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Commissioner

August 29, 2014

David Hedges, Manager
North Shelby Water Company
P.O. Box 97
Bagdad, KY 40003

Re: Application of the North Shelby Water Company of Shelby, Franklin and Henry Counties for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023
Case No. 2012-00429

Dear Mr. Hedges:

During the June 3, 2014 Periodic Regulatory Compliance Inspection¹, you indicated that funds remained from the proceeds of a \$1,070,000 promissory note issued to North Shelby Water Company ("North Shelby") by Rural Development. The proceeds from the promissory note were to be used to construct a new booster pump station. The Commission issued an Order on October 11, 2012, in Case No. 2012-00429² granting a Certificate of Public Convenience and Necessity for the construction of the booster pump station and approving the proposed plan of financing.

You stated an intent to use the excess funds from the construction of the booster pump station to rehabilitate the existing 200,000 gallon elevated Jacksonville storage tank. Pursuant to Ordering Paragraph 6 of the October 11, 2012 Order issued in Case No. 2012-00429, North Shelby could only use excess funds for other projects if: 1) Rural Development approved the use of the additional construction; 2) the additional construction would not result in a change in North Shelby's rates for service; and 3)

¹ A copy of the report is enclosed for your reference.

² Case No. 2012-00429, Application of the North Shelby Water Company of Shelby, Franklin and Henry Counties for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to the Provisions of KRS 278.023 (Ky. PSC Oct. 11, 2012).

David Hedges, Manager
North Shelby Water Company
August 29, 2014

North Shelby provided written notice of the additional construction pursuant to 807 KAR 5:069, Section 3.³

If North Shelby intends to use the surplus funds to construct additional facilities, the utility needs to comply with the requirement in the Commission's October 11, 2012 Order in Case No. 2012-00429 and 807 KAR 5:069, Section 4. If you have any questions, please contact Ann Ramser, Staff Attorney, at (502) 782-2585.

Sincerely,



Jeff Derouen
Executive Director

Enclosure

³ 807 KAR 5:069 was amended effective January 3, 2014. As part of the January 3, 2014 amendment, Section 3 was renumbered and is now Section 4.

**COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
UTILITY INSPECTION REPORT**

Report Date: June 10, 2014
Report Number: NorthShelbyWC060314

BRIEF

Inspector: George W. Wakim, P.E.

Inspection Date: June 3, 2014

Type of Inspection: Periodic Regulatory Compliance Inspection

Type of Facility: Distribution and Purchaser

Name of Utility: North Shelby Water Company

Location of Facility: P.O. Box 97, 4596 Bagdad Road, Bagdad, KY 40003
Attention: David Hedges, Manager

Purpose of inspection: Periodic inspection of utility facilities operation and maintenance practices to verify compliance with PSC regulations.

Applicable Regulations: KRS Chapter 278 and 807 Chapter 5

INSPECTION

Description of Utility: Distribution system

Number of Customers: 4,904

Area of Operation: Franklin, Henry, Oldham, and Shelby Counties

Supply Source: Frankfort, Louisville, and Shelbyville Water

Distribution Description: Average daily consumption of approximately 1,138,839 gallons; 306 miles of mains; total storage capacity of approximately 1.646 million gallons.

Workforce Summary: 11 full-time employees

Utility Reps. in Inspection: David Hedges, Manager, and Jeremy Carmack, Assistant Manager.

Date of Last Inspection: September 26-27, 2012

DTR from Last Inspection: None

DTRs not Cleared: 1-ongoing

Summary of items and facilities inspected:

Records include, but not limited to, pressure charts, meter testing, reading and history; system flushing; service interruptions; complaints; facilities inspections procedures; elevated tank inspection video, operation and maintenance manual; facilities maintenance; safety guidelines; water shortage response plan; and the service area map, etc; Long Run Road pump station. During this periodic regulatory compliance inspection, it was not possible to inspect all utility's facilities or review every record relating to all Commission requirements. Therefore, in some instances, the results contained in this report are indicative only of those items inspected and reviewed on sample basis.

**Commonwealth of Kentucky
Public Service Commission
Utility Inspection Report**

Report Date: June 30, 2014
Report Number: NorthShelbyWC060314

FINDINGS

RECOMMENDATIONS

ADDITIONAL INSPECTOR COMMENTS

Based on the utility's annual reports, Water loss percentage was 8.99 percent for 2012 and 11.2 percent for 2013.

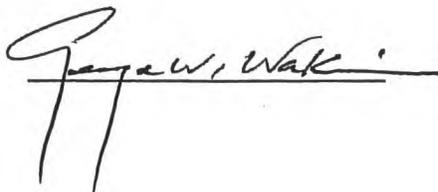
The insufficient meter testing deficiency will continue to be considered ongoing at this time. Commission Staff cited the deficiency during the June 14, 2011 inspection. The utility responded that it will completely address the issue in 5.5 years from the date of that inspection where it would test/changeout 50 meters per month. This means that the utility has approximately has 3 additional years to get back into compliance with the meter testing frequency requirement of 807 KAR 5:066, Section 16(1).

During the inspection visit, the utility was made aware of the regulatory change to 807 KAR 5:006, Section 26, Section (3) which requires the addition of the date, time of inspection, and the person conducting the inspection onto inspection logs/forms of facilities. Commission Staff member Jason Pennell will verify this on the next inspection visit.

During this visit, the utility manager stated that utility intends to use surplus funds relating to the federally funded case 2012-00429 to rehabilitate the existing 200,000 gallon elevated Jacksonville Storage Tank. Commission Staff noted the condition of this tank and recommended that the utility take preventative maintenance measures in the report of the September 26, 2012 inspection visit.

The utility should consider adopting a written systematic valve exercise program for its system.

Submitted by:



Jay W. Walker