

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE CONTRACT FILING OF KENTUCKY)
TURNPIKE WATER DISTRICT TO ASSESS) CASE NO.
APPLICANTS A FEE FOR EXTENSION OF) 98-475
SERVICE)

ORDER

Kentucky Turnpike Water District (Kentucky Turnpike) has submitted a proposed contract that addresses the proposed water main extension to serve persons residing in the vicinity of the Stave Mill Road area of Bullitt County, Kentucky. Having reviewed the proposal and other evidence of record, the Commission approves the extension proposal subject to certain modifications.

Kentucky Turnpike, a water district organized pursuant to KRS Chapter 74, provides water service to portions of Bullitt County, Kentucky. It proposes to extend its existing water distribution mains approximately 10,855 feet to serve approximately 26 persons¹ in the Stave Mill Road area² of Bullitt County, Kentucky at a projected cost of

¹ Kentucky Turnpike officials state that the water main extension has the potential to serve 38 customers. Twenty-six persons have already executed contracts for service under its proposed extension arrangement.

² The Stave Mill Road area includes Reader Road, Cool Springs Road, Bates Lane, Stallings Road, Hebron Road, and Stave Mill Road. See Kentucky Turnpike Water District's Response to the Commission's Order of October 29, 1998, Item 20.

\$194,069.³ Kentucky Turnpike proposes to finance the project through internal funds, customer contributions, and a monthly surcharge.

Kentucky Turnpike's proposal requires all persons directly connecting to the proposed main extension within 10 years of its construction to contribute equally for the cost of the construction. Each person will pay a \$3,500 fee before connecting to the main extension. The utility will contribute \$20,000 to the project and advance the residents of the Stave Mill Road area an additional \$62,500. The utility intends to recover its advancement through a monthly payment of \$21.98 from all persons who connect to the main extension within 10 years of its construction. These monthly payments will last for a period no greater than 15 years and will include an interest component of 6 percent per annum to reimburse the utility for the cost of advancement. Customers may pay their full contribution in advance to avoid entirely or reduce the number of their required monthly payments.⁴ Persons connecting directly to the main extension within 10 years of its construction will also forego their right under

³ This cost reflects the total project cost and includes the cost of installing 8-inch water main in certain portions of the proposed extension to serve future growth in the nearby areas. When it submitted its extension proposal, the estimated cost of the main extension was \$166,000. Kentucky Turnpike subsequently modified its proposal to lengthen the proposed extension. The actual cost will not be determined until the project is placed for competitive bids.

⁴ Each Kentucky Turnpike customer connecting to the main extension may choose from a 10-, 15-, or 20-year period to pay his or her contribution. Each also has the option of paying his or her total contribution in advance. See Kentucky Turnpike's Response to the Commission's Order of October 29, 1998, Items 11 and 12. Customers who pay in advance will avoid additional interest charges and pay a lesser amount than those who make monthly payments over a longer period.

Administrative Regulation 807 KAR 5:066, Section 11(2)(b),⁵ to any refunds for additional customer connections until Kentucky Turnpike recovers its \$20,000 contribution.

The Commission is concerned about several aspects of Kentucky Turnpike's extension proposal. First, the proposal places the entire cost of the extension upon those connecting to the extension. It requires Kentucky Turnpike to advance \$62,500 toward the cost of the extension but permits recovery of this advancement with interest over an extended period. While it requires Kentucky Turnpike to contribute an additional \$20,000 toward the extension, it relieves the utility of any obligation to make refunds for additional connections to the main extension until the utility's contribution is recovered. Since Kentucky Turnpike estimates an additional 12 persons are likely to connect to the main extension, total recovery of the water district's contribution appears likely. Such a result is contrary to the intent of Administrative Regulation 807 KAR 5:066, Section 11, which requires that a water utility bear a portion of the cost of any water main extension. Kentucky Turnpike has alleviated this concern by announcing that its initial \$20,000 contribution will not be subject to any recovery.⁶

The Commission is also concerned about the level and nature of the utility's proposed surcharge. Kentucky Turnpike has failed to explain how it determined the

⁵ Each year, for a refund period of not less than ten (10) years, the utility shall refund to the customer or customers who paid for the excessive footage the cost of fifty (50) feet of the extension in place for each additional customer connected during the year whose service line is directly connect to the extension installed and not to extensions or laterals therefrom.

