

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. 2012-00583
CONSTRUCTION OF SUB DISTRICT I WATER)	
MAIN EXTENSION, FINANCING AND)	
SURCHARGE)	

ORDER

Northern Kentucky Water District (“NKWD”) has applied for a Certificate of Public Convenience and Necessity to construct certain water main extensions within its proposed Subdistrict I and for authority to assess a surcharge to all customers within that area.

Having reviewed the evidence of record and being otherwise sufficiently advised,¹ the Commission finds that:

1. NKWD, a water district organized under KRS Chapter 74, provides retail and wholesale water service to Boone, Campbell, Kenton, and Pendleton counties, Kentucky.²
2. NKWD proposes to create for administrative, financing, and ratemaking purposes a subdistrict known as “Subdistrict I.”

¹ NKWD tendered its application on January 10, 2013. In its application, NKWD requested a deviation from 807 KAR 5:001, Section 17(2)(a), to permit the filing of its application. On January 24, 2013, the Commission granted this request and accepted NKWD’s application for filing. No persons have sought intervention in this matter. On February 14, 2013, Commission Staff served requests for information upon NKWD. On February 25, 2013, NKWD submitted its responses to these requests. NKWD has not requested a hearing in this matter.

² *Annual Report of Northern Kentucky Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2011* at 5; App. ¶ 4.

3. Under NKWD's proposal, Subdistrict I will consist of the following areas in Kenton County, Kentucky:

a. Approximately 7,400 linear feet along Jones Road from the Boone County-Kenton County line to its terminus in Kenton County;

b. Approximately 5,280 linear feet along Dixon Road from Rich Road to # 14315 Dixon Road; and,

c. Approximately 1,373 linear feet from # 4868 Taylor Mill Road to NKWD's existing water main on Taylor Mill Road.

4. A map of Subdistrict I and each of its component parts is shown in the Appendix to this Order.

5. The areas of the proposed Subdistrict I are not contiguous and do not otherwise share a common geographical characteristic.

6. The areas included in Subdistrict I are rural, remote from existing water distribution facilities, and have no access to potable water other than cisterns or wells.

7. NKWD determined the areas for inclusion in proposed Subdistrict I through an analysis of all unserved areas of Kenton County that are within its territory.³ While hydraulic conditions, the availability of sewer service, geotechnical factors, the location of existing water distribution facilities, and conditions of financial grants were considered, NKWD grouped areas for inclusion within the proposed subdistrict primarily on customer density.⁴

³ App. Ex. I.

⁴ See NKWD Tariff, PSC No. 4, Sheet No. 20; App. ¶ 5. The area included in Subdistrict I includes three of the four areas with the greatest potential customer density that are without water service. According to NKWD's records, the area excluded from Subdistrict I indicated little interest in the extension of water service. See App. Ex. I.

8. 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.

9. NKWD estimates that 66 households are located within the proposed Subdistrict I and that 33 households will apply for water service upon completion of the proposed facilities.

10. NKWD proposes to construct approximately 12,419 linear feet of 8-inch polyvinyl chloride water main, 662 linear feet of 8-inch ductile iron water main, 492 linear feet of 6-inch ductile iron main, and 19 fire hydrants to provide water service to Subdistrict I.⁵

11. Total construction cost of the proposed project is \$752,738.⁶

12. Estimated total cost of the proposed project, including engineering, administrative, and miscellaneous costs and contingencies, is \$919,323.⁷

13. NKWD proposes to connect the water distribution main that will serve the Jones Road area of Subdistrict I to the facilities of the city of Walton, Kentucky ("Walton") and to purchase water from Walton to serve this area.

14. On August 12, 2012, NKWD and Walton amended their existing water supply agreement to provide for the proposed connection and for NKWD's water purchases to serve Subdistrict I.⁸

⁵ App. Ex. C (amounts reflected in the bid tabulations).

⁶ *Id.*

⁷ App. Ex. D.

⁸ *Id.* Ex. J.

