

²⁹ Western Mason District's Response to Staff's First Request, Item 35.

company located in Kentucky that provides the desired Master Meter, and the company was recommended by the project engineer after checking references and previous experience with Ferguson Waterworks.³⁰ Western Mason District's project engineer recommended accepting Ferguson Waterworks bid of \$522,729.25 for purchase and construction costs.³¹

Western Mason District's expense in reading the proposed meters is projected to be approximately \$10,000 per year³² whereas reading the existing meters costs approximately \$15,000 per year.³³ Western Mason District stated that it has two employees responsible for the distribution system and the amount of time saved by these employees in not having to repair wiring and transponders will significantly reduce the maintenance costs while also providing employees with more time to focus on other needs of the system.³⁴ Western Mason District stated that the proposed meters have an expected useful life of 20 years.³⁵

Financing

³⁰ Western Mason District's Response to Staff's First Request, Item 35.

³¹ Western Mason District's Response to Staff's First Request, Exhibit 33.

³² Western Mason District's Response to Staff's First Request, Item 23.

³³ Western Mason District's Response to Staff's First Request, Item 24.

³⁴ Western Mason District's Response to Staff's Second Request, Item 5.

³⁵ Western Mason District's Response to Staff's First Request, Item 22.

Western Mason District stated that the total capital cost of all projects is \$2,421,002.³⁶ The construction costs for all projects is \$1,948,979.³⁷ The non-construction costs for all projects is \$472,023 and includes engineering fees, legal fees cost of issuance of debt, appraisals easements, surveying, planning and contingencies.³⁸ Western Mason District stated that the potential loan is being issued pursuant to an Assistance Agreement between the Rural Water Financing Agency and Western Mason District through the Rural Water Financing Agency for a 30-year term for total amount up to \$2,307,551.80.³⁹ Additionally, Western Mason District has applied for Cleaner Water Grant funds in the amount of \$45,000; and anticipates a contribution from the District in the amount of \$76,002.⁴⁰ Western Mason District stated that the final loan terms will not be known until the Bonds that fund the loan are sold by the Rural Water Financing Agency.⁴¹

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

³⁶ Application, Exhibit D.

³⁷ Application, Exhibit D.

³⁸ Application, Exhibit D.

³⁹ Application, Exhibit C at 32.

⁴⁰ Application at 3.

⁴¹ Western Mason District's Response to Staff's First Request, Item 29.

until it has obtained a CPCN from the Commission.⁴² To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.⁴³

“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.⁴⁴

“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.”⁴⁵ 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.⁴⁶ Although cost is a factor, selection of a proposal that ultimately costs more than an

⁴² KRS 278.020(1). Although the statute exempts certain types of projects from the requirement to obtain a CPCN, the exemptions are not applicable.

⁴³ *Kentucky Utilities Co. v. Public Service Com’n*, 252 S.W.2d 885,890 (Ky. App. 1952).

⁴⁴ *Kentucky Utilities Co.*, 252 S.W.2d at 890.

⁴⁵ *Kentucky Utilities Co.*, 252 S.W.2d 885, 890.

⁴⁶ 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.⁴⁷ All relevant factors must be balanced.⁴⁸ 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.⁴⁹ KRS 278.300 only applies to notes that have a term of more than two years.⁵⁰

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 water lines Western Mason District is seeking to replace were installed in the late 1950’s to the early 1970’s and are well past the expected life and in poor condition. Therefore, Western Mason District has demonstrated a need for the replacement of the deteriorated and aged water lines.

⁴⁷ 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.

⁴⁸ Case No. 2005-00089, Aug. 19, 2005 Order at 6.

⁴⁹ KRS 278.300(1).

⁵⁰ KRS 278.300(8).

Additionally, the Commission finds that Western Mason District has demonstrated a need to replace the pump station after a hydraulic analysis was performed by the engineers determined that a new booster pump station would provide more efficiency in meeting current and future demands due to customer growth and repairing the 25-year-old pump station would be cost prohibitive. Finally, the Commission finds that Western Mason District has demonstrated a need for new meters based on the age and condition of the current meters and to allow for a uniform system using Master Meters.

Western Mason District also established that the projects will not result in wasteful duplication. With respect to the proposed water line replacement, Western Mason District has established the absence of wasteful duplication by demonstrating that it considered alternate piping to PVC. Regarding the proposed pump, Western Mason District considering repairing the existing station, which would be costly, and would not meet future reliability or capacity needs. Further, Western Mason District solicited competitive bids for the installation and replacement of the proposed water lines and booster pump and received two bids with the lowest bid being \$1,545,850 from B.P. Pipeline, LLC, and the project engineer recommended accepting the lowest bid, which Western Mason District intends to accept. Thus, the Commission finds that Western Mason District's proposed installation and replacement of the proposed water lines and booster pump will not result in wasteful duplication, and therefore finds that the CPCN should be granted.

Regarding the proposed water meter replacement project, Western Mason District took into consideration previous experience with the Master Meters, the importance of a uniform meter system that will not require additional equipment, computers or software. Western Mason District solicited bids for the project and though only one response was

received, the project engineer recommended accepting the bid. Thus, the Commission finds that Western Mason District's proposed meter replacement project will not result in wasteful duplication, and therefore finds that the CPCN for this 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 Western Mason 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 Commission finds that the financing for which Western Mason District requests approval is for a lawful object within the corporate purposes of Western Mason District's utility operations, is necessary and appropriate for and consistent with the proper performance of Western Mason District's service to the public, will not impair Western Mason 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.

IT IS THEREFORE ORDERED that:

1. Western Mason District is granted a CPCN to purchase and install water lines, above ground booster pump and to purchase and install approximately 825 radio read meters, as proposed in its application.
2. Western Mason 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. Western Mason 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. Western Mason District shall file 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. Western Mason District is authorized to issue the evidence 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. Western Mason District shall only execute the loan documents with Rural Water Financing Agency to the extent their terms and conditions are consistent with the loan described in its application, except as otherwise authorized herein.

9. Western Mason District shall file a copy of the loan documents with Rural Water Financing Agency 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 Western Mason 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.

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PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED
JUN 14 2024 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director *FOR*

*Paul Reynolds
Kentucky Engineering Group
PO Box 1034
Versailles, KENTUCKY 40383

*David French
Office Manager
Western Mason County Water District
2573 Mary Ingles Highway
P. O. Box 49
Dover, KY 41034-0049

*Western Mason County Water District
2573 Mary Ingles Highway
P. O. Box 49
Dover, KY 41034-0049

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