

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
COLUMBIA/ADAIR UTILITIES DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	CASE NO.
NECESSITY FOR A SYSTEM IMPROVEMENTS)	2024-00250
PROJECT AND AN ORDER AUTHORIZING THE)	
ISSUANCE OF SECURITIES PURSUANT TO)	
KRS 278.300)	

ORDER

On August 16, 2024,¹ Columbia/Adair Utilities District (Columbia/Adair District) filed an application, pursuant to KRS 278.020 and KRS 278.300, requesting a Certificate of Public Convenience and Necessity (CPCN) to improve the water treatment plant, rehabilitate six² distribution system storage tanks, and extend water lines to an area currently not served.³ Columbia/Adair District stated it would fund the project using loans from Kentucky Infrastructure Authority (KIA) Federally Assisted Drinking Water Revolving Loan Fund.⁴ No party requested intervention in this proceeding. Columbia/Adair District responded to one request for information.⁵

¹ Columbia/Adair District tendered its application on August 8, 2024. By letter dated August 12, 2024, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on August 16, 2024.

² There were discrepancies in the application with regard to the number of tanks to be rehabilitated. However, Staff did clarify the issue as a part of a request for information.

³ The application referred to the area as unserved; however, Columbia/Adair District clarified that the area was served in response to a subsequent request for information.

⁴ Application at 3.

⁵ Columbia/Adair District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Sept. 25, 2024).

Columbia/Adair District is a water and sewer district organized pursuant to KRS Chapter 74; and provides retail water service to approximately 8,089 residential customers and 430 commercial customers and provides retail sewer service to 1,542 residential services and 231 commercial customers.⁶

This matter stands submitted for decision.

BACKGROUND

Water Treatment Plant Improvements

Columbia/Adair District requested a CPCN to improve its water treatment plant. As part of this plan, Columbia/Adair District stated it plans to update the sludge dewatering equipment, which includes sludge pumps and polymer feed system; install plate settlers and a sludge removal system to the sedimentation basis; and convert the disinfection system from chlorine gas to sodium hypochlorite. Columbia/Adair District received one bid for this project.⁷ Columbia/Adair District stated that the initiatives are necessary to improve operation efficiencies resulting in better water quality, and that the conversion from chlorine gas to sodium hypochlorite would be safer for the plant personnel and the surrounding area.⁸

Columbia/Adair District asserted that the polymer feed system associated with the sludge dewatering equipment is utilized to bind microscopic solids that float through

⁶ *Annual Report of Columbia/Adair Utilities District (Water Division) to the Public Service Commission for the Year Ending December 3, 2023* (2023 Annual Water Report) at 49 and *Annual Report of Columbia/Adair Utilities District (Sewer Division) to the Public Service Commission for the Year Ending December 3, 2023* (2023 Annual Sewer Report) at 25.

⁷ Application at 11.

⁸ Application at 11.

sludge and create larger units that are easier to separate water.⁹ Columbia/Adair District alleged that the existing tube settlers are very brittle, which causes them to break. The project includes replacement of the tube settlers with plate settlers, which have a longer life expectancy, lower maintenance requirements, and are more efficient.¹⁰ Additionally, according to the application, the current sludge removal system in the sedimentation basins requires operators to shut down the basins and manually wash out the solids. The new system will automatically remove solids on a daily timer.¹¹

As part of the water treatment improvement plan, Columbia/Adair District intends to convert the chlorine gas disinfection system to an onsite hypochlorite system. Columbia/Adair District stated the onsite hypochlorite system will be safer and more cost efficient compared to using chlorine gas.¹²

Rehabilitate Distribution System Storage Tanks

Columbia/Adair District requested a CPCN to rehabilitate elevated distribution system storage tanks and install mixing systems. Columbia/Adair District asserted that the following tanks would be rehabilitated: Caldwell Ridge, Shepherd, Industrial Park, and Sparksville.¹³ Columbia/Adair District received two bids for the construction project and

⁹ Columbia/Adair District's Response to Staff's First Request, Item 1.

¹⁰ Columbia/Adair District's Response to Staff's First Request, Item 1.

¹¹ Columbia/Adair District's Response to Staff's First Request, Item 1.

¹² Columbia/Adair District's Response to Staff's First Request, Item 1.

