

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY	)	
WATER DISTRICT FOR A CERTIFICATE OF	)	
PUBLIC CONVENIENCE AND NECESSITY TO	)	CASE NO. 2012-00059
CONSTRUCT A WATER MAIN EXTENSION AND	)	
FOR APPROVAL OF FINANCING	)	

ORDER

Northern Kentucky Water District ("NKWD") has applied for a Certificate of Public Convenience and Necessity ("Certificate") for a water main extension in Newport, Kentucky. Having reviewed the application and being otherwise sufficiently advised,<sup>1</sup> the Commission finds that:

1. NKWD, a water district organized pursuant to KRS Chapter 74, owns and operates water treatment and distribution facilities that serve approximately 80,372 customers in Boone, Campbell, and Kenton counties, Kentucky.<sup>2</sup>

2. NKWD proposes to replace existing unlined cast iron water transmission mains that run along Parkview Avenue, Harrison Avenue, 18th Street, 19th Street, Summer Hill Avenue, and Hulbert Alley in Newport, Kentucky.<sup>3</sup>

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<sup>1</sup> NKWD tendered its application to the Commission electronically on March 5, 2012. On March 9, 2012, NKWD supplemented its application with additional information regarding the proposed project. The Commission accepted the application for filing purposes on March 9, 2012. The Commission has supplemented the record of this proceeding with documents from the Kentucky Division of Water that related to NKWD's application to that agency for approval of the proposed project. No persons have sought intervention in this proceeding.

<sup>2</sup> *Annual Report of Northern Kentucky Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010* at 5, 27.

<