

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
CANNONSBURG WATER DISTRICT FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	CASE NO.
NECESSITY AND FINANCING OF THE SHOPES)	2025-00020
CREEK ROAD AREA WATER SYSTEM)	
IMPROVEMENTS PROJECT)	

ORDER

On May 6, 2025, Cannonsburg Water District (Cannonsburg District) filed an application pursuant to KRS 278.020, KRS 278.300, and 807 KAR 5:001, requesting a Certificate of Public Convenience and Necessity (CPCN) to replace aging lines and a pump station in the Shopes Creek Road Area of its service territory; and for approval of its plan to finance the proposed project via a combination of grants, loans, and surcharge funding as further described below. There are no intervenors in this matter. Cannonsburg District responded to one request for information on May 28, 2025.¹ On May 30, 2025, Cannonsburg District filed a motion for decision on the record. This matter stands submitted for decision by the Commission.

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

¹ Cannonsburg District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed May 28, 2025).

until it has obtained a CPCN from this Commission.² To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.³

“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.⁴

“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.”⁵ 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.⁶ Although cost is a factor, selection of a proposal that ultimately costs more than an

² KRS 278.020(1). Although the statute exempts certain types of projects from the requirement to obtain a CPCN, the exemptions are not applicable.

³ *Kentucky Utilities Co. v. Public Service Commission*, 252 S.W.2d 885 (Ky. 1952).

⁴ *Kentucky Utilities Co.*, 252 S.W.2d at 890.

⁵ *Kentucky Utilities Co.*, 252 S.W.2d at 890.

⁶ 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.⁷ All relevant factors must be balanced.⁸

For financing, 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 evidences of indebtedness of any other person.”⁹ KRS 278.300 only applies to notes that have a term of more than two years.¹⁰ KRS 278.300(3) sets forth Commission considerations 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.

PROJECT DESCRIPTION

Cannonsburg District is a water district organized under KRS Chapter 74 and provides retail water service to approximately 3,517 residential customers, 279

⁷ See *Kentucky Utilities Co. v. Public Service Commission*, 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), final Order.

⁸ Case No. 2005-00089, Aug. 19, 2005 final Order at 6.

⁹ KRS 278.300.

¹⁰ Case No. 2005-00089, Aug. 19, 2005 final Order at 6; KRS 278.300(8), exception to general provisions of KRS 278.300.

commercial customers, and two industrial customers.¹¹ As part of the proposed Project, Cannonsburg District plans to replace 1970s era water mains and service connections along Midland Trail Road, Shopes Creek Road, Edgewood Drive, Whispering Oaks Drive, and Bayless Hill Road, as well as the Midland Trail Road Pump Station in Boyd County, Kentucky.¹² Cannonsburg District proposed to replace approximately 17,000 linear feet of waterline and replace approximately 180 service lines.¹³ The total amount is comprised of 12,600 linear feet of 8-inch asbestos cement (AC) water line, approximately 2,800 linear feet of old 3-inch polyvinyl chloride (PVC) water line, and approximately 2,000 linear feet of 12-inch water line composed of a combination of AC pipe and cast-iron pipe.¹⁴ As part of the project, Cannonsburg District plans to install two new flow monitor meters, one at Shopes Creek Road and one at the new Midland Trail Road Pump Station.¹⁵ The Project also includes construction of a new pump station, adjacent to the existing Midland Trail Pump Station, to house an above-ground 1,000 gallon per minute 300 Total Dynamic Head (“1,000 gmp/300 TDH”) pump system and demolish the existing pump station.¹⁶

In terms of need for the Project, Cannonsburg District stated that, over time, the aging AC water mains in the Shopes Creek Road area have deteriorated and resulted in

¹¹ *Annual Report of Cannonsburg District to the Public Service Commission for the Calendar Year Ended December 31, 2024* (2024 Annual Report), provided in Cannonsburg District’s application at PDF page 209.

¹² Application, Exhibit 5, the Direct Testimony of Tim Webb, General Manager (Webb Direct Testimony) at 2-3.

¹³ Application at 5–6.

¹⁴ Application at 6.

¹⁵ Application at 6.

¹⁶ Application at 6.

leaks needing repair.¹⁷ Cannonsburg District further explained that the pipe in the project area was installed in the very early 1970s, meaning that the pipe has reached the end of its useful life.¹⁸ After installing zone meters in 2021, Cannonsburg District estimated that it is losing 200-300 gallons of water per hour in the Shopes Creek Road area on a continuing basis.¹⁹ Cannonsburg District argued that the only way to effectively address the water loss is to replace the lines.

