

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE CONTRACT FILING OF NORTH MARSHALL)
WATER DISTRICT WITH GEORGE CLARK ROAD) CASE NO. 98-528
CUSTOMERS FOR A MAIN EXTENSION)

ORDER

North Marshall Water District (North Marshall) has proposed a water main extension arrangement that differs from the terms of its filed rate schedules and those set forth in Administrative Regulation 807 KAR 5:066, Section 11(1). By this Order, the Commission approves the proposed arrangement subject to certain conditions.

North Marshall¹ proposes to construct approximately 7,000 feet of 4-inch polyvinylchloride water main along George Clark Road in Marshall County, Kentucky. Estimated total cost of the proposed extension is \$19,584.² The proposed extension has the potential of serving approximately 22 residences. Upon completion of the proposed extension, North Marshall will then construct a 2,000-foot loop to connect the George Clark Road main with a water main that runs along New Hope Church Road. According to North Marshall, this loop will eliminate two dead end mains, lessen the need for line flushing, and provide an alternative means of routing water in the event of

¹ North Marshall is a water district organized pursuant to KRS Chapter 74. It provides water service to approximately 4,672 customers in Marshall County, Kentucky. In 1998 it had total annual operating revenues of \$951,508.

² To reduce the cost of construction, North Marshall intends to use its own employees to install the extension and to borrow the heavy construction equipment from the Marshall County Government.

an emergency. Currently George Clark Road residents obtain their water from private wells.

North Marshall proposes to finance the cost of the George Clark Road extension through internal funds and customer contributions. It proposes to require each applicant connecting to the extension to pay a contribution of \$750. Of the 22 potential customers that the extension can serve, 11 persons have applied for service and agreed to make the required contribution. The water district proposes to assume the remaining cost of \$11,384. It further proposes that any person connecting to the extension in the future be required to make a contribution of \$750 and that no contributors be eligible for refunds until 22 customers have connected directly to the extension. Once 22 customers have connected, the required contribution of each customer will be recalculated when additional customers connect to ensure customers pay an equal share of the extension's costs.

North Marshall's proposal differs from the extension arrangement found in Administrative Regulation 807 KAR 5:066, Section 11, and the water district's filed rate schedule. Administrative Regulation 807 KAR 5:066, Section 11, requires a water utility to extend a water main up to 50 feet per applicant at no charge to the applicants. It further permits the water utility to require the excessive footage over fifty (50) feet per customer to be deposited with the utility by the applicant or the applicants, based on the average estimated cost per foot of the total extension. 807 KAR 5:066, Section 11(2)(a). For a period of not fewer than 10 years following the extension, the water utility must refund to the customer or customers who paid for the excessive footage the cost of 50 feet of the extension for each additional customer connecting directly to the

extension. 807 KAR 5:066, Section 11(2)(b)(1). North Marshall's filed rate schedule adopts this regulation.³ Under Administrative Regulation 807 KAR 5:066, Section 11, and the water district's rate schedule, North Marshall must contribute \$1,540 toward the cost of the extension and the 11 applicants for service must pay \$1,640.36.⁴

The water district argues that the proposed arrangement is necessary to promote the development of water service. Water service will be expanded to this area, it asserts, only if the initial cost of the extension is affordable. North Marshall further asserts that its contribution will eventually be recovered when the remaining residents along the George Clark Road apply for service. It notes that once all 22 residences are connected, the water district's contribution will be the same as under its normal extension financing method.⁵

Commission regulations do not expressly prohibit North Marshall's proposed extension arrangement. Administrative Regulation 807 KAR 5:066, Section 11(2)(b)(5), provides:

Nothing contained herein shall prohibit a utility from making at its expense greater extensions than herein prescribed, provided like free extensions are made to other customers under similar conditions. The conditions under which such

³ North Marshall Rate Schedule, P.S.C. No. 4, Sheet No. 3.

⁴ Average cost per foot = \$19,584 ÷ 7,000 feet = \$2.80 per foot.

Total utility contribution = \$2.80 x 50 feet per customer x 11 customers = \$1,540.

Customer contribution = (\$19,584 - \$1,540) ÷ 11 customers = \$1,640.36.

⁵ Total utility contribution = \$2.80 x 50 feet per customer x 22 customers = \$3,080.

Customer contribution = (\$19,584 - \$3,080) ÷ 22 customers = \$750.18.

extensions will be made shall be stated in the utility's filed tariff.

North Marshall, however, has not proposed to make this extension arrangement available to all similarly situated customers nor has it proposed any guidelines or rules to govern this arrangement.

Having reviewed the record, the Commission finds the proposed extension arrangement should be approved subject to certain conditions. The proposed arrangement will assist in the expansion of potable water to previously unserved areas of Marshall County. While increasing the water district's share of extension costs, the arrangement is not open-ended and provides the water district a realistic opportunity to recover the same portion of the main extension costs that it would recover under its existing extension arrangements.

The Commission finds that the proposed arrangement should be modified in the following respects: first, North Marshall shall require a contribution toward the extension's cost only from persons who connect directly to the extension during the 10 years following the extension's completion. Second, the proposed extension agreement shall state that all applicants shall contribute equally to the cost of the extension and that the required contribution shall be no greater than \$750. Third, if during the 10 years following the extension's completion 22 persons connect to the extension, North Marshall shall with each additional customer who connects directly to the extension recompute both its portion of the extension's total cost and the customer's contribution and shall refund to those customers that have previously contributed to the cost of the extension that amount necessary to reduce their contribution to the currently calculated amount.

The Commission further finds that approval of the proposed extension arrangement should be conditioned upon North Marshall revising its existing extension policy to make the proposed extension arrangement available to all similarly situated customers. These revisions should contain guidelines governing when the proposed extension arrangement will be applicable. Without such revisions, North Marshall's proposed arrangement is contrary to Administrative Regulation 807 KAR 5:066, Section 11(2)(b)(5).

IT IS THEREFORE ORDERED that:

1. North Marshall's proposed arrangement for the extension of water mains along the George Clark Road is approved subject to the conditions set forth in Ordering Paragraphs 2 and 3.

2. The proposed water main extension agreement is modified as follows:

a. North Marshall shall require a contribution toward the extension's cost only from persons who connect directly to the extension during the 10 years following the extension's completion.

b. The proposed extension agreement shall state that all applicants shall contribute equally to the cost of the extension and that the required contribution shall be no greater than \$750.

c. If during the 10 years following the extension's completion 22 persons connect to the extension, North Marshall shall with each additional customer who connects directly to the extension recompute both its portion of the extension's total cost and the customer's contribution and shall refund to those customers that have

previously contributed to the cost of the extension that amount necessary to reduce their contribution to the currently calculated amount.

3. Within 30 days of the date of this Order, North Marshall shall revise its existing extension policy to make the proposed extension arrangement available to all similarly situated customers. These revisions shall contain guidelines governing when the proposed extension arrangement will be applicable.

Done at Frankfort, Kentucky, this 28th day of May, 1999.

By the Commission

ATTEST:

Executive Director