15. The Kentucky Division of Water has approved the plans and specifications for the proposed project with respect to the sanitary features of design.⁹

16. NKWD's proposed facilities will not conflict with the existing certificates or service of other utilities that operate in the same area and under the Commission's jurisdiction and that are in the general or contiguous area in which NKWD renders service.

17. NKWD proposes to finance the cost of the proposed construction with an appropriation of \$500,000 from the Kentucky General Assembly¹⁰ and \$419,323 from internal funds.

18. Approximately \$250,000 of these internal funds are proceeds from NKWD's issuance of bond anticipation notes in 2007, which NKWD placed into a segregated account to fund the construction of mains in unserved areas.

19. Approximately \$169,323 of the internal funds will be recovered through the assessment of a monthly surcharge of \$30 for a 25-year period to customers who are located within Subdistrict I.¹¹

20. If NKWD required each customer in Subdistrict I 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 33 expected

⁹ Letter from Mark Rasche, Supervisor, Engineering Section, Kentucky Division of Water, to Brandon L. Kuper, Northern Kentucky Water District (Aug. 10, 2012).

¹⁰ 2008 Ky. Acts Ch. 191.

¹¹ In nominal terms, the proposed surcharge is expected to generate \$297,000 over the 25-year period that it is assessed. ($\$30/\text{month} \times 12 \text{ months} \times 25 \text{ years} \times 33 \text{ customers} = \$297,000$). Assuming a 5 percent rate of interest, NKWD calculates that the present value of this amount is \$169,323. See NKWD's Response to Commission Staff's First Request for Information, Item 4.

customers would be required to make a payment of \$11,162.¹² Under the proposed surcharge, the present value of the customer's payments over the 25-year period is \$5,131.

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.

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

3. Where a subdistrict is created for rate-making purposes, the areas placed within that subdistrict should have some common characteristic or interest. The proponent of the subdistrict's creation bears the burden of demonstrating the reasonableness of the subdistrict's boundaries. At a minimum, it should demonstrate that the subdistrict'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 subdistrict's territory may be deemed unreasonable.¹³

¹² According to the bid tabulation sheets, the total main extension is approximately 13,573 feet. Total cost of the extension is \$919,323. From this amount, the General Assembly appropriation of \$500,000 should be subtracted. The cost of the main extension is \$30.89 per foot ($\$419,323 \div 13,573$ feet). Pursuant to 807 KAR 5:066, Section 11(1), NKWD is required to contribute the cost of 50 feet of main for each applicant or \$50,968.50 (33 applicants x 50 foot per applicant x \$30.89 per foot). The 33 applicants would be responsible for \$368,354.50, or \$11,162 per applicant ($\$368,354.50 \div 33$ applicants).

¹³ Case No. 2000-00171, *Application of Northern Kentucky Water Service District for a Certificate of Convenience and Necessity for the Construction of SubDistrict D Water Main Extensions and Surcharge* (Ky. PSC May 31, 2000) at 8.

4. The areas within the proposed Subdistrict I share a common characteristic – high customer population density – when compared to other unserved areas within Kenton 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.¹⁴

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

8. The proposed surcharge represents a different arrangement for making water distribution main extensions.

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

10. NKWD's proposed plan of financing the water distribution main extension does not involve the issuance of any evidences of indebtedness and, therefore, does not require Commission authorization.¹⁵

¹⁴ 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).

¹⁵ KRS 278.300(8).

IT IS THEREFORE ORDERED that:

1. NKWD is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction 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, such as 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 certified 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 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. NKWD shall notify the Commission seven days prior to the actual start of construction and at the 50 percent completion point.

8. NKWD is authorized to assess each customer of Subdistrict I a monthly surcharge of \$30 subject to the conditions set forth in ordering paragraphs 9 through 17.

9. NKWD shall cease collection of the surcharge 25 years from the date of this Order or upon the billing of \$297,000¹⁶ to customers of Subdistrict I facilities, whichever occurs first.