Additionally, Cannonsburg District stated that the service tap saddles used at the time the current service lines were installed are not made of rust-resistant material and are susceptible to corrosion.²⁰ Furthermore, since the Project involves replacing the AC pipe, Cannonsburg District will also eliminate hazards associated with asbestos in future repairs that would likely occur if the AC lines were to remain in service. Maintenance and repair of the AC pipe is more labor-intensive and dangerous to Cannonsburg District's personnel than maintaining the PVC pipe.²¹

Cannonsburg District stated it needed the to replace the pump station on Midland Trail Road as the pump station is at the end of its useful life, is over 50 years old, has completely depreciated, and has no current book value.²² Cannonsburg District explained that the alternating pump system is a vital component of its distribution system

¹⁷ Application at 7.

¹⁸ Application at 7.

¹⁹ Application at 2.

²⁰ Application at 7.

²¹ Application at 11.

²² Cannonsburg District's response to Staff's First Request, Item 5.

and supplies approximately 90 percent of all water delivered to Cannonsburg District.²³ The variable frequency drive of the pump system is in almost constant need of repair, and although it has been rebuilt twice in the last ten years, it only pumps 800 gallons per minute..²⁴ The small building that houses the pump system is also dilapidated.²⁵

The management of Cannonsburg District identified pump station rehabilitation and water main replacement as two of the top five priorities to be addressed in capital spending projects designed to address water loss.²⁶ Cannonsburg District stated that it is hopeful that this project will bring its total water loss to under 10 percent.²⁷ Cannonsburg District provided the following statistics from the Shopes Creek Road area:

<u>Shopes Creek Road Area Water Loss in 2024</u>	
<u>Description</u>	<u>Amount in Gallons</u>
Lost Due to Line Breaks	438,000
Lost Due to Line Leaks	3,504,000
Total	<u>3,942,000</u>

Cannonsburg District estimated that the project area accounts for four large mainline breaks and 10 service breaks per year.²⁸ Records indicate that from January 2022 through December 2024, Cannonsburg District repaired 60 leaks in the project area.²⁹

²³ Application at 8.

²⁴ Application at 9.

²⁵ Application at 9.

²⁶ Application at 9.

²⁷ Cannonsburg District's response to Staff's First Request, Item 4.

²⁸ Application at 8.

²⁹ Application at 8.

Cannonsburg District also stated that the Project will create a looped main connecting the Shopes Creek Road area main with the Cannonsburg Road main, which will reduce the amount of flushing required.³⁰

Cannonsburg District stated that the proposed Project will not result in wasteful duplication and presented two alternatives which were considered. For the first alternative, Cannonsburg District considered installing 4-inch line throughout the project area.³¹ Cannonsburg District explained that the district's hydraulic model indicated that 4-inch lines were sufficient to serve the demand in the area, however, the fire department expressed concerns that 4-inch lines would not be sufficient to provide adequate fire protection in the area.³² Cannonsburg District also received calls from customers who were concerned about the risk of property loss due to fire if water lines were to be downsized.³³ This option would have been 15 percent cheaper, but Cannonsburg District elected to install 6-inch mains to ensure adequate infrastructure for the fire department.³⁴

For the second alternative, Cannonsburg District considered using directional drilling for the entire project and not utilizing the traditional trenching method.³⁵ Cannonsburg District explained that there is much less need to repair the site after construction when directional drilling is used. Directional drilling also requires much less traffic control when constructing near roadways and can result in projects being finished

³⁰ Application at 11.

³¹ Application at 12.

³² Application at 12.

³³ Application, Webb Direct Testimony at 7.

³⁴ Application at 12–13.

³⁵ Application at 13.

in less time than when traditional trenching methods are used.³⁶ Cannonsburg District argued that the bids to construct the Project using 100 percent directional drilling were cost prohibitive.³⁷ The lowest bid to construct the Project using 100 percent directional drilling was over \$240,000 more than the lowest bid to construct the Project utilizing a combination of traditional trenching methods and use directional drilling, only where absolutely necessary.³⁸

Cannonsburg District provided the Bell Engineering report, which stated that the lowest bid was submitted by Conhurst LLC of Wellingford, Kentucky (Conhurst). See the chart below for the other bidding options³⁹:

Bidder Rank	Bidder Name	Bid Amount	Difference Above Low
1	Conhurst LLC	\$ 3,181,692 *	N/A
2	B.P. Pipeline LLC	\$ 3,262,112	\$ 80,420
3	Southern Ohio Trenching & Excavating	\$ 6,043,387	\$ 2,861,695
Engineer's Opinion of Probably Construction Cost		\$ 2,648,478	\$ (533,214)

* Corrected Math Error

Cannonsburg District explained that the engineer who designed the project checked the references of the chosen company and found the references to be satisfactory.⁴⁰

³⁶ Application at 13.

³⁷ Application at 13.

³⁸ Application at 13.

³⁹ Application, Exhibit 6 at 2.

