

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	)	CASE NO.
CONSTRUCTION OF SUB DISTRICT H WATER	)	2013-00218
MAIN EXTENSIONS PHASE V, FINANCING AND	)	
SURCHARGE	)	

ORDER

Northern Kentucky Water District ("Northern District") has applied for a Certificate of Public Convenience and Necessity ("Certificate") to construct various water main extensions, approval of the addition of customers and areas to the previously approved Sub-District H, financing of the project, and for authority to assess a surcharge to customers to be served by the additional extensions.

Having reviewed the application and being otherwise sufficiently advised,<sup>1</sup> the Commission finds that:

1. Northern District, a water district organized under KRS Chapter 74, provides retail water service to approximately 80,557 customers in Boone, Campbell, and Kenton counties, Kentucky, and wholesale water service to the city of Walton, Kentucky, and Pendleton County Water District and Bullock Pen Water District.<sup>2</sup>

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<sup>1</sup> Northern District filed its application on June 13, 2013. Northern District has not requested a hearing in this matter. No person has sought intervention in this matter.

<sup>2</sup> *Annual Report of Northern Kentucky Water District to the Public Service Commission of Kentucky for the Year Ended December 31, 2012 ("Annual Report")* at 5, 27, and 30.

2. In Case No. 2010-00434,<sup>3</sup> the Commission authorized Northern District to create a sub-district known as "Sub-District H" for administrative, financing, and rate-making purposes and issued a Certificate to Northern District for a waterworks improvement project to extend water service to Sub-District H.

3. Sub-District H comprises all or a portion of the following areas in Campbell County: Bars Branch Road, Cory Lane, Creek Trace Road, Enzweiler Road, Indian Trace Road, Joann Lane, John Miller Road, Lauren Lane, Maddox Road, Orlando Drive, Pleasant Ridge Road, Rifle Range Road, Schababerle Hill Road, and Wesley Chapel Road.<sup>4</sup>

4. The originally approved waterworks improvement project involved the installation of approximately 95,459 linear feet of water mains in Campbell County, Kentucky.<sup>5</sup>

5. Northern District estimated the cost of the originally approved waterworks improvement project to be \$4,555,860.<sup>6</sup>

6. Northern District financed the waterworks improvement project from the following sources: a grant of \$25,000 from Campbell County Fiscal Court; an appropriation of \$2,950,000 from the Kentucky General Assembly;<sup>7</sup> and \$1,580,860 from the proceeds from the issuance of bond anticipation notes.

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<sup>3</sup> See Case No. 2010-00434, *Application of Northern Kentucky Water District for a Certificate of Convenience and Necessity for the Construction of Sub-District H Water Main Extensions, Financing and Surcharge* (Ky. PSC Dec. 27, 2010).

<sup>4</sup> Northern Kentucky Water District Tariff, PSC No. 5, Sheet No. 40 (effective Jan. 1, 2013).

<sup>5</sup> Case No. 2010-00434, App. ¶ 6 (filed Nov. 5, 2010).

<sup>6</sup> Case No. 2010-00434, App. Corrected Ex. D (filed Dec. 20, 2010).

<sup>7</sup> 2008 Ky. Acts Ch. 191 (allocating funding for WRIS Project WX21037203).

7. In Case No. 2010-00434, the Commission authorized the assessment of a monthly surcharge of \$30 on customers located within Sub-District H to service \$933,842 of the proposed debt issuance. Northern District was authorized to assess this surcharge until "collection of the debt incurred to construct the Sub-District H facilities has been retired."<sup>8</sup>

8. Northern District based the level of the Sub-District H surcharge upon the cost of issuing and servicing sufficient bonds to obtain the customer contribution of \$933,842. To obtain the customer contribution of \$933,842, Northern District determined that the issuance of \$1,040,000 of revenue bonds maturing over a 25-year period was required and that the net debt service for such bond issuance was \$1,445,486.<sup>9</sup>

9. On or about June 30, 2011, Northern District began assessing a monthly surcharge of \$30 to customers located in Sub-District H.<sup>10</sup>

10. As of December 31, 2012, approximately 56 customers were located in Sub-District H.<sup>11</sup>

11. As of December 31, 2012, Northern District had billed surcharges to Sub-District H customers totaling \$18,361.<sup>12</sup>

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<sup>8</sup> Case No. 2010-00434, Order of Dec. 27, 2010 at 5.

<sup>9</sup> Case No. 2010-00434, Application Ex. D.

<sup>10</sup> Memorandum from Gerald Wuetcher, Executive Advisor/Attorney, Public Service Commission, to Case Record (July 18, 2013).

<sup>11</sup> *Annual Report*, "Additional Information Required By Commission Orders."