10. NKWD shall identify the surcharge as a separate line item on its bills to Subdistrict I customers.

11. On April 1, 2015, and each year thereafter so long as NKWD assesses the surcharge, NKWD will adjust the surcharge level to reflect the number of Subdistrict I customers as of December 31 of the preceding year and the annual expected revenue of \$44,280.¹⁷ In no event, however, shall the level of the surcharge exceed \$30 per month.

12. Beginning in calendar year 2013, for the period from the date of this Order, and for each calendar year thereafter in which the surcharge is effective, NKWD shall submit with the annual financial and statistical report required by 807 KAR 5:006, Section 4(2), a written report stating:

- a. The number of customers in Subdistrict I as of December 31 of the preceding year;
- b. The total surcharge billed during the preceding calendar year; and
- c. The total surcharge billed since the date of this Order.

¹⁶ This amount is based upon the assumption that Subdistrict I would serve an average of 33 households during the 25 years following the construction of the proposed water distribution mains. $\$297,000 = 33 \text{ households} \times \$30 \text{ per month} \times 300 \text{ months}$.

¹⁷ $\$11,880 = 33 \text{ households} \times \$30 \text{ per month} \times 12 \text{ months}$.

13. In its written report submitted for calendar year 2019, NKWD shall describe how Subdistrict I facilities have been integrated into NKWD's overall operations, shall list and describe the benefits, if any, that Subdistrict I facilities provide to non-Subdistrict I customers, and shall state whether further adjustments to the surcharge are necessary to reflect these benefits.¹⁸

14. NKWD shall for accounting purposes maintain separate accounts for the billing and collection of surcharge proceeds.

15. Within 20 days of the date of this Order, NKWD shall file with the Commission, using the Commission's Electronic Tariff Filing System, revised rate schedules containing the Subdistrict I surcharge and a description of the area that Subdistrict I comprises. At a minimum, this description shall include a map of the general area and a listing of all streets and roadways within Subdistrict I.

16. NKWD shall maintain a current description of Subdistrict I in its filed rate schedules so long as the Subdistrict I surcharge is effective.

17. All persons who receive water service through the Subdistrict I facilities, or through water mains that are laterals to or extensions of those facilities and are not part of any NKWD subdistrict that is subsequently created, shall be considered within Subdistrict I and shall be assessed the surcharge.

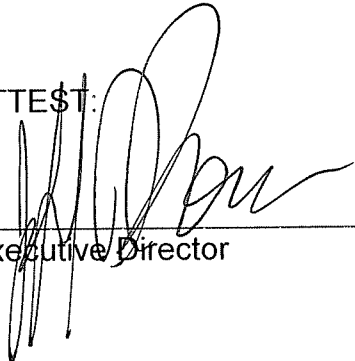
18. Any documents filed pursuant to ordering paragraphs 4, 5, and 7 shall reference the number of this case and shall be retained in the utility's general correspondence file.

¹⁸ The Commission reserves the right to periodically examine NKWD's use of subdistricts for the purpose of funding water main extensions and whether changing circumstances render the continued assessment of previously authorized surcharges reasonable. Such examination may be conducted in a separate proceeding initiated pursuant to KRS 278.260 or in a general rate adjustment proceeding that NKWD has initiated.

By the Commission

ENTERED
MAR 07 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00583 DATED MAR 07 2013