¹³ Application at 117 and Columbia/Adair District's Response to Staff's First Request, Item 5.

accepted the lowest bid.¹⁴ Columbia/Adair District stated that the tank renovations would result in improved water quality as it travels through the distribution systems.¹⁵

Furthermore, Columbia/Adair District stated that the four tanks listed above are experiencing corrosion and required repairs.¹⁶ Currently, the remaining useful lives of each of the tanks are: Caldwell Ridge: 0-2 years, Shepherd: 1-5 years, Industrial Park: 1-5 years, Sparksville: 1-5 years.¹⁷ According to Columbia/Adair District the rehabilitation project, as proposed, would extend each of the useful lives to 15-20 years. Columbia/Adair District asserted that the only alternative to rehabilitating the tanks would be to demolish the tanks and construct new ones.¹⁸ Columbia/Adair District received five bids for this project and accepted the lowest bid.¹⁹

Extending Water Lines

Columbia/Adair District requested a CPCN to extend water lines along Bull Run Road and, if funding permitted, along Damron Creek Road.²⁰ The plan consists of constructing approximately 4,550 linear feet (LF) of 4-inch Polyvinyl Chloride (PVC) water mains along Bull Run Road (KY 1323).²¹

¹⁴ Application at 116.

¹⁵ Application at 11.

¹⁶ Columbia/Adair District's Response to Staff's First Request, Item 4a.

¹⁷ Columbia/Adair District's Response to Staff's First Request, Item 4d.

¹⁸ Columbia/Adair District's Response to Staff's First Request, Item 4c.

¹⁹ Application at 13–14.

²⁰ Columbia/Adair District's Response to Staff's First Request, Item 3. In its response to Staff's First Request, Columbia/Adair District stated "Damron Creek Road became less of a priority when it was discovered Russell Springs Water and Sewer Works was not funded for extending the water main on their side of the county line nor did it end where previously thought."

²¹ Columbia/Adair District's Response to Staff's First Request, Item 2a.

Columbia/Adair District originally stated that this area currently did not have water service, and that the water lines would be constructed within the road's right of way.²² However, in response to Staff's First Request, Columbia/Adair District stated that there are three existing customers along the route that would receive a new service connection, eliminating the long existing water lines and dead-end water main.²³ Columbia/Adair District considered other alternatives to PVC piping, such as ductile iron pipe and high density polyethylene (HDPE).²⁴ After the pressures were evaluated, the district determined that those alternatives were cost prohibitive, except for the directional bores beneath water ways.²⁵

Financing

Columbia/Adair District stated the total cost of all projects was an estimated \$5,577,650.²⁶ The construction cost for the projects was estimated at \$4,619,850.²⁷ The non-construction costs for all projects was an estimated \$957,800 and included planning, design, engineering, administrative, legal, and contingency fees.²⁸ The cost breakdown is shown in the chart below. Columbia/Adair District is able to receive principal

²² Application at 11.

²³ Applicants need to be clearer when describing projects on future applications and filings.

²⁴ Columbia/Adair District's Response to Staff's First Request, Item 4c.

²⁵ Columbia/Adair District's Response to Staff's First Request, Item 4c.

²⁶ Application, Project Cost and Funding at 11.

²⁷ Application, Project Budget at 68.

²⁸ Application, Project Budget at 68.

forgiveness in the amount of \$3,629,468 resulting in a net loan amount of \$1,948,182 at 1.25 percent for 20 years.²⁹

Description	Amount
<i>Construction</i>	
Water Treatment Plant Upgrades	\$ 3,846,000
Storage Tank Rehab	237,900
Line Extension to Eliminate Dead End	535,950
Sub-total	<u>4,619,850</u>
<i>Other Costs</i>	
Planning, Design, and Engineering	522,000
Administrative	25,000
Legal	5,000
Contingency	405,800
Sub-total	<u>957,800</u>
Total	<u>\$ 5,577,650</u>

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 until it has obtained a CPCN from the Commission.³⁰ To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.³¹

“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 of facility to be constructed or operated. [T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what

²⁹ Application, Project Cost and Funding at 11.

³⁰ KRS 278.020(1). Although the statute exempts certain types of projects from the requirement to obtain a CPCN, the exemptions are not applicable.

³¹ *Kentucky Utilities Co. v. Public Service Com’n*, 252 S.W.2d 885, 890 (Ky. App. 1952).

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.³²

“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.”³³ 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.³⁴ Although cost is a factor, selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.³⁵ All relevant factors must be balanced.³⁶

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.”³⁷ KRS 278.300 only applies to notes that have a term of more than two years.³⁸

³² *Kentucky Utilities Co.*, 252 S.W.2d 885, 890 (1952).

³³ *Kentucky Utilities Co.*, 252 S.W.2d 885, 890 (1952).

³⁴ 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.

³⁵ 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.

³⁶ Case No. 2005-00089, Aug. 19, 2005 Order at 6.

³⁷ KRS 278.300(1).

³⁸ KRS 278.300(8).

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 evidence in the record, the Commission finds that a CPCN should be granted for all of the projects. As noted above, the improvements to the water treatment facility are needed as the current chlorine gas system proposes safety concerns to facility staff and replacing the tube settlers with plate settlers will reduce maintenance issues while improving efficiency. Additionally, the Commission finds that Columbia/Adair District has demonstrated the need to rehabilitate four tanks, as those tanks are experiencing corrosion and are nearing the end of their useful lives. Lastly, the Commission finds that Columbia/Adair District has demonstrated the need to extend existing water lines along Bull Road Run to eliminate a dead-end water main. This new service connection will eliminate existing long service lines and the need for the district to flush the lines as frequently where the dead-end currently exists.