⁴⁰ Cannonsburg District's response to Staff's First Request, Item 7.

Financing

Cannonsburg District stated the total expected cost of the project was \$3,981,000, shown in the table below:⁴¹

Description	Amount
Administrative Expenses	\$ 40,000
Legal Expenses	50,000
Land, Appraisals, Easements	20,000
Relocation Expense & Payments	-
Planning	-
Engineering Fees	
Design	160,000
Bidding	23,000
Construction Administration	46,000
Inspection	126,000
Other	15,000
Construction	3,182,000
Equipment	-
Contingencies	319,000
Other Items	-
Total Project Cost	<u><u>\$ 3,981,000</u></u>

The construction cost was \$3,182,000 based on the bid provided by Conhurst.⁴² The non-construction cost was an estimated \$480,000 and included administrative, design, engineering, and legal fees, as well as easement costs, excluding contingency fees.⁴³

Cannonsburg District anticipates funding the Project using a combination of two grants from the Cleaner Water Program (CWP), a loan from the Kentucky Infrastructure Authority (KIA), and deriving the remaining funds from Cannonsburg District's Water loss

⁴¹ Application, Webb Direct Testimony at 9.

⁴² Application, Exhibit 6 at 2.

⁴³ Application, Exhibit 14.

Reduction Surcharge (surcharge funds).⁴⁴ Cannonsburg District has secured \$540,517 from CWP Grant 21CWW014 and \$656,599 from CWP Grant 22CWW103.⁴⁵ A State Revolving Fund loan (KIA Loan) was originally approved by KIA in the amount of \$1,685,083, but the loan amount was increased by \$619,180 due to bids for the Project being higher than expected.⁴⁶ Cannonsburg District requested approval from the Commission to execute an Assistance Agreement with KIA for the KIA Loan, in the increased amount of \$2,304,263, which is expected to have a 20-year term with a 2.0 percent interest rate and 0.25 percent annual administration fee to fund the project.⁴⁷

In addition to grant and loan funds, Cannonsburg District proposed to use all remaining water loss surcharge funds, initially established in Case No. 2014-00267,⁴⁸ in the approximate amount of \$484,196 to fund the project.⁴⁹ In Case No. 2018-00376, the Commission approved a \$4.00 per meter monthly surcharge for Cannonsburg District for a period of 48 months or until \$680,000 had been assessed, whichever occurred first, to provide funding for unaccounted-for water loss reduction efforts.⁵⁰ As of July 1, 2023, Cannonsburg District had collected all of the surcharge funds it was authorized to collect

⁴⁴ Application at 14,

⁴⁵ Application at 14.

⁴⁶ Application at 14.

⁴⁷ Application at 14–15.

⁴⁸ See Case No. 2014-00267, *Cannonsburg Water District's Unaccounted-for Water Loss Reduction Plan, Surcharge and Monitoring*.

⁴⁹ Application at 14. This amount does not reflect the amount in the account as of the date of this Order.

⁵⁰ Case No. 2018-00376, *Application of Cannonsburg Water District for Rate Adjustment Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC May 13, 2019), Order at 10.

and ceased billing its customers for the surcharge.⁵¹ Cannonsburg District stated it has approximately \$484,196 in remaining surcharge funds, which it requested to use to partially fund the Project.⁵²

Cannonsburg District stated it intends to finance the Project using a combination of grants, loans, and surcharge funds.⁵³ A breakdown of each financing component is shown in the table below.

Description	Amount
CWP Grants	
21CWW014	\$ 540,517
22CWW103	656,599
KIA Loan (F22-030)	2,304,263
Surcharge Funds	484,196
Total Project Funding	<u>\$ 3,985,575</u>

Rates

Cannonsburg District did not propose a rate increase as part of this request.⁵⁴ The Project is expected to have the following impact on Cannonsburg District's Revenue Requirement based on the proposed budget and financing.

⁵¹ Application at 4.

⁵² Application at 5.

⁵³ Application at 9; Cannonsburg District's response to Staff's First Request, Item 13.

⁵⁴ Application at 18.

Description	Amount
Water Purchase Savings ()	\$ (14,349)
Incremental Operating Expense	\$ 18,890
Depreciation	\$ 79,905
Debt Service	\$ 143,498
Working Capital (20% of Debt Service)	\$ 28,700
Increased Revenue Requirement	<u>\$ 256,644</u>
Revenue Requirement from Rates (2024-00155)	<u>\$ 3,236,263</u>
Incremental Expenses as a Percent of 2024-00155 Revenue Requirement	<u>7.93%</u>
Gallons Sold (2023 Annual Report)	311,670
Incremental Cost per thousand gallons	\$ 0.82
Cost per 4,000 gallons	\$ 3.29

DISCUSSION AND FINDINGS

Having considered the record and being otherwise sufficiently advised, the Commission finds that the CPCN should be granted.