Figure 1
Northern Kentucky Water District Subdistrict I

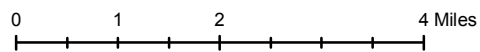
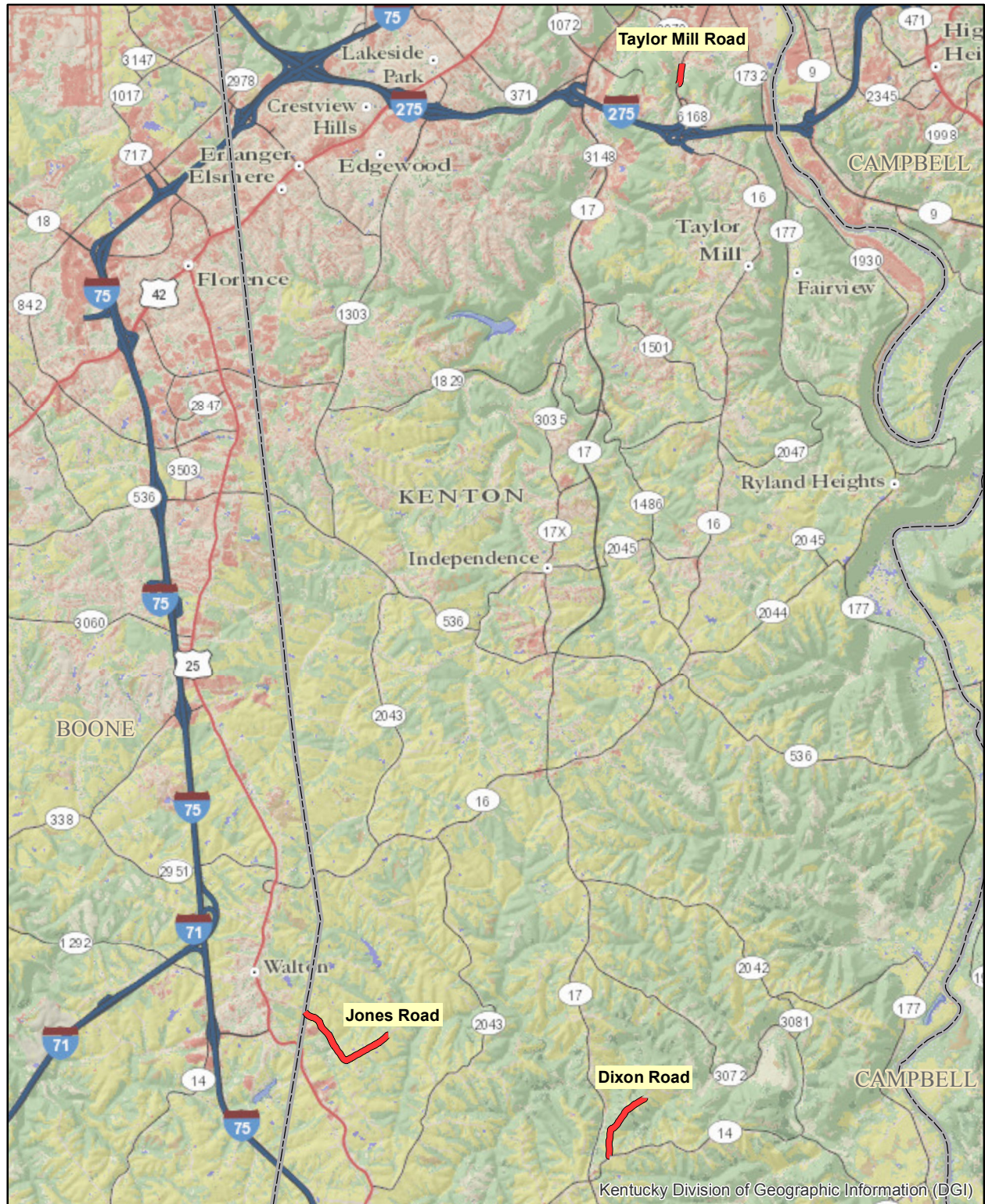


Figure 2
Northern Kentucky Water District Subdistrict I
Jones Road Water Main Extension

