

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE FARMDALE)	
WATER DISTRICT FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY TO)	
CONSTRUCT A SYSTEM IMPROVEMENTS)	CASE NO.
PROJECT AND AN ORDER APPROVING A)	2024-00223
CHANGE IN RATES AND AUTHORIZING THE)	
ISSUANCE OF SECURITIES PURSUANT TO KRS)	
278.023)	

ORDER

On July 18, 2024, Farmdale Water District (Farmdale District) filed an 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 via a loan agreement with United States Department of Agriculture (USDA), Rural Development (RD) and approval of a rate increase as required by the RD loan.

Farmdale District is a water district organized under KRS Chapter 74 and provides retail water service to approximately 2,602 residential and 145 commercial customers.¹

This matter stands submitted 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;

¹ *Annual Report of Farmdale Water District to the Public Service Commission for the Calendar Year Ended December 31, 2022* (2022 Annual Report) at 49.

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

In order to combat high water loss, Farmdale District is seeking to replace or upgrade approximately 34,000 linear feet of asbestos cement (A.C.) line with PVC water

line along Old Lawrenceburg Road, Jones Lane, Ninevah Road, Mulholland Drive, Johnson Road, Lawrenceburg Road, US Highway 127, and Old Harrodsburg Road. Farmdale District provided an estimated breakdown of the project costs, as shown in the following table.²

Description	Amount
Development	\$ 1,936,075
Land and Rights	5,000
Legal and Administrative	20,000
Engineering Fees	253,000
Interest	30,000
Enviromental	10,000
Planning	10,000
Contingencies	193,925
Total Project Costs	<u>\$ 2,458,000</u>

Farmdale District proposes to finance the construction of the project through the proceeds of the issuance of \$2,458,000 of its Waterworks Revenue Bonds, Series 2024.³ The Waterworks Revenue Bonds, Series 2024 will have a 40-year maturity period at an interest rate not to exceed 2.375 percent per annum.⁴ Farmdale District has a commitment from USDA, RD to purchase the \$2,458,000 Waterworks Revenue Bonds, Series 2024 to secure the loan.⁵ The agreement with RD requires that Farmdale 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

² Application, Exhibit B, RD Letter of Conditions and Form RD 1940-1, paragraph 25 Project Costs.

³ Application, paragraph 5, and Exhibit B at 10.

⁴ Application, paragraph 5.

⁵ Application, paragraph 5.

as well as deposits to debt service and depreciation reserves.⁶ However, the new rates exceed Farmdale District's current rates. The increases in rates are as follows:⁷

Current Rate Structure				Proposed Rate Structure			
Meter Size		Current Rates		Meter Size		Proposed Rates	
<u>5/8" x 3/4" Meter</u>				<u>5/8" x 3/4" Meter</u>			
First	2,000 Gallons	\$ 19.69	Minimum Bill	First	2,000 Gallons	\$ 23.93	Minimum Bill
Next	8,000 Gallons	0.00734	Per Gallon	Next	3,000 Gallons	0.00866	Per Gallon
Next	140,000 Gallons	0.00654	Per Gallon	Next	5,000 Gallons	0.00767	Per Gallon
All Over	150,000 Gallons	0.00581	Per Gallon	All Over	10,000 Gallons	0.00668	Per Gallon
<u>1" Meter</u>				<u>1" Meter</u>			
First	5,000 Gallons	\$ 41.71	Minimum Bill	First	5,000 Gallons	\$ 49.90	Minimum Bill
Next	5,000 Gallons	0.00734	Per Gallon	Next	5000 Gallons	0.00866	Per Gallon
Next	140,000 Gallons	0.00654	Per Gallon	Next	140,000 Gallons	0.00767	Per Gallon
All Over	150,000 Gallons	0.00581	Per Gallon	All Over	150,000 Gallons	0.00668	Per Gallon
<u>4" Meter</u>				<u>4" Meter</u>			
First	50,000 Gallons	\$ 340.01	Minimum Bill	First	5,000 Gallons	\$ 400.01	Minimum Bill
Next	50,000 Gallons	0.00734	Per Gallon	Next	140,000 Gallons	0.00767	Per Gallon
Next	50,000 Gallons	0.00654	Per Gallon	All Over	150,000 Gallons	0.00668	Per Gallon
All Over	150,000 Gallons	0.00581	Per Gallon				

DISCUSSION AND FINDINGS

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

⁶ Application, Exhibit B paragraph 24, at 11.

⁷ Application, Exhibit E.

