

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY WATER)	
DISTRICT FOR A CERTIFICATE OF CONVENIENCE)	
AND NECESSITY FOR THE CONSTRUCTION OF)	CASE NO.
SUB-DISTRICT RF WATER MAIN EXTENSIONS,)	2003-00191
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 RF. Having reviewed the application and being otherwise sufficiently advised, the Commission finds that:

1. The proposed Phase V project includes the construction of approximately 11,500 linear feet of 8-inch and 552 linear feet of 6-inch water mains and related appurtenances. Phase V will provide service to approximately 58 new customers along KY 177, Short Marshall, Tecumseh Lane and Porter 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 \$584,735.
5. NKWD proposes to fund the total construction cost from the following sources:
 - a. A \$394,918 Community Development Block Grant (CDBG);
 - b. Tap-on fees of \$9,750;
 - c. A \$5,000 grant from the Kenton County Fiscal Court;
 - d. A \$36,000 contribution from the applicant;
 - e. A \$5,000 grant from the cities of Ryland Heights / Fairview; and
 - f. Bond Anticipation Note (BAN) of \$134,067.¹
6. Construction of the proposed projects will not result in the wasteful duplication of existing facilities.
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 RF'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.

¹ NKWD response submitted July 17, 2003.

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).

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

11. NKWD proposes to assess each customer of Sub-district RF for the next 30 years a monthly surcharge not to exceed \$30. This surcharge is designed to service the BAN of \$130,875 incurred to construct the Sub-district RF 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 RF 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 RF 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 Sub-district RF customers and the outstanding debt service obligations on Sub-district RF 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 RF 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 RF facilities have been integrated into NKWD's overall operations and whether these facilities are benefiting

non-Sub-district RF 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 RF 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 RF 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 RF 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 RF 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 RF 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 RF 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 RF 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 RF facilities approve herein.

14. For the calendar year in which it issues long-term debt to refinance the BAN used to finance the Sub-district RF 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 Sub-district RF facilities.

15. In its written report submitted for calendar year 2009, NKWD shall describe how Sub-district RF facilities have been integrated into NKWD's overall operations, shall list and describe the benefits, if any, that Sub-district RF facilities provide to non-Sub-district RF 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 RF surcharge and a description of the area that Sub-district RF 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 RF.

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

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

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

By the Commission

ATTEST:


Executive Director

Case No. 2003-00191