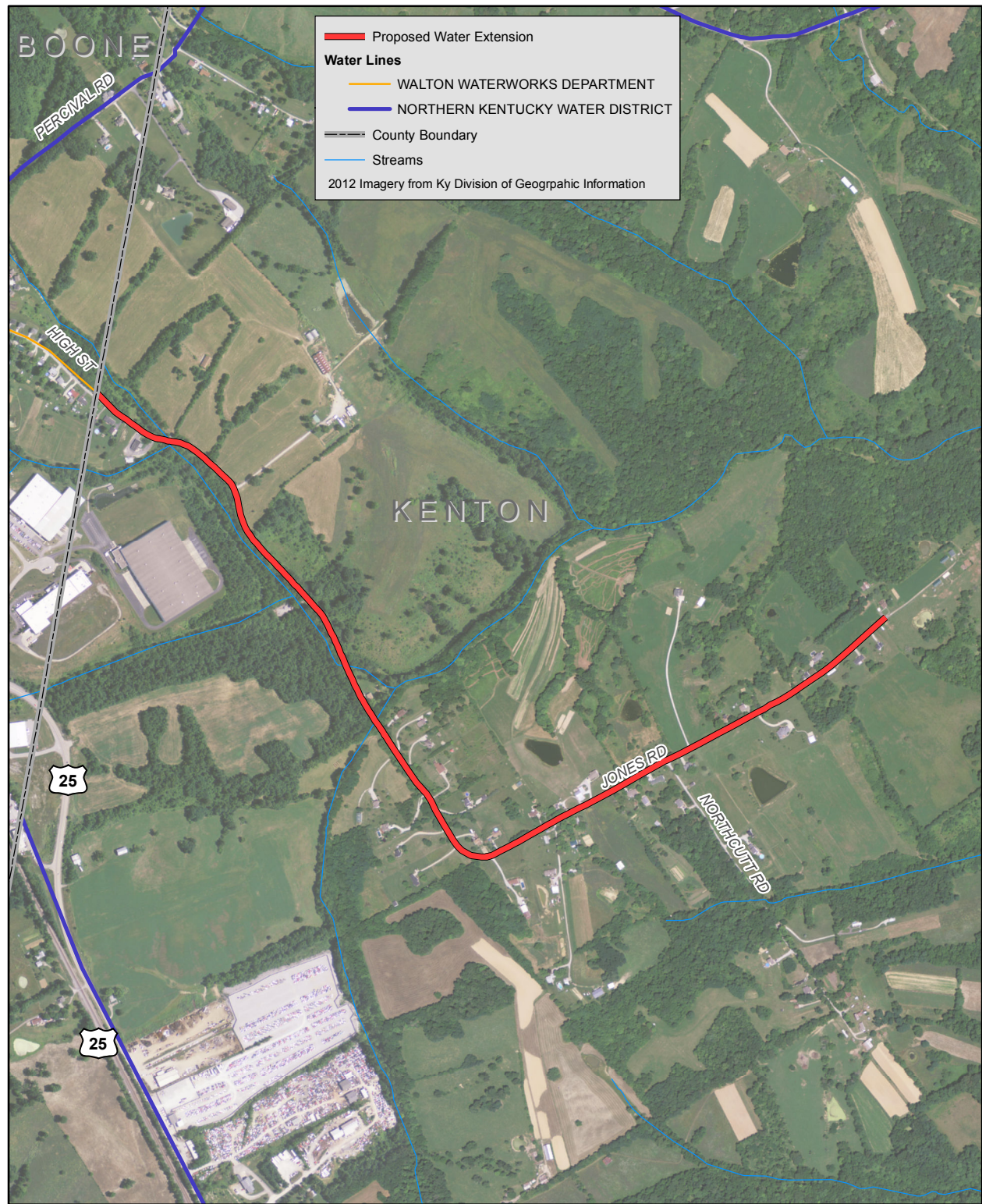
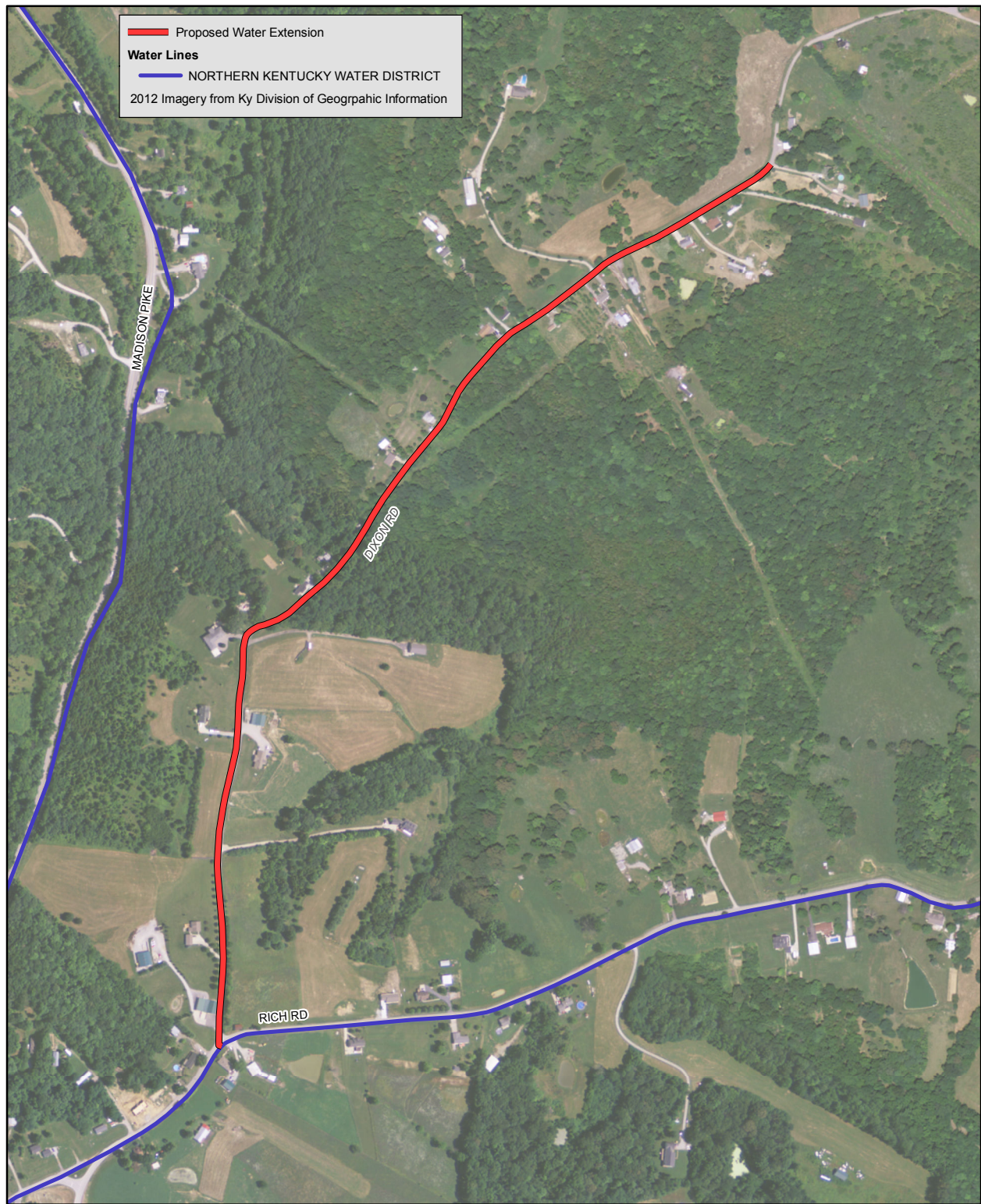


Figure 3
Northern Kentucky Water District Subdistrict I
Dixon Road Water Main Extension



Proposed Water Extension

Water Lines

NORTHERN KENTUCKY WATER DISTRICT

2012 Imagery from Ky Division of Geogrphic Information

0 500 1,000 1,500 Feet

Figure 4
Northern Kentucky Water District Subdistrict I
Taylor Mill Road Water Main Extension



0 500 Feet

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