

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER)
COMPANY FOR A CERTIFICATE OF CONVENIENCE)
AND NECESSITY AUTHORIZING EXPANSION OF) CASE NO. 7757
THE KENTUCKY RIVER STATION)

O R D E R

Preface

On February 27, 1980, the Kentucky-American Water Company, hereinafter referred to as the "Utility", filed with this Commission its duly verified application seeking a "Certificate of Public Convenience and Necessity" authorizing the construction of additional facilities to the Kentucky River Station Plant, thereby increasing the Utility's total production capacity from forty-eight (48) million GPD to sixty (60) million GPD.

The case was set for hearing at the Commission's office in Frankfort, Kentucky on April 1, 1980, and all parties of interest were notified in the manner prescribed by the Kentucky Revised Statutes. At the April 1, 1980 hearing, direct testimony of the Utility was given with cross examination taken at the continuance of the matter on April 16, 1980. Further testimony was taken on the matter at the Commission's office in Frankfort on June 3, 1980. The Attorney General's Division of Consumer Intervention is an intervenor of record in this matter.

A copy of a letter from the Sanitary Engineering Division of the Kentucky Department for Natural Resources and Environmental Protection approving the plans and specifications is on file with this Commission.

Pursuant to the conclusion that the record is complete, the entire matter is now considered to be fully submitted for a final determination by this Commission.

The Proposed Construction: Scope and Discussion

The Utility has concluded that an expansion project is needed to meet future demands for water in its service area. Expansion of the Kentucky River Station Plant from 28 million GPD to 40 million GPD has been noted as Phase I and Phase II of the proposed project and includes: (1) replacement of the filter sand in purification units 1 through 4 with mixed media as now utilized in units 5 to 8--to provide for a 4 million GPD increase in capacity by the middle of 1981; (2) the construction of two (2) additional purification units (#9 and #10) for a total of 10 units--to provide an additional 8 million GPD increase by the middle of 1982; (3) the construction of additions to the chemical storage and feed system; (4) the construction of another waste wash water holding tank; (5) an increase in pumping capacity by replacement of pumps at the raw-water intake station and the second lift station; (6) the construction of a 2.0 million gallon treated water storage tank; and (7) improvements to the electrical system. Certification of this proposed work is being sought by the Utility in the instant case.

The certification of pipeline construction that will be needed to deliver the increased quantity of water produced at the Kentucky River Station to the vicinity of Lexington should be sought by application to be filed with this Commission at a future date.

The scope of this proposed project for expansion of water production capacity is a management decision made by the Utility. According to the record in this matter, the said decision was derived primarily from population projections for Fayette County⁽¹⁾ with emphasis placed on the 1980-85 projections and allowances made for long-range forecasts through 1995.

The Commission for comparison purposes, obtained population projections from the Population Research Unit of the Urban Studies Center located at the University of Louisville. Said projections were entered into the record in this matter by Dr. James Brockway,⁽²⁾

(1) The Fayette Urban County Division of Planning made the projections utilized by the Utility.

(2) Dr. Brockway's testimony is included in the record of the June 3, 1980 hearing.

Director of the said Population Research Unit. There were wide variations between those projections and those on which the Utility based the scope of its proposed expansion.

Because of the magnitude of the variance of population projections of record in this matter with respect to Fayette County, the Commission questions the timeliness of the proposed construction. The Commission recognizes that expansion of plant capacity to meet future needs must include capacity in excess of needs existing at the time of construction completion. The Commission, however, is concerned that the proposed expansion may include plant capacity that may be greatly in excess of that needed for meeting the maximum daily demands in the near future. Further, the Commission is of the opinion that responsible management decisions should not result in gross overbuilding of plant capacity.

The Commission, on the basis of the above, reminds the Utility that the cost of unreasonable, excessive plant capacity may be excluded from consideration in the Utility's future applications for rate adjustments.

Findings In This Matter

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds:

1. That public convenience and necessity requires construction of the proposed expansion as defined by the application inclusive of all exhibits, the construction plans, specifications, and bid tabulations filed in the record in this matter.

2. That the Utility's financing of this project during the construction period will be by means of short-term loans. Further, that the Utility should file with this Commission on a later date an application for authorization of permanent financing.

3. That the Utility should file with this Commission duly verified documentation of the total cost of this project, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within sixty (60) days of the date that construction is substantially completed.

4. That the contract between the Utility and the Engineer should require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

5. That within sixty (60) days of the date of substantial completion of the construction, the Utility should require the Engineer to furnish this Commission with a copy of the "As-Built Plans" along with the Engineer's certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

Orders in This Matter

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that the Utility be and it is hereby granted a Certificate of Public Convenience and Necessity to construct a 12 million GPD expansion of the Kentucky River Station Water Treatment Plant in accordance with the contract plans and specifications filed in this record.

IT IS FURTHER ORDERED that the Utility file with this Commission a duly verified document or documents which show the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within sixty (60) days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that the contract between the Utility and the Engineer shall require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the contractor's construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that the Utility shall require the Engineer, within sixty (60) days of substantial completion of the proposed construction, to furnish this Commission with a copy of the "As-Built Plans" and a certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

Done at Frankfort, Kentucky, this 6th day of June, 1980.

UTILITY REGULATORY COMMISSION

CHAIRMAN

VICE-CHAIRMAN

COMMISSIONER

ATTEST:

SECRETARY