

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| APPLICATION OF NORTHERN KENTUCKY WATER |) | |
| DISTRICT FOR A CERTIFICATE OF CONVENIENCE |) | |
| AND NECESSITY FOR THE CONSTRUCTION OF |) | CASE NO. |
| SUB-DISTRICT E WATER MAIN EXTENSIONS, |) | 2003-00167 |
| FINANCING AND SURCHARGE |) | |

O R D E R

Northern Kentucky Water District (NKWD) 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 Sub-district E. Having reviewed the application and being otherwise sufficiently advised, the Commission finds that:

1. The proposed Phase I project includes the construction of approximately 18,000 linear feet of 8-inch and 735 linear feet of 6-inch water mains and related appurtenances. Phase I will provide service to approximately 60 new customers along Whitaker, McDonald, Bromley Cresent Springs, St. Johns, Fiskburg and Oliver Roads. The proposed Phase II project includes the construction of approximately 2,300 linear feet of 12-inch and 11,340 linear feet of 8-inch water mains and related appurtenances. Phase II will provide service to approximately 55 new customers along KY 177, Bethal Grove, Brandy Lane, Vise s Trail and Licking Station Roads. The proposed Phase III project includes the construction of approximately 22,035 linear feet of 8-inch and 18 linear feet of 6-inch water mains and related appurtenances. Phase III will provide

service to approximately 49 new customers along KY 177, Kenton Station and Ishmael Roads.

2. The proposed waterworks improvement project will not compete with any other water utility in the area.

3. The proposed project is necessary to provide service to new areas of rural Kenton County to maintain and extend quality water service to the general area of Kenton County. It is in the public interest and is required to allow NKWD to continue to provide adequate service to its customers.

4. The total construction cost is approximately \$2,565,956.

5. NKWD proposes to fund the total construction cost from the following sources:

a. A \$998,000 Community Development Block Grant (CDBG);

b. Tap-on fees of \$34,450;

c. A \$100,000 grant from the Kenton County Fiscal Court;

d. A \$253,000 contribution from the applicant;

e. A \$10,000 grant from the city of Independence;

f. \$5,000 from a Community Fund Raising; and

g. Bond Anticipation Note (BAN) of \$1,165,506.¹

6. Construction of the proposed projects will not result in the wasteful duplication of existing facilities.

¹ NKWD response submitted July 17, 2003.

7. As determined in Case No. 2000-00171, NKWD'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.²

8. The public convenience and necessity require the construction of the proposed projects.

9. NKWD used income eligibility requirements for CDBG funding as a principal criterion for determining Sub-district E's boundaries. More specifically, at least 51 percent of the households receiving water service within the proposed Sub-district must be low to moderate income (LMI) households.

10. Persons residing within the proposed Sub-district E currently receive water service through cisterns.

11. NKWD proposes to assess each customer of Sub-district E for the next 30 years a monthly surcharge not to exceed \$30. This surcharge is designed to service the BAN of \$1,165,506 incurred to construct the Sub-district E facilities.

12. 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 the debt incurred to construct the Sub-district E facilities, whichever occurs first.

b. The surcharge proceeds should be used only to finance the facilities that are identified in NKWD's application as Sub-district E facilities.

² See Case No. 2000-00171, Application of Northern Kentucky Water Service District for a Certificate of Public Convenience and Necessity for the Construction of Sub-District D Water main Extensions and Surcharge (May 31, 2000).

- c. The surcharge should be billed as a separate line item.
- d. The surcharge should be adjusted annually to reflect the current number of Sub-district E customers and the outstanding debt service obligations on Sub-district E facilities. In no event, however, should the level of the surcharge exceed \$30 per month.
- e. NKWD should file annual reports with the Commission on Sub-district E surcharge collections, customer levels, and remaining debt service obligations.
- f. After the surcharge has been in effect for five years, it should be re-examined to determine the extent to which Sub-district E facilities have been integrated into NKWD's overall operations and whether these facilities are benefiting non-Sub-district E customers to the extent that additional adjustments to the surcharge are necessary.
- g. In any future general rate adjustment proceeding involving NKWD, no debt attributed to the Sub-district E facilities and financed through the proposed surcharge should be considered when determining NKWD'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.

IT IS THEREFORE ORDERED that:

1. NKWD is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction as set forth in its application.
2. NKWD shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

3. Any deviation from the construction approved shall be undertaken only with the prior approval of the Commission.

4. NKWD shall furnish documentation of the total costs of this project including the cost of construction and all other capitalized costs, including, but not limited to, engineering, legal and administrative expenses, within 60 days of the date that construction is substantially completed. 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. NKWD shall file with the Commission a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

6. NKWD shall require construction to be inspected under the general supervision of a licensed professional engineer with a Kentucky registration 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.

7. NKWD shall notify the Commission 7 days prior to the actual start of construction and at the 50 percent completion point.

8. NKWD is authorized to assess each customer of Sub-district E a monthly surcharge of \$30 subject to the conditions set forth in Ordering Paragraphs 9 through 19.

9. NKWD shall cease collection of the surcharge 30 years from the date of this Order or until the collection of the debt incurred to construct the Sub-district E facilities, whichever occurs first.

10. The surcharge proceeds shall be used only to finance the facilities that are identified in NKWD's application as Sub-district E facilities and that the Commission has approved in this Order.

11. NKWD shall identify the surcharge as a separate line item on its bills to Sub-district E customers.

12. On April 1, 2005, and each year thereafter so long as NKWD assesses the surcharge, NKWD will adjust the surcharge level to reflect the number of Sub-district E customers as of December 31 of the preceding year and the outstanding debt service requirements on the debt that was issued to finance the Sub-district E facilities approved herein. In no event, however, shall the level of the surcharge exceed \$30 per month.

13. Beginning in 2005, for the period from the date of this Order until December 31, 2004, and for each calendar year thereafter in which the surcharge is effective, NKWD 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 Sub-district E 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 Sub-district E facilities approve herein.

14. For the calendar year in which it issues long-term debt to replace the BANs used to finance the Sub-district E facilities approved herein, NKWD shall obtain prior Commission approval to issue such debt and shall 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 Sub-district E facilities.

15. In its written report submitted for calendar year 2009, NKWD shall describe how Sub-district E facilities have been integrated into NKWD's overall operations, shall list and describe the benefits, if any, that Sub-district E facilities provide to non-Sub-district E customers, and shall state whether further adjustments to the surcharge are necessary to reflect these benefits.

16. NKWD 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.

17. Within 20 days of the date of this Order, NKWD shall revise its filed rate schedules to contain the Sub-district E surcharge and a description of the area that Sub-district E comprises. At a minimum, this description shall include a map of the general area and a listing of all streets and roadways within Sub-district E.

18. NKWD shall maintain a current description of Sub-district E in its filed rate schedules so long as the Sub-district E surcharge is effective.

19. All persons who receive water service through the Sub-district E facilities or through water mains that are laterals to or extensions of those facilities shall be considered within Sub-district E and shall be assessed the surcharge.

Done at Frankfort, Kentucky, this 18th day of July, 2003.

By the Commission

ATTEST:


Executive Director