

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY WATER)
SERVICE DISTRICT FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY FOR THE) CASE NO. 2000-171
CONSTRUCTION OF SUB-DISTRICT D WATER MAIN)
EXTENSIONS AND SURCHARGE)

ORDER

Northern Kentucky Water Service District (“NKWSD”) has applied for a certificate of public convenience and necessity to construct certain water main extensions and for authority to assess a surcharge to customers within its proposed Subdistrict D.¹

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. NKWSD, a water district organized under KRS Chapter 74, provides retail and wholesale water service to Boone, Campbell, Kenton and Pendleton counties, Kentucky.
2. NKWSD proposes to create for administrative, financing, and rate-making purposes a subdistrict known as “Subdistrict D.”
3. Under NKWSD’s proposal, Subdistrict D will consist of the following areas in Campbell County, Kentucky:

¹ NKWSD also requests approval of its plan to finance the proposed construction. For the reasons stated in this Order, we find Commission authorization for that plan is not required and therefore have not addressed that request.

- a. Persimmon Grove Pike from Steven's Branch Road to Shaw-Hess Road;
- b. Persimmon Grove Pike from Burns Road to California Cross Roads;
- c. California Cross Roads from Saint Peter and Paul School to Washington Trace Road;
- d. Winters Lane-County Area;
- e. Kentucky Route 8 from Winters Lane to Blangey Road; and,
- f. Four Mile Pike from Silver Grove to Greenvalley Trailer Court.

4. Areas of the proposed Subdistrict D are not contiguous, but widely dispersed. Portions of Subdistrict D territory are as much as 12 miles apart. See Exhibit I.

5. NKWSD used income eligibility requirements for Community Development Block Grant ("CDBG") funding as a principal criterion for determining Subdistrict D's boundaries. More specifically, at least 51 percent of the households receiving water service within the proposed subdistrict must be low to moderate income ("LMI") households.²

6. NKWSD proposes to construct approximately 29,475 linear feet of 8-inch water main and related appurtenances within and adjoining Subdistrict D to serve 74

² For the definition of low and moderate income households, see 24 C.F.R. §570.3.

additional customers and to upgrade service to 35 customers³ currently receiving water service through a 4-inch water main.

7. The total construction cost is approximately \$1,548,502.

8. The proposed project is divided into four phases. The geographic location of each project is shown on Figure I. The characteristics of each phase are set forth in Table I below.

TABLE I

Phase	Cost	Number Of New Customers	Low-To-Moderate Income Customers	Main Extension	Cost Per Foot
I	\$ 261,750	28	19	6,327	\$ 41.37
II	72,840	14	2	2,165	\$ 33.64
III	533,316	32*	17	19,213	\$ 27.76
IV	680,596	0	0	2040	\$ 333.63
Total	\$1,548,502	74	38	29,745	\$ 52.06

*This number does not include 24 existing customers served by an existing 4-inch main.