The Project will adequately address the replacement of water lines, some of the oldest in the system, that have reached the end of their useful life. The Project will also address water loss issues and may bring the total water loss below 10 percent. As previously explained, the Project also involves replacing pipes made of either asbestos cement (AC) or polyvinyl chloride (PVC) in an area that has experienced over 60 leaks since 2022.⁵⁵ Cannonsburg District estimated losing 200-300 gallons of water per hour in the Shopes Creek Road area on an ongoing basis. Additionally, the Midland Trial Road Pump Station has reached the end of its useful life, and the utility stated it is in constant

⁵⁵ Application at 8.

need of repair.⁵⁶ Therefore, the Commission finds that Cannonsburg District has demonstrated a sufficient need, as the issues concerning water loss as well as the pipes and pump station reaching the end of their useful life show a substantial inadequacy in existing service.

Furthermore, Cannonsburg District established that the project will not result in wasteful duplication. Along with the proposed Project, Cannonsburg District presented two alternatives. Although the use of 4-inch lines in the first alternative was cheaper, the Commission finds the explanation that the fire department was concerned about 4-inch lines providing adequate fire protection to the area valid. The second alternative considered constructing the entire project using directional drilling but would have been much more expensive than the selected project using a traditional trenching method as well as directional drilling in some areas. Furthermore, constructing a new pump station and demolishing the old station once constructed are not wasteful duplication as keeping the pump station in service is not a valid alternative since it is in constant need for repair, is at the end of its useful life, and has no current book value. Cannonsburg District also bid out the project and selected the lowest bid amount of \$3,181,691.65. Therefore, the Commission finds that the Project will not result in wasteful duplication.

The Commission further finds that the requested financing, including the KIA loan secured through the execution of an assistance agreement with KIA for an amount not to exceed \$2,304,263, is necessary to complete the projects discussed above and will not impair Cannonsburg District's ability to provide reliable service. As noted above, the Commission finds that the projects at issue are necessary and will not result in wasteful

⁵⁶ Application at 9.

duplication. Further, the Commission finds that the financing requests are for the lawful purpose of providing safe, adequate, and reliable service to the public. The financing will enable Cannonsburg District to construct the proposed project, which, as discussed above, is necessary to provide water service consistent with the lawful purpose of replacing service lines and reducing water loss. According to Cannonsburg District, the Project is not anticipated to cause outages related to the construction and demolition of the old pump service, and the service interruptions for line replacement will be limited to 15–30 minutes.⁵⁷

Cannonsburg District stated the proposed loan will not require it to seek an immediate rate adjustment.⁵⁸ Cannonsburg District's finances are not expected to materially change as a result of the Project and accompanying financing. Cannonsburg District was also recently approved for an increase in rates pursuant to the alternative rate filing procedure in Case No. 2024-00155,⁵⁹ in which it was granted an increase of \$488,538 or 17.78 percent.⁶⁰ The Commission finds the financing plan will not impair Cannonsburg District's ability to provide service and is reasonably necessary for Cannonsburg to provide adequate service.

IT IS THEREFORE ORDERED that:

1. Cannonsburg District is granted a CPCN for the proposed project as submitted.

⁵⁷ Cannonsburg District's response to Staff's First Request, Item 6.

⁵⁸ Application, Item 36, at 18.

⁵⁹ Case No. 2024-00155, *Electronic Application of Cannonsburg Water District for a Rate Adjustment Pursuant to 807 KAR 5:076*.

⁶⁰ Case No 2024-00155, Apr 8, 2025 final Order at 27.

2. Cannonsburg District's proposed plan of financing as set forth in its application is approved.

3. Cannonsburg District is authorized to enter into a loan in the amount of \$2,304,263 with KIA, to mature over a period of 20 years and with an interest rate of 2.00 percent and semi-annual administrative fee of 0.25 percent.

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

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

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

8. Cannonsburg 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.

9. Cannonsburg 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.

10. Cannonsburg District shall only execute the loan documents with KIA to the extent the terms and conditions are consistent with the loan described in its application except as otherwise authorized herein.

11. Cannonsburg District shall file a copy of the loan documents executed with KIA in this matter within ten days of execution.

12. Any documents filed in the future pursuant to ordering paragraphs 6, 7, 9, 10, and 11 of this Order shall reference this case number and shall be retained in Cannonsburg District's post-case correspondence file.

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

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

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

PUBLIC SERVICE COMMISSION

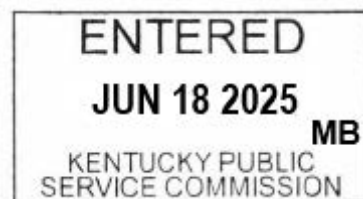
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