Description / Year	Audited 2019	Audited 2020	Audited 2021	Audited 2022	Audited 2023	Impact	Pro Forma 2023
<i>Adjusted Net Income</i>							
Net Income / (Loss)	\$ (141,308)	\$ (262,139)	\$ (30,642)	\$ (197,452)	\$ (42,192)	\$ 207,887	\$ 165,695
Water Loss Surcharge ()	0	(29,194)	(91,057)	(91,998)	(92,369)		(92,369)
Adjust for Non-Recurring Items	0	0	0	(111,591)	(139,992)		(139,992)
Non-Cash Pension and OPEB Expense / (Income)	(15,004)	16,199	3,724	(11,504)	(24,276)		(24,276)
Adjusted Net Income / (Loss) before Contributions	\$ (156,312)	\$ (275,134)	\$ (117,975)	\$ (412,545)	\$ (298,829)	\$ 207,887	\$ (90,942)
Subtract: Principal Payments ()	(24,500)	(25,500)	(26,500)	(28,500)	(28,000)	(95,867)	(123,867)
Rate Based Income	\$ (180,812)	\$ (300,634)	\$ (144,475)	\$ (441,045)	\$ (326,829)	\$ 112,020	\$ (214,809)
Add: Depreciation Expense	220,049	224,818	223,227	228,056	208,054	39,328	247,382
Cash Basis Income	\$ 39,237	\$ (75,816)	\$ 78,752	\$ (212,989)	\$ (118,775)	\$ 151,348	\$ 32,573
Sewer Billing and Collection Fees Included in Income	\$ 72,001	\$ 73,134	\$ 73,713	\$ 74,331	\$ 79,075		
<i>Cash and Investments</i>							
Unrestricted Cash and Investments	\$ 786,596	\$ 561,883	\$ 493,972	\$ 356,823	\$ 245,141		
Restricted Funds	180,100	214,014	142,405	141,663	145,365		
Adjusted Cash Balances	966,696	775,897	636,377	498,486	390,506		
Net Increase (Decrease) in Cash	\$ (208,407)	\$ (190,799)	\$ (139,520)	\$ (137,891)	\$ (107,980)		
<i>Selected Statistical Information (PSC Annual Reports)</i>							
Customer Count	2,666	2,728	2,730	2,747	2,763		
Gallons Purchased	218,661	229,143	233,603	249,535	265,039		
Gallons Sold	150,229	145,174	140,728	138,834	152,519		
Gallons Used for Internal Use	1,591	537	2,423	2,502	689		
Water Loss Gallons	66,841	83,432	90,452	108,199	111,831		
System Use Percentage	0.73%	0.23%	1.04%	1.00%	0.26%		
Water Loss Percentage	30.5683%	36.4105%	38.7204%	43.3603%	42.1942%		

Farmdale District's last rate increase pursuant to the alternative rate filing procedure was in Case No. 2020-00021.⁸ In its review of Farmdale District's financial condition for the past five years, the Commission determined that rate-based income (adjusted net income minus principal payments) was negative each year. In addition, Farmdale District's cash basis income (rate-based income plus depreciation) was negative for calendar years 2020, 2022, and 2023.

Pursuant to the results of the financial analysis performed in this proceeding, the Commission finds that Farmdale District should be ordered to file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076 by July 31, 2026, to ensure its revenue is sufficient to support adequate and reliable service.

⁸ Case No. 2020-00021, *Electronic Alternative Rate Adjustment Filing of Farmdale Water District* (Ky. PSC July 7, 2020).

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

IT IS THEREFORE ORDERED that:

1. Farmdale District is granted a CPCN for the proposed project as submitted.
2. Farmdale District's proposed plan of financing is approved.
3. Farmdale District is authorized to execute the RD Loan as provided.
4. Farmdale District is authorized to enter into a loan in the amount of \$2,458,000 with RD, maturing over a period of 40 years and with an interest rate not to exceed 2.375 percent per annum.
5. Farmdale 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. Farmdale District shall charge rates, set forth in the Appendix attached to this Order.
7. Pursuant to the notice provided, the rates set forth in the Appendix to this Order shall not be effective until August 30, 2024, for services rendered on that date or after.
8. Within 20 days of the date of service of this Order, Farmdale 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.

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

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

11. Farmdale 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.

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

13. Farmdale 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.

14. Any documents filed in the future pursuant to ordering paragraphs 11 and 12 of this Order shall reference this case number and shall be retained in Farmdale District's post-case correspondence file.

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

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

17. Farmdale District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or a formal motion with a detailed analysis of its rates and revenues and a statement explaining the reasons why no rate modifications are necessary on or before July 31, 2026.

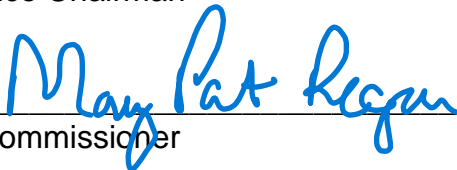
18. The rate adjustment filed by Farmdale District on or before July 31, 2026, shall be based upon Farmdale District's 2025 financial data and 2025 Annual Report.

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

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman


Commissioner

ENTERED
AUG 15 2024
rCS
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00223 DATED AUG 15 2024

The following rates and charges are prescribed for the customers in the area service by Farmdale Water District on or after August 30, 2024. 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	\$23.93	Minimum Bill
Next	3,000 Gallons	0.00866	Per Gallon
Next	5,000 Gallons	0.00767	Per Gallon
Over	10,000 Gallons	0.00668	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$49.90	Minimum Bill
Next	5,000 Gallons	0.00866	Per Gallon
Next	140,000 Gallons	0.00767	Per Gallon
Over	150,000 Gallons	0.00668	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$400.01	Minimum Bill
Next	100,000 Gallons	0.00767	Per Gallon
Over	150,000 Gallons	0.00668	Per Gallon

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