COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|---|
| ELECTRONIC APPLICATION OF HARRISON COUNTY WATER ASSOCIATION, INC. FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AND FOR APPROVAL OF FEDERALLY FUNDED IMPROVEMENT PROJECT, PURSUANT TO KRS 278.023 AND APPROVAL OF A RATE INCREASE PURSUANT TO KRS 278.023 (3) AND (4) | ) | CASE NO. 2026-00280 |

# O R D E R

On September 28, 2026, Harrison County Water Association, Inc. (Harrison County Water) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to replace water lines and extend a line for additional connections.[1] Harrison County Water also sought approval of its plan to finance the proposed project via a loan agreement with the Rural Utilities Service (RUS) of the United States Department of Agriculture (USDA) Rural Development (RD).[2] Harrison County Water also requested approval of the increased water service rates required under the RD agreement.[3] This matter stands submitted for decision.

[1] Application (tendered Sept. 24, 2026) at 6. Harrison Water Association tendered the application on September 24, 2026, and filed Supplemental Filing to Application and Notice to Customers on September 28, 2026. A letter dated September 30, 2026, deemed the application filed as of September 28, 2026.

[2] Application, Exhibit A.

[3] Application at 6.

## LEGAL STANDARD

Notwithstanding the Commission's general responsibilities and discretion regarding CPCNs as laid out in KRS 278.020(1), KRS 278.190, KRS 278.300, KRS 278.023(1) and (3) require the Commission to accept agreements between water utilities and the USDA 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 utility, 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 and either 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

Harrison County Water is a water association organized under KRS Chapter 273 and provides retail water service to approximately 5,160 residential customers and 1,252 commercial customers[4] located in Bourbon, Harrison, Nicholas, Pendleton, and Scott counties, Kentucky.[5]

Harrison County Water seeks approval to replace over 14,600 feet of six-inch line at US 27 and to extend a four-inch line approximately 14,000 feet along KY 353.[6] The RD Letter of Conditions describes a two-part project. The first part involved abandoning and replacing approximately 2.9 miles of asbestos-cement water main along US 27 with 6-inch polyvinyl chloride (PVC) water main.[7] RD identified recurring leaks and breaks in the existing main, which was constructed in the early 1970s, as causes of service disruptions and water contamination concerns.[8] The second part involved extending approximately 2.7 miles of 4-inch PVC water main along KY 353 to serve previously unserved customers and connect two dead-end mains, improving circulation within the distribution system.[9]

Harrison County Water proposed to finance the $3,357,000 project through (1) an RD loan of $2,437,000; (2) connection and tap-on fees of $24,700; (3) applicant

[4] *Annual Report of Harrison County Water Association, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2025* (2025 Annual Report) at 49.

[5] 2025 Annual Report at 12.

[6] Application at 6.

[7] Application, Exhibit A at 2.

[8] Application, Exhibit A at 2.

[9] Application, Exhibit A at 2.

contributions of $200,766; and (4) a Cleaner Water Program (CWP) grant of $694,534.[10] The RD loan will be repaid over 40 years.[11] RD used an interest rate of 4.25 percent for planning purposes, with the actual interest rate determined under the loan approval and closing provisions of the RD Letter of Conditions.[12] RD subsequently confirmed that $2,437,000 in permanent loan funds had been obligated for the project.[13] RD's Policy is to utilize interim financing for all loans exceeding $500,000.[14] Harrison County Water has secured interim financing though Stock Yards Bank & Trust.[15]

The loan agreement sets forth rates intended to meet the cost of maintenance, repair, and operation of the system and to meet debt service obligations.[16] For residential customers, RD requires an increase in rates of $7.66 or 32.53 percent, from $23.55 to $31.21 for the first 2,000 gallons sold, along with a variable increase depending on gallons sold, ranging from 32.7 percent to 32.9 percent.[17] Based on the average monthly usage per customer of 4,400 the average customer bill will increase $14.89, or 32.61 percent.[18]

[10] Application, Exhibit B at 1.

[11] Application, Exhibit A at 5.

[12] Application, Exhibit A at 5.

[13] Application, Exhibit C at 1.

[14] Application, Exhibit A at 14, paragraph 22, Interim Financing.

[15] Application, Exhibit C.

[16] Application, Exhibit A at 4.

[17] Supplemental Filing to Application, Notice to Customers (filed Sept. 28, 2026) at 1-3.

[18] Supplemental Filing to Application, Notice to Customers at 3.

Financial Condition and Rates

Based on a review of Commission records, Harrison County Water's last base rate adjustment, filed pursuant to 807 KAR 5:076, was in Case No. 2023-00154,[19] (2022 test year) which became final on January 11, 2024, and reflected a revenue increase of $184,194, or 5.82 percent.[20] Since then, Harrison County Water has increased its rates once in Case No. 2025-00412,[21] a Purchased Water Adjustment (PWA), which increased the average customer bill by 9.80 percent.[22]

During the processing of this application the Commission performed a limited review of Harrison County Water's financial records that are on file for the immediately preceding five years. A chart summarizing cash basis and rate-based income is presented below. Rate-based income (adjusted net income minus debt service) was negative from 2021 through 2025. Cash basis income (rate-based income plus depreciation) was positive in all five years.