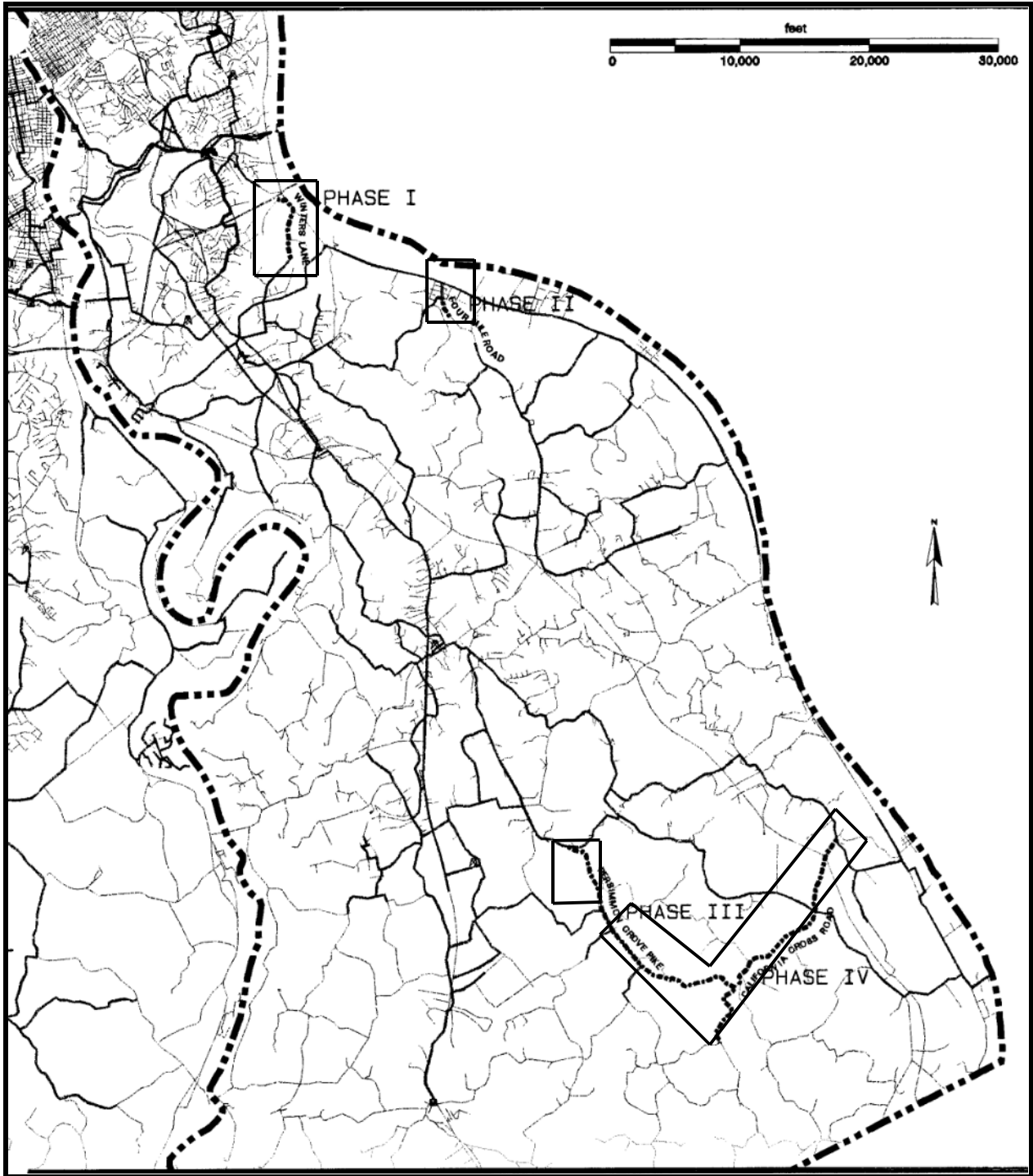
9. Phase III of the proposed construction includes the replacement of a 4-inch water main that currently runs along Persimmon Grove Pike from Shaw-Hess Road to Burns Road with an 8-inch water main. The cost of this replacement main is \$216,869.

10. NKWSD has not included the portion of Persimmon Grove Pike running from Shaw-Hess Road to Burns Road within proposed Subdistrict D because NKSWD facilities already serve this territory.

11. Persons residing within the proposed Subdistrict D currently receive water service through cisterns and private water haulers.

³ See Application, Exhibit C, "Engineering Reports."

FIGURE I
NORTHERN KENTUCKY WATER SERVICE DISTRICT
CAMPBELL COUNTY SERVICE AREA



Source: NKWSD's Application, Exhibit C. The boxed areas represent Subdistrict D territory.

12. Water quality testing shows the presence of coliform in over 50 percent of cisterns within the proposed Subdistrict D and in some instances the presence of *E.coli* bacteria.

13. Fire protection service within the proposed Subdistrict D is limited due to lack of any water facilities that can handle fire protection flows.

14. No public or municipal utility currently provides water service to the proposed Subdistrict D.

15. Cardinal Engineering Corporation of Wilder, Kentucky, prepared the plans and specifications for the proposed construction.

16. The Division of Water, Department of Environmental Protection, of the Kentucky Natural Resources and Environmental Protection Cabinet has approved the plans and specifications for the proposed construction.