The Commission finds that Columbia/Adair District has also established that the projects will not result in wasteful duplication. With respect to the treatment facility improvements, the Commission finds that Columbia/Adair District provided sufficient evidence that tube settlers were breaking and needed to be replaced with plate settlers,

which are much more durable and higher in treatment efficiency. Columbia/Adair District stated it considered two alternatives to the onsite hypochlorite system, which were chlorine gas and bulk hypochlorite.³⁹ Columbia/Adair District asserted that those alternatives were not selected because gas chlorination involves transportation, handling, and storage of chlorine gas, which poses safety concerns and additional federal Environmental Protection Agency standards.⁴⁰ Bulk hypochlorite storage also poses signification risk and can vary depending on the manufacturer.⁴¹ Therefore, the Commission finds that Columbia/Adair District proposed improvements to the treatment facility will not result in wasteful duplication.

The Commission finds that Columbia/Adair District provided sufficient evidence that the tanks were reaching the end of their expected useful lives. By repairing them, each tank would expect to function for another 15-20 years. The only alternative to rehabilitating the storage tank was to demolish the tanks and replace each unit. The Commission agrees with Columbia/Adair District that, in this case, that option is not cost effective or practical. Therefore, the Commission finds that Columbia/Adair District's proposed tank rehabilitation project will not result in wasteful duplication.

Regarding the water line extension project, Columbia/Adair District provided evidence that the current customers on Bull Run Road are serviced through a dead-end water main line. The Commission finds that, by eliminating the dead-end water line, Columbia/Adair District will shorten the existing service lines and reduce the need to flush

³⁹ Columbia/Adair District's Response to Staff's First Request, Item 1.

⁴⁰ Columbia/Adair District's Response to Staff's First Request, Item 1.

⁴¹ Columbia/Adair District's Response to Staff's First Request, Item 1.

these lines. Columbia/Adair District considered materials other than PVC piping, but found that, due to the evaluated pressures, PVC piping was the most cost efficient.⁴² The Commission finds that extending the water lines on Bull Run Road will not result in wasteful duplication. In addition, the Commission notes that for each project, if the district received more than one bid, the district accepted the lowest cost bid.

The Commission finds that the requested financing is necessary for the completion of the projects discussed above and will not impair Columbia/Adair 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 Columbia/Adair District requested approval is for a lawful object within the corporate purpose of Columbia/Adair District's utility operations. Further, the project and associated financing are necessary, appropriate for, and consistent with the proper performance of Columbia/Adair District's service to the public. Therefore, the Commission finds that approval of the financing should be granted.

However, the Commission has examined the finances of Columbia/Adair District based on the most recent five years of annual reports and believes that the district should 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 in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary by August 31, 2026, based on a test year of 2025. The timing of this filing will coincide with approximately one year

⁴² Columbia/Adair District's Response to Staff's First Request, Item 2.

of the project in service and should more accurately reflect the financial conditions of the utility.

IT IS THEREFORE ORDERED that:

1. Columbia/Adair District is granted a CPCN for the proposed projects, as submitted.
2. Columbia/Adair District's proposed plan of financing is approved.
3. Columbia/Adair District is authorized to enter into a loan in the amount of \$5,577,650 with KIA, maturing over a period of 20 years and with an interest rate not to exceed 1.25 percent with a principal forgiveness not to exceed \$3,629,468.
4. The proceeds of the loans shall be used only for the purposes specified in Columbia/Adair District's application.
5. Columbia/Adair District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
6. Columbia/Adair 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.
7. Columbia/Adair District shall immediately notify the Commission upon knowledge of any material changes to the projects, including but not limited to an increase in cost and any significant delays.

8. Columbia/Adair District shall only execute the loan documents with KIA to the extend the terms and conditions are consistent with the loan described in its application except as otherwise authorized herein.

9. Columbia/Adair District shall file a copy of the loan documents executed with KIA in this matter within ten days of execution.

10. Any documents filed in the future pursuant to ordering paragraphs 5-9 of this Order shall reference this case number and shall be retained in Columbia/Adair District's post-case correspondence file.

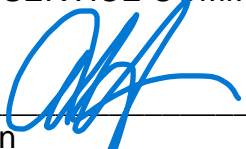
11. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Columbia/Adair District's showing of good cause for such extension.

12. 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.

13. Columbia/Adair District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or, in the alternative, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary by August 31, 2026, based on a test year of 2025.

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

PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ENTERED
OCT 17 2024 AH
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



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