[19] Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment.*

[20] Case No. 2023-00154, Jan. 11, 2024 Order at 44.

[21] Case No. 2025-00412, *Electronic Purchased Water Adjustment Filing of Harrison County Water Association, Inc.* (Ky. PSC Feb. 13, 2026).

[22] 381,849,000 Gallons Sold / 6,412 Customers / 12 Months = 4,963 Average Gallons Per Customer Per Month. Using these average gallons per customer per month, the average monthly customer bill would increase from $46.27 to $50.80, or 9.80%. Customer bill impact was not calculated in Case No. 2025-00412.

| Description / Year | Audited 2021 | Audited 2022 | Audited 2023 | Audited 2024 | Audited 2025 | .023 Impact | Pro Forma |
|---|---|---|---|---|---|---|---|
| | | | 2023-00154 ARF (2022 Test Year) | | | | |
| *Adjusted Net Income* | | | | | | | |
| Net Income / (Loss) | $ (37,489) | $ 11,167 | $ (340,822) | $ (128,534) | $ (311,649) | $ (53,712) | $ (365,361) |
| Other Non-recurring Items (Grants, Asset Disposal) | - | (209,905) | - | (106,297) | (24,341) | - | (24,341) |
| Water Loss Surcharge ( ) | - | - | - | (99,472) | (109,494) | - | (109,494) |
| Interest Expense | 34,040 | 33,721 | 38,710 | 35,226 | 32,474 | - | 32,474 |
| Additional Revenues Case # 2026-00280 (.023) | - | - | - | - | - | 741,517 | 741,517 |
| Additional Revenues Case # 2025-00412 PWA | - | - | - | - | - | - | 350,156 |
| Additional Cost PWA | - | - | - | - | - | - | (350,156) |
| **Adjusted Net Income / (Loss)** | **$ (3,449)** | **$ (165,017)** | **$ (302,112)** | **$ (299,077)** | **$ (413,010)** | **$ 687,805** | **$ 274,795** |
| Interest Expense ( ) | (34,040) | (33,721) | (38,710) | (35,226) | (32,474) | - | $ (32,474) |
| Principal Payments ( ) | (23,906) | (24,586) | (25,174) | (25,893) | (26,988) | (127,748) | $ (154,736) |
| Subtract: Total Debt Service ( ) | (57,946) | (58,307) | (63,884) | (61,119) | (59,462) | (127,748) | (187,210) |
| **Rate Based Income / (Loss)** | **$ (61,395)** | **$ (223,324)** | **$ (365,996)** | **$ (360,196)** | **$ (472,472)** | **$ 560,057** | **$ 87,585** |
| Add: Depreciation and Amortization Expense | 445,825 | 515,698 | 531,627 | 510,493 | 548,056 | 53,712 | 601,768 |
| **Cash Basis Income / (Loss)** | **$ 384,430** | **$ 292,374** | **$ 165,631** | **$ 150,297** | **$ 75,584** | **$ 613,769** | **$ 689,353** |
| Rate Based Income as Percent of Water Sales | -2% | -7% | -11% | -10% | -13% | | |
| Cash Basis Income as Percent of Depreciation | 86% | 57% | 31% | 29% | 14% | | |
| Capital Spending | $ 545,419 | $ 646,422 | $ 377,685 | $ 381,479 | $ 773,848 | | |
| *Cash and Investments* | | | | | | | |
| Unrestricted Cash and Investments | $ 1,111,581 | $ 597,658 | $ 591,100 | $ 409,004 | $ 170,929 | | |
| Restricted Funds | 1,580,982 | 1,925,967 | 1,497,108 | 1,408,690 | 1,326,942 | | |
| Adjusted Cash Balances | 2,692,563 | 2,523,625 | 2,088,208 | 1,817,694 | 1,497,871 | | |
| Net Increase (Decrease) in Cash | $ (20,242) | $ (168,938) | $ (435,417) | $ (270,514) | $ (319,823) | | |
| *Selected Statistical Information* *(PSC Annual Reports)* | | | | | | | |
| Customer Count | 6,030 | 5,915 | 6,255 | 6,337 | 6,412 | | |
| Gallons Purchased | 437,499 | 477,968 | 462,342 | 519,979 | 527,382 | | |
| Gallons Sold | 329,608 | 376,423 | 367,721 | 381,225 | 383,439 | | |
| Gallons Used for Internal Use | 11,490 | 1,814 | 2,422 | 2,866 | 1,945 | | |
| Water Loss Gallons | 96,400 | 99,731 | 92,199 | 135,888 | 141,944 | | |
| System Use Percentage | 2.63% | 0.38% | 0.52% | 0.55% | 0.37% | | |
| Water Loss Percentage | 22.0343% | 20.8656% | 19.9417% | 26.1334% | 26.9148% | | |
| Gallons Sold Per Customer Per Month | 4,555 | 5,303 | 4,899 | 5,013 | 4,983 | | |
| Revenues from the Sale of Water | $ 2,829,163 | $ 2,981,501 | $ 3,192,634 | $ 3,509,639 | $ 3,567,132 | | |
| Purchased Water Expense | 1,462,631 | 1,522,156 | 1,697,895 | 1,898,234 | 1,981,613 | | |
| Purchased Water Expense Over 15% Water Loss | 102,886 | 89,284 | 83,905 | 211,337 | 236,106 | | |
| Water Loss Expense Over 15% as Percentage of Water Revenue | 3.64% | 2.99% | 2.63% | 6.02% | 6.62% | | |

