

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

WATER PURCHASE AGREEMENT BETWEEN	)	
NORTHERN KENTUCKY WATER SERVICE	)	CASE NO. 2000-237
DISTRICT AND BULLOCK PEN WATER DISTRICT	)	

ORDER

Northern Kentucky Water Service District (“NKWSD”) and Bullock Pen Water District (“Bullock Pen”) have submitted for Commission review a Water Purchase Agreement (“the Agreement”).

Having considered 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. Bullock Pen, a water district organized under KRS Chapter 74, provides retail water service to Boone and Grant counties, Kentucky.
3. Bullock Pen has no water production or treatment facilities and currently purchases its total water requirements from the cities of Williamstown and Walton, Kentucky.
4. On April 16, 2000, NKWSD and Bullock Pen executed the Agreement.
5. The Agreement provides, inter alia, that:

a. NKWSD will supply to Bullock Pen a minimum volume of 150,000 gallons of water per day, averaged on a monthly basis, at a rate of \$1.44 per 1,000 gallons of water.

b. Bullock Pen will purchase from NKWSD a minimum volume of 150,000 gallons of water per day, averaged on a monthly basis at a rate of \$1.44 per 1,000 gallons. Should Bullock Pen purchase less than an average of 150,000 gallons per day during any monthly period, its bill for that period shall be calculated as if it had purchased the minimum contract volume.

c. NKWSD will supply water to Bullock Pen through a 12-inch water distribution main that runs from US Route 25 to the intersection of US Route 25 and Kentucky Route 14.

d. The point of delivery will be at or near the intersection of US Route 25 and Kentucky Route 14.

e. Bullock Pen will construct, install and complete, at its own cost, a master meter and a meter pit and a water main to receive water from NKWSD.

f. Upon completion of the construction and installation of the master meter and the meter pit, Bullock Pen will transfer ownership of the master meter and meter pit to NKWSD.

g. In addition to the rate for water service, Bullock Pen will pay to NKWSD monthly an amount equal to 10 surcharges assessed to NKWSD's Subdistrict C customers. The amount of Subdistrict C surcharges will be recalculated annually but shall not exceed \$30 per month per surcharge or a total of \$300 per month.

6. NKWSD will provide service to Bullock Pen through a 4-inch meter.

7. The delivery point and the meter through which Bullock Pen will be provided water service are located within NKWSD's Subdistrict C.

8. a. The construction of the 12-inch water distribution main through which NKWSD will provide water service to Bullock Pen was financed in part under the terms of an agreement between Rural Development, an agency of the United States Department of Agriculture, and NKWSD ("RD Agreement").<sup>1</sup>

b. The RD Agreement provided that Rural Development would purchase \$2,287,000 of NKWSD revenue bonds whose proceeds would be used for the construction of the 12-inch water distribution main.

c. The RD Agreement further provided the minimum rates that NKWSD must charge to customers that are served through the 12-inch distribution main and that a monthly surcharge of \$30 be assessed upon users of the distribution main. The proceeds of this monthly surcharge were intended to finance the debt service on NKWSD's revenue bond issuance.

d. The RD Agreement also provides that this surcharge remain in effect while any revenue bonds from this issuance are outstanding.

9. The RD Agreement does not:

- a. provide for annual recalculation of the surcharge amount; or,
- b. permit the surcharge amount to be based upon the size of a customer's meter.

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<sup>1</sup> See Letter from Thomas G. Fern, State Director of Rural Development, to Patricia Sommerkamp, Chairman, Northern Kentucky Water Service District (Oct. 27, 1998).

10. KRS 278.023 prohibits the Commission from modifying or rejecting any provision of the RD Agreement.

11. The Commission has approved rates for NKWSD's provision of service to Subdistrict C that the RD Agreement required.<sup>2</sup> These rates provide that each customer within Subdistrict C will be assessed a monthly surcharge of \$30.

12. NKWSD's proposed rates for water service to Bullock Pen under the Agreement are the same currently assessed to all NKWSD wholesale customers who are served through NKWSD's Kenton County Division.

13. NKWSD's proposed rates for water service to Bullock Pen under the Agreement will generate minimum revenues equal to or greater than those required by the minimum rates set forth in the RD Agreement and are therefore consistent with that agreement.

14. The RD Agreement requires NKWSD to assess Bullock Pen only one monthly Subdistrict C surcharge.

15. Approval of the Agreement to permit the assessment of 10 Subdistrict C surcharges to Bullock Pen requires the Commission to modify a provision of the RD Agreement. KRS 278.023 prohibits the Commission from such action.

16. While the parties to the Agreement recognize that Bullock Pen should contribute to the cost of the 12-inch water distribution main in a manner similar to other

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<sup>2</sup> Case No. 99-150, The Application and Motion of Northern Kentucky Water Service District to Construct an Extension, and to Institute a Surcharge Under KRS 278.023 with No Change in Northern's General Water Rates; Estimated Funding of \$5,200,000, in Large Measure by USDA, Plus Community Efforts (May 17, 1999).

Sub-District C customers, they have provided no evidentiary support for the proposed number of monthly Subdistrict C surcharges that the Agreement requires.

17. The purpose of the monthly Subdistrict C surcharge is to allocate the cost of financing the construction of the 12-inch water distribution main among those receiving water service from that water distribution main.

18. When designing the monthly Subdistrict C surcharge, neither NKWSD nor Rural Development considered that customers served through the 12-inch water distribution main would be served through water meters other than 5/8-inch meters.

19. Subdistrict C customers who are served through a larger meter size place more demand on NKWSD's system than those served through a 5/8-inch meter and, therefore, receive greater benefit from the 12-inch water distribution main than those customers served through a 5/8-inch meter.

20. The more equitable and reasonable method of recovering the cost of financing the construction of the 12-inch water distribution main is a monthly surcharge assessed to all Subdistrict C customers based upon the size and type of customer meter.

21. Based upon the rated maximum capacity of a 5/8-inch meter and a 4-inch meter, NKWSD should assess Bullock Pen no less than the equivalent of 25 monthly Subdistrict C surcharges.<sup>3</sup>

22. Pursuant to KRS 278.023(3), the following modifications to the RD Agreement are recommended:

a. The Subdistrict C Surcharge should be based upon a customer’s meter size and type.

b. NKWSD should be required to annually adjust the Subdistrict C Surcharge to reflect the number of Subdistrict C customers as of December 31 of the preceding year, the size and type of meters used to serve these customers, and the outstanding debt service requirements on the debt that was issued to finance the Subdistrict C facilities.

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<sup>3</sup> The table below shows equivalent units expressed in terms of the ratio of rate meter capacity for meter relative to a 5/8-inch meter.

Meter Size/Type	Rated Maximum Capacity (gpm)	Meter Equivalent
5/8-in Displacement or Multi-jet	20	1
3/4-in Displacement or Multi-jet	30	1.5
1-in Displacement or Multi-jet	50	2.5
1.5-in Displacement or Class I Turbine	100	5
2-in Compound Displacement or Class I & II Turbine	160	8
3-in Displacement	300	15
3-in Compound	320	16
3-in Class I & II Turbine	350	17.5
4-in Displacement or Compound	500	25
4-in Class I Turbine	600	30
8-in Compound	1600	80
8-in Class I Turbine	1800	90

Source: AWWA Manual M6, Water Meters – Selection, Installation, Testing and Maintenance.

See also American Water Works Association, AWWA Manual M26: Water Rates and Related Charges 25 (1996) (“As an alternative, a utility may analyze actual annual water use, weighted by applicable maximum-day demand ratios, for each meter size within its service area to establish utility specific equivalent-meter factors.”).

IT IS THEREFORE ORDERED that:

1. The proposed Water Purchase Agreement is approved subject to the modification set forth in Ordering Paragraph 2.

2. Until Rural Development agrees to the contrary and the Commission so approves, NKWSD may only assess Bullock Pen a monthly surcharge in the same amount as assessed to all other NKWSD customers receiving water service within NKWSD's Subdistrict C.

3. A copy of this Order shall be served upon the state director of Rural Development.

Done at Frankfort, Kentucky, this 6<sup>th</sup> day of July, 2000.

By the Commission

ATTEST:

  
Executive Director