⁶ See Kentucky Turnpike's Response to the Commission's Order of October 29, 1998, Item 7.

surcharge amount nor has the Commission, using the utility's assumptions, been able to duplicate the utility's results. Moreover, as a result of the utility's proposed payment options, the proposed surcharge will not be uniformly assessed from those connecting to the main extension.

After close examination of the proposed surcharge, the Commission finds that the surcharge is not a true surcharge to be collected uniformly from all customers within the Stave Mill Road area, but is merely a series of loan agreements between Kentucky Turnpike and the Stave Mill Road residents. At the time of his or her connection to the main extension, each resident must pay his or her proportional share of the extension's cost. In lieu of paying the full amount, a resident may pay \$3,500 and agree to pay the remaining principal in monthly installments over a selected period of time. The debt is individual to each person connecting to the proposed extension. Each person retains the right to make advanced payments to retire his individual debt. The obligation to pay this debt extends only to the debtor - the individual who executes the main extension agreement.

The Commission further finds that Kentucky Turnpike may list these debt installment payments on its bills for service and require their payment as a condition of continued service. As this debt runs only to the persons executing the main extension agreements, however, Kentucky Turnpike may not require any person who subsequently acquires a property served by the main extension to assume any unpaid debt owed for the main extension unless such person agrees in writing to assume the transferor's obligations arising from the main extension agreement.

In conclusion, the Commission finds that the proposed extension method, subject to certain modifications, should be approved. Recognizing that this method was the product of extensive negotiations between Kentucky Turnpike and Stave Mill Road residents, the Commission is reluctant to make wholesale modifications to the proposal. We note, however, that the proposed extension method will be difficult to administer. In the future, Kentucky Turnpike should consider the use of a true surcharge that is assessed uniformly on each applicant for service and that is subject to annual modification to reflect actual surcharge collections and changes in the number of connections.

IT IS THEREFORE ORDERED that:

1. Subject to the modifications set forth below, Kentucky Turnpike's proposed extension of service arrangement for persons residing in the vicinity of the Stave Mill Road area of Bullitt County, Kentucky is approved.

2. The proposed extension of service arrangement is modified as follows:

a. All persons directly connecting to the proposed main extension within 10 years of its construction shall contribute equally to the cost of the construction.

b. Kentucky Turnpike shall be directly responsible for \$20,000 of the cost of the proposed main extension. Additionally, where Kentucky Turnpike has chosen to use 8-inch main in constructing the proposed main extension, it shall directly bear the difference between the cost of 8-inch main and 6-inch main.

c. Kentucky Turnpike may require each person directly connecting to the proposed main extension within 10 years of its construction to pay a \$3,500 fee before making such connection. It may enter into any mutually agreeable arrangement

for the repayment of any remaining principal. In no instance, however, shall Kentucky Turnpike charge a rate of interest on the remaining principal that exceeds 6 percent per annum. All persons shall be assessed the same rate of interest.

d. When additional persons connect directly to the proposed main extension within 10 years of its construction, Kentucky Turnpike shall recompute each customer's contribution to the cost of the main extension and shall either reduce the amount of an existing customer's unpaid principal or, if no unpaid principal exists, shall refund any surplus.

e. Kentucky Turnpike shall not require any person who subsequently acquires a property connected to the main extension to assume the transferor's obligations for any unpaid principal unless such person agrees in writing to assume the transferor's obligations arising from the main extension agreement.

3. Within 30 days of the date of this Order, Kentucky Turnpike shall file with the Commission revised tariff sheets that reflect the extension plan approved herein.⁷ These tariff sheets shall describe all payment options that Kentucky Turnpike intends to make available to the applicants.

4. Within 30 days of completion of construction of the main extension, Kentucky Turnpike shall advise the Commission in writing of the total cost of the main extension and the total cost a person connecting to the extension must bear.

⁷ Should it require assistance in the preparation of these tariff sheets, Kentucky Turnpike is strongly encouraged to seek the assistance of Commission Staff.

Done at Frankfort, Kentucky, this 21st day of January, 1999.

By the Commission

ATTEST:

Executive Director