17. The proposed construction will neither create wasteful duplication of plant, equipment, property or facilities nor result in uneconomic or wasteful competition between public utilities.

18. Public convenience and necessity requires the construction set forth in NKWSD's application.

19. NKWSD proposes to fund the total construction cost from the following sources:

a. A grant of \$1,000,000 from the Kentucky CDBG;

b. A grant of \$50,000 from the Campbell County Kentucky Fiscal

Court;

c. A contribution of \$20,000 from Saints Peter and Paul School of Campbell County, Kentucky;

d. Appropriated funds of \$125,000 from the Kentucky State Treasury;⁴

e. Tap-on fees of \$39,000; and

f. Bond anticipation note ("BAN") proceeds of \$1,165,986.

20. Of the \$1,165,986 of BAN proceeds to fund the proposed project, approximately \$949,117 will fund water main extensions serving Subdistrict B. Approximately \$216,869 of the BAN proceeds will fund the replacement of the 4-inch water main running along Persimmon Grove Pike from Shaw-Hess Road to Burns Road with an 8-inch water main.

21. NKWSD intends to issue 30-year revenue bonds in the future to retire the BAN.

22. NKWSD's proposed plan of financing the construction does not involve the immediate issuance of any long-term evidences of indebtedness and, therefore, does not require Commission authorization. KRS 278.300(8).⁵ Prior to the issuance of any

⁴ As part of the Executive Branch Appropriations Act (House Bill 321), the General Assembly designated proposed water main extension projects as a contingent capital construction project and provided for its funding under the General Fund Surplus Expenditure Plan. 1998 Ky. Rev. Stat. & R. Serv. 2241. On July 31, 1998, the Secretary of the Finance and Administration Cabinet certified that the General Fund Undesignated Fund Balance had closed at levels sufficient to fund the proposed project. See Letter of John P. McCarty to Hon. Larry Saunders and Hon. Jody Richards of July 31, 1998. The General Fund Surplus Expenditure Plan authorized the use of \$225,000 from the General Fund for the water main extension.

⁵ In its application, NKWSD did not state the period in which the BANs will be payable. Based upon NKWSD's past practices, we assume this period will not exceed two years. If this period exceeds two years, then Commission authorization will be required.

long-term evidences of indebtedness that will refund or retire the proposed BANs, however, NKWSD should seek Commission authorization for such action.

23. NKWSD proposes to assess each customer of Subdistrict D for the next 30 years a monthly surcharge not to exceed \$30. This surcharge is designed to service the debt of \$949,117 incurred to construct the Subdistrict D facilities. NKWSD estimates the total cost of debt service as \$2,068,600.50⁶ and assumes that interest on the debt instruments issued to finance the construction will be at a rate of 6 percent per annum.

24. The proposed surcharge is reasonable and should be approved subject to the following conditions:

a. The surcharge should continue for no longer than 30 years from the date of this Order or until the collection of \$2,068,600.50, whichever occurs first.

b. The surcharge proceeds should be used only to finance the facilities that are identified in NKWSD's application as Subdistrict D facilities.

c. The surcharge should be billed as a separate line item.

d. The surcharge should be adjusted annually to reflect the current number of Subdistrict D customers and the outstanding debt service obligations on Subdistrict D facilities. In no event, however, should the level of the surcharge exceed \$30 per month.

⁶ See Application, Exhibit C, "Revenue Requirements Subdistrict D Water Project." Total surcharge requirements = 30 years x \$68,953.35 per year (annual debt service requirement) = \$2,068,600.50

e. NKWSD should file annual reports with the Commission on Subdistrict D surcharge collections, customer levels, and remaining debt service obligations.

f. After the surcharge has been in effect for five years, it should be reexamined to determine the extent to which Subdistrict D facilities have been integrated into NKWSD's overall operations and whether these facilities are benefiting non-Subdistrict D customers to the extent that additional adjustments to the surcharge are necessary.

g. In any future general rate adjustment proceeding involving NKWSD, no debt attributed to the Subdistrict D facilities and financed through the proposed surcharge should be considered when determining NKWSD's total revenue requirements.

h. Separate accounts for the billing and collection of surcharge proceeds and for the payment of all debt instruments funded through the surcharge should be maintained.

25. Where a subdistrict is created for rate-making purposes, the areas placed within that subdistrict should have some common characteristic or interest. The proponent of the subdistrict's creation bears the burden of demonstrating the reasonableness of the subdistrict's boundaries. At a minimum, it should demonstrate that the subdistrict's territories are served by common utility plant and facilities or share common geographic characteristics. Absent such demonstration, any rate that is based solely on a customer's location within the subdistrict's territory may be deemed unreasonable.

IT IS THEREFORE ORDERED that:

1. NKWSD is granted a Certificate of Public Convenience and Necessity to construct the proposed water main extensions as set forth in the drawings and specifications of its application.

2. NKWSD shall obtain prior Commission approval to perform any additional construction not expressly authorized herein.

3. No deviation to the proposed construction shall be undertaken without prior Commission approval.

4. Within 60 days of the date that the proposed construction is substantially completed, NKWSD shall inform the Commission in writing of the total project costs, including the cost of construction and all other capitalized costs (engineering, legal administrative, etc.). Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

5. NKWSD shall require that the proposed construction project be inspected under the general supervision of a professional engineer who is licensed to engage in the practice of engineering in Kentucky and who is competent to practice 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.

6. NKWSD is authorized to assess each customer of Subdistrict D a monthly surcharge of \$30 subject to the conditions set forth in Ordering Paragraphs 7 through 17.

7. NKWSD shall cease collection of the surcharge 30 years from the date of this Order or upon the collection of \$2,068,600.50, whichever occurs first.

8. The surcharge proceeds shall be used only to finance the facilities that are identified in NKWSD's application as Subdistrict D facilities and that the Commission has approved in this Order.

9. NKWSD shall identify the surcharge as a separate line item on its bills to Subdistrict D customers.

10. On April 1, 2002, and each year thereafter so long as NKWSD assesses the surcharge, NKWSD will adjust the surcharge level to reflect the number of Subdistrict D customers as of December 31 of the preceding year and the outstanding debt service requirements on the debt that was issued to finance the Subdistrict D facilities approved herein. In no event, however, shall the level of the surcharge exceed \$30 per month.

11. Beginning in 2002, for the period from the date of this Order until December 31, 2001, and for each calendar year thereafter in which the surcharge is effective, NKWSD shall submit with the annual financial and statistical report required by Administrative Regulation 807 KAR 5:006, Section 3(1), a written report stating

- a. the number of customers in Subdistrict D as of December 31 of the preceding year;
- b. the total surcharge billed during the preceding calendar year;
- c. the total surcharge billed since the date of this Order;
- d. the remaining debt service on the debt instruments issued to finance the Subdistrict D facilities approved herein.

12. For the calendar year in which it issues long-term debt to refinance the BAN used to finance the Subdistrict D facilities approved herein, NKWSD shall also include in its written report the interest rate on the long-term debt and the actual cost of servicing the debt incurred to construct the Subdistrict D facilities.

13. In its written report submitted for calendar year 2006, NKWSD shall describe how Subdistrict D facilities have been integrated into NKWSD's overall operations, shall list and describe the benefits, if any, that Subdistrict D facilities provide to non-Subdistrict D customers, and shall state whether further adjustments to the surcharge are necessary to reflect these benefits.

14. NKWSD shall for accounting purposes maintain separate accounts for the billing and collection of surcharge proceeds and for the payment of all debt instruments funded through the surcharge.

15. Within 20 days of the date of this Order, NKWSD shall revise its filed rate schedules to contain the Subdistrict D surcharge and a description of the area that Subdistrict D comprises. At a minimum, this description shall include a map of the general area and a listing of all streets and roadways within Subdistrict D.

16. NKWSD shall maintain a current description of Subdistrict D in its filed rate schedules so long as the Subdistrict D surcharge is effective.

17. All persons who receive water service through the Subdistrict D facilities or through water mains that are laterals to or extensions of those facilities shall be considered within Subdistrict D and shall be assessed the surcharge.

Done at Frankfort, Kentucky, this 31st day of May, 2000.

By the Commission

ATTEST:


Executive Director