## DISCUSSION AND FINDINGS

Having considered the application and all evidence of record, the Commission finds that Harrison County Water's application should be approved pursuant to KRS 278.023. Harrison County Water is a water utility organized under KRS Chapter 273 and the financing for the proposed project is subject to an agreement between Harrison County Water and RD. Therefore, the Commission finds that the requested CPCN and plan of financing should be approved. The Commission further finds that the rates set

forth in the Appendix to this Order implement the requirements of the RD agreement and should be approved.

IT IS THEREFORE ORDERED that:

1. Harrison County Water is granted a CPCN for the proposed project as submitted.

2. Harrison County Water's proposed plan of financing is approved.

3. Harrison County Water is authorized to execute the RD loan in the amount of $2,437,000 under the terms of the RD Letter of Conditions, as amended.

4. The rates set forth in the Appendix attached to this Order are approved for service rendered by Harrison County Water on or after the date of this Order.

5. Within 20 days of the date of service of this Order, Harrison County Water 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.

6. The proceeds of the RD loan shall be used only for the purposes specified in Harrison County Water's application.

7. Harrison County Water shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

8. Harrison County Water 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.

9. Harrison County Water shall notify the Commission in writing one week prior to the actual start of construction.

10. Harrison County Water 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.

11. Any documents filed in the future pursuant to ordering paragraphs 8 or 9 of this Order shall reference this case number and shall be retained in Harrison County Water's post-case correspondence file.

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

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

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.

Entered on this 27th day of October, 2026.

PUBLIC SERVICE COMMISSION

Angie Hatton
Chair

Mary Pat Regan
Vice Chair

Andrew W. Wood
Commissioner

Barry L. Mayfield
Commissioner

ATTEST:

Justin McNeil
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2026-00280 DATED OCT 27 2026

The following rates and charges are prescribed for the customers in the area served by Harrison County Water Association, Inc. 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 | $31.21 | Minimum Bill |
| Next | 1,000 Gallons | 0.01237 | Per Gallon |
| Next | 2,000 Gallons | 0.01212 | Per Gallon |
| Next | 45,000 Gallons | 0.01138 | Per Gallon |
| Over | 50,000 Gallons | 0.01009 | Per Gallon |

3/4-Inch Meter

| | | | |
|---|---|---|---|
| First | 3,000 Gallons | $44.04 | Minimum Bill |
| Next | 2,000 Gallons | 0.01212 | Per Gallon |
| Next | 45,000 Gallons | 0.01138 | Per Gallon |
| Over | 50,000 Gallons | 0.01009 | Per Gallon |

1-Inch Meter

| | | | |
|---|---|---|---|
| First | 5,000 Gallons | $66.64 | Minimum Bill |
| Next | 45,000 Gallons | 0.01138 | Per Gallon |
| Over | 50,000 Gallons | 0.01009 | Per Gallon |

1 1/2-Inch Meter

| | | | |
|---|---|---|---|
| First | 10,000 Gallons | $124.65 | Minimum Bill |
| Next | 40,000 Gallons | 0.01138 | Per Gallon |
| Over | 50,000 Gallons | 0.01009 | Per Gallon |

2-Inch Meter

| | | | |
|---|---|---|---|
| First | 15,000 Gallons | $181.44 | Minimum Bill |
| Next | 35,000 Gallons | 0.01138 | Per Gallon |
| Over | 50,000 Gallons | 0.01009 | Per Gallon |

# Service List for Case 2026-00280

* Janell Pitts
Jesse Melcher Law Office, PLLC
127 N. Main St.
P.O. Box 345
Mount Olivet, KY  41064

* Jesse Melcher
Jesse Melcher Law Office, PLLC
127 N. Main St.
P.O. Box 345
Mount Olivet, KY  41064

* Harrison County Water Association, Inc.
433 SeaBiscuit Way
Cynthiana, KY  41031

* Denotes served by Email