<sup>12</sup> *Id.*

12. Northern District has completed the originally approved waterworks improvement project. Total cost of this project was \$3,132,221.80. Approximately \$1,146,709.60 of the budgeted funds remains available for further construction.<sup>13</sup>

13. Northern District proposes to use the remaining funds to construct and install additional water distribution mains in rural sections of Campbell County. The proposed project – the “Sub-District H Phase V Water Main Extension Project” – involves the construction and installation of 5,678 linear feet of 8-inch polyvinyl chloride water main, 7,977 linear feet of 8-inch ductile iron main, and 383 linear feet of 12-inch ductile iron main.<sup>14</sup>

14. The estimated construction cost of the proposed Sub-District H Phase V Water Main Extension Project is \$819,720.<sup>15</sup>

15. The estimated total cost of the proposed Sub-District H Phase V Water Main Extension Project, including construction costs, engineering, materials, and contingencies, is \$1,146,709.<sup>16</sup>

16. The estimated total cost of the Sub-District H project, including completed and proposed phases of the water main extension, is \$4,278,931.<sup>17</sup>

17. Northern District proposes to place the following areas of Campbell County within Sub-District H and to impose the Sub-District H surcharge on Northern District customers in those areas:

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<sup>13</sup> App. ¶ 5.

<sup>14</sup> App. “Project Description.” See finding paragraph 17 of this Order for the specific locations of these water mains.

<sup>15</sup> App. Ex. D.

<sup>16</sup> App. ¶ 7.

<sup>17</sup> App. ¶ 5.

- a. Approximately 4,262 linear feet along Daniels Road from the intersection of Daniels Road and Schababerle Hill Road to # 3185 Daniels Road;
- b. Approximately 713 linear feet along Low Gap Road from # 945 Low Gap Road to # 878 Low Gap Road;
- c. Approximately 2,712 linear feet along Mystic Rose Road from the intersection of Nine Mile Road and Mystic Rose;
- d. Approximately 3,725 linear feet along Pond Creek Road from the intersection of Pond Creek Road and Creekmore Trace Road to # 10365 Pond Creek Road,
- e. Approximately 2,262 linear feet along Washington Trace Road from # 10998 Washington Trace Road to # 11236 Washington Trace Road.<sup>18</sup>

18. The proposed areas for inclusion in Sub-District H are not contiguous and do not otherwise share a common geographical characteristic.<sup>19</sup>

19. The proposed areas for inclusion in Sub-District H are rural, remote from existing water distribution facilities, and have no access to potable water other than cisterns or wells.

20. Northern District has determined the proposed areas for inclusion in Sub-District H through an analysis of all unserved areas of Campbell County that are within its territory.<sup>20</sup> While hydraulic conditions, the availability of sewer service, geotechnical factors, the location of existing water distribution facilities, and conditions of financial

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<sup>18</sup> App. "Project Description."

<sup>19</sup> App. ¶ 6.

<sup>20</sup> App. Ex. I.

grants were considered, Northern District grouped areas for inclusion within the proposed sub-district primarily on customer density.<sup>21</sup>

21. The selection of unserved areas with the highest customer density maximizes the number of households added, ensures the most effective use of limited funds from government grants, and reduces the level of the surcharge.

22. Northern District estimates that 53 households are located within the area proposed for inclusion in Sub-District H and that 28 of these households will apply for water service upon completion of the proposed facilities.<sup>22</sup>

23. The proposed water improvements project will not compete with any other utility in the area.

24. The Kentucky Division of Water has approved the plans and specifications of the proposed water improvements project with respect to sanitary features of design.<sup>23</sup>

25. If Northern District required each customer in the area proposed for inclusion in Sub-District H to make a one-time contribution towards the costs of the proposed extension in accordance with the methodology set forth in 807 KAR 5:066, Section 11(1), each of the 28 expected customers would be required to make a

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<sup>21</sup> See Northern Kentucky Water District Tariff, PSC No. 4, Sheet No. 20; App. ¶ 5. The areas proposed for inclusion into Sub-District H are the areas in Campbell County without water service with the greatest potential customer density. See App. Ex. I.

<sup>22</sup> App. "Project Description."

<sup>23</sup> Letter from Mark Rasche, Supervisor, Water Infrastructure Branch, Kentucky Division of Water, to Brandon L. Kuper, Northern Kentucky Water District (Sep. 11, 2012).

payment of \$13,039.<sup>24</sup> Under the proposed surcharge, the present value of the customer's payments over the 25-year period is \$3,376.05.<sup>25</sup>

26. In the Order of December 27, 2010 in Case No. 2010-00434, the Commission failed to establish a definite date for the termination of Northern District's authority to assess the Sub-District H surcharge. Based upon the assumptions that Northern District and the Commission used to determine the customer contribution level for the surcharge and the general cost of financing Sub-District H's facilities, the Sub-District H surcharge should terminate when cumulative Sub-District H surcharge assessments exceed \$1,445,486 or 25 years after the first assessment of the Sub-District H surcharge, whichever occurs first.<sup>26</sup>

Based upon these findings, the Commission makes the following conclusions of law:

1. Construction of the proposed facilities will not result in the wasteful duplication of facilities.

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<sup>24</sup> According to the bid tabulation sheets, the total main extension (constructed and proposed phases) is approximately 56,166 feet. Total cost of the extension is \$4,278,931. From this amount, the General Assembly appropriation of \$2,950,000, the Campbell County Fiscal Court grant of \$25,000, and Northern District's hydraulic contribution of \$120,089 should be subtracted. The cost of the main extension is \$21.08 per foot (\$1,183,842 ÷ 56,166 feet). Pursuant to 807 KAR 5:066, Section 11(1), Northern District is required to contribute the cost of 50 feet of main for each applicant or \$88,536 (84 applicants x 50 foot per applicant x \$21.08 per foot). The 84 applicants consist of the existing 56 customers that Sub-District H presently serves plus the 28 applicants in the areas proposed for inclusion in Sub-District H. The 84 applicants would be responsible for \$1,095,305, or \$13,039 per applicant (\$1,095,305 ÷ 84 applicants).

<sup>25</sup> This calculation assumes an interest rate of 4.0 percent payment of the monthly surcharge of \$30 for 25 years. These assumptions result in a total nominal payment of \$9,000. In the case of the 28 applicants in the areas proposed for inclusion in Sub-District H, these persons will pay the monthly surcharge for less than 23 years, and hence less than \$9,000, since the surcharge must terminate no later than June 30, 2036. See *infra* text accompanying note 26.

<sup>26</sup> See *supra* text accompanying notes 7 and 8.

2. The public convenience and necessity require the construction of the proposed extension.

3. Where a sub-district is created for rate-making purposes, the areas placed within that sub-district should have some common characteristic or interest. The proponent of the sub-district's creation bears the burden of demonstrating the reasonableness of the sub-district's boundaries. At a minimum, it should demonstrate that the sub-district'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 sub-district's territory may be deemed unreasonable.<sup>27</sup>

4. The areas within the existing and proposed expansion of Sub-District H share a common characteristic – high customer population density – when compared to other unserved areas within Campbell County.

5. The use of customer density as the distinguishing factor to develop a rate to recover the cost of water main extensions to unserved areas may be reasonable, depending upon the circumstances of the extension.<sup>28</sup>

6. KRS 278.040(3) and KRS 278.280(1) authorize the Commission to develop rules for the furnishing of utility service to the public.

7. 807 KAR 5:066, Section 11(1) and (2), establishes a methodology for water main distribution extensions. 807 KAR 5:066, Section 11(4), permits a water

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<sup>27</sup> Case No. 2000-00171, *Application of Northern Kentucky Water Service District for a Certificate of Convenience and Necessity for the Construction of Sub-District D Water Main Extensions and Surcharge* (Ky. PSC May 31, 2000) at 8.

<sup>28</sup> Case No. 2007-00131, *Application of Northern Kentucky Water District for a Certificate of Convenience and Necessity for the Construction of Sub-District G Water Main Extensions, Financing and Surcharge* (Ky. PSC Jan. 31, 2008).

utility to develop arrangements for water distribution main extensions that differ from this methodology.

8. The Sub-District H surcharge represents a different arrangement for making water distribution main extensions.

9. Under the circumstances, Northern District has demonstrated that its formulation and calculation of the surcharge result in a reasonable rate and a reasonable alternative to existing methods of making water distribution main extensions.

10. Northern District's plan of financing the Sub-District H Phase V Water Main Extension Project does not involve the issuance of any new evidences of indebtedness and, therefore, does not require Commission authorization.

IT IS THEREFORE ORDERED that:

1. Northern District is granted a Certificate to construct the Sub-District H Phase V Water Main Extension Project.

2. Northern District 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. Northern District shall furnish documentation of the total cost of this project that includes 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. Northern District 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 certified herein.

6. Northern District 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 completed in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

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

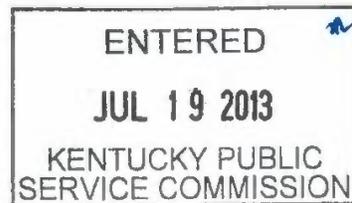
8. Within 20 days of the date of this Order, Northern District shall, using the Commission's electronic tariff filing system, file revised tariff sheets to reflect the addition of the following areas to Sub-District H: Low Gap Road, Mystic Rose, Washington Trace, Daniels Road, and Pond Creek Road. These revisions shall include a map of the areas and a list of all streets and roadways that have been placed within Sub District H as a result of this Order.

9. Except as modified by ordering paragraph 10 of this Order, all provisions set forth in the Commission's Order of December 27, 2010 in Case No. 2010-00434 regarding the surcharge assessed to Sub-District H customers shall remain in full force and effect.

10. Northern District shall cease assessment of the Sub-District H surcharge for service rendered after June 30, 2036, or when cumulative Sub-District H surcharge assessments exceed \$1,445,486, whichever occurs first.

11. Any documents filed pursuant to ordering paragraphs 4, 5, and 7 shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission



ATTEST:

  
Executive Director

Case No. 2013-00218

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