

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WEBSTER COUNTY)	
WATER DISTRICT TO REVISE ITS CURRENT)	CASE NO. 2001-00183
WATER MAIN EXTENSION POLICY)	

O R D E R

Webster County Water District (Webster District) has filed revisions to its filed rate schedules to revise its current policy and practices for water main extensions. Finding that a deviation from Administrative Regulation 807 KAR 5:066 is required to implement the proposed policy and further finding that good cause exists to permit the deviation, we grant the deviation and approve the proposed policy.

Under the provisions of Administrative Regulation 807 KAR 5:066, Section 11, a water utility must extend its distribution main by as much as 50 feet, without charge, to serve a prospective customer. When an extension of a utility's main to serve a customer or group of customers exceeds 50 feet per prospective customer, the utility may require the total cost of the excessive footage to be deposited with it by the customers. The utility must, over a period of not less than 10 years, refund these customers the cost of 50 feet of the extension in place for each additional customer whose service line is directly connected to the extension installed. This duty to refund continues until the refund period ends or the deposited funds are depleted.

Webster District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 1,394 retail customers in the unincorporated portions of Webster County, Kentucky and to the cities of Clay, Dixon and Slaughters, Kentucky.

Webster District proposes a new extension arrangement for water main extensions. Under this arrangement, Webster District will contribute the cost of 50 feet of the water main extension for each applicant for service. Each applicant will then contribute an equal share of the remaining cost of the extension, but no more than \$1,000. In those instances where a contribution of \$1,000 from each applicant is not sufficient to cover the remaining cost of the water main extension, Webster District will make an additional contribution not to exceed \$3,000 per applicant for service. If this additional contribution is not sufficient to meet the cost of the main extension, then the applicants must equally contribute any deficiency. Any person who connects to the water main extension within 10 years of its installation will be required to contribute the same amount as the original applicants. These subsequent contributions will first be used to reimburse Webster District for its additional contribution, and then to reduce the contributions of earlier contributors.¹

The proposed extension arrangement differs from Administrative Regulation 807 KAR 5:066, Section 11, in several respects. While it requires Webster District to contribute the cost of 50 feet of water main extension for each applicant, it also imposes a potentially larger obligation on the water district's part if the contribution per original applicant exceeds \$1,000. The proposed arrangement has the potential of reducing an applicant's contribution (when the contribution is large) by not requiring the applicant to bear the full cost of the extension that exceeds the utility's initial contribution. It further

¹ In its original submission, Webster District stated that reimbursements would be made only to original customers. It subsequently amended its arrangement to provide that reimbursements would be made to customers along the line. See Webster District's Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents, Item 14.

spreads financial responsibility for the extension to persons connecting after a water main s construction. Under Administrative Regulation 807 KAR 5:066, Section 11, such persons are currently not required to make any contribution toward the cost of the extension.²

Having reviewed the proposed extension arrangement, we find that it is reasonable and equitable. It requires the utility to assume a greater obligation for the cost of the extension in the construction phase and lessens the burden for initial applicants for service. Under the proposed arrangement, Webster District will be advancing a large portion of the cost of water main extensions and will assume the risk that additional internal funds, not customer contributions, will ultimately pay for the extension. It also assumes the carrying charges related to this advancement of funds.

The proposed arrangement protects the rights of initial applicants and encourages their involvement in water main extensions. Applicants retain their right to reimbursement from subsequent customers should the water district s advancement be repaid. By requiring all customers who connect within 10 years of the water main s construction to contribute to the cost of the main extension, the free rider problem inherent in Administrative Regulation 807 KAR 5:066, Section 11, is eliminated. Moreover, given the low customer density in the unserved portions of Webster County and the number of households currently served, this requirement is reasonable and

² The proposed arrangement also goes beyond the requirements of the alternative water main extension arrangement set forth in Administrative Regulation 807 KAR 5:066, Section 11(2)(b)(2), which limits customer contributions from subsequently connecting customers to those connecting within 5 years of the main s placement in service.

reflects the likelihood that few customers will connect to these extensions within that time period.³

We find that the general effect of the alternative arrangement is to promote the extension of water service, that good cause exists to permit a deviation from Administrative Regulation 807 KAR 5:066, Section 11,⁴ and that Webster District's proposal generally should be approved.

While we are in general agreement with the proposed arrangement, we note three concerns. First, the proposed arrangement applies only to water main extensions that Webster District approves. The proposed arrangement, however, provides no criteria or guidelines that the water district will use to evaluate proposed water main extensions. Such criteria should be set forth in the water district's filed rate schedules. Second, this proposed arrangement is silent upon extensions that do not meet these criteria. These extensions should also be addressed in the water district's filed rate

³ Approximately 85 percent of households, or approximately 4,650 households, in Webster County received their water from a community public water system in 1999. In the next 20 years, only 230 households are expected to be added to public water systems through new water main extensions. See Governor's Water Resource Development Commission, Water Resource Development: A Strategic Plan App. B-43 (Oct. 1999) at http://wris.state.ky.us/wrdc_plan/gradd.pdf.

⁴ The Commission is authorized to permit a water utility to make water main extensions under arrangements that differ from those established in Administrative Regulation 807 KAR 5:066, Section 11. Administrative Regulation 807 KAR 5:066, Section 11(4), provides:

Nothing contained herein shall be construed to prohibit the utility from making extensions under different arrangements if such arrangements have received the prior approval of the commission.

Administrative Regulation 807 KAR 5:066, Section 18, provides:

Deviations from Administrative Regulation. In special cases, for good cause shown, the commission may permit deviations from this administrative regulation.

schedules. Finally, the proposed arrangement should be set forth in a format consistent with the utility's existing filed rate schedules. The Commission believes that these issues can be addressed through discussions between the utility and Commission Staff on the form and content of a new rate schedule containing the proposed arrangement and criteria for the evaluation of proposed water main extensions.

IT IS THEREFORE ORDERED that:

1. Webster District's proposed alternative extension arrangement is approved as of the date of this Order.

2. Within 45 days of this Order, Webster District shall file with the Commission revised tariff sheets containing the proposed alternative extension arrangement and criteria for the evaluation of proposed water main extensions.

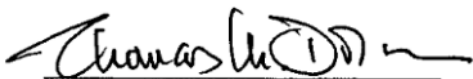
3. For the year ending December 31, 2002 and for each of the three years thereafter, Webster District shall file with its annual report a report on the water main extensions made pursuant to its alternative arrangement. This report shall state, for each extension, its total cost, its length, total utility contribution, number of initial applicants, number of customers currently connected to extension, total customer contribution, and the date on which extension was placed in service.

4. Commission Staff shall convene an informal conference with Webster District no later than 20 days from the date of this Order to discuss the approved arrangement and the development of tariff sheets to reflect that arrangement.

Done at Frankfort, Kentucky, this 21st day of March, 2002.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Thomas H. [unclear]", written over a horizontal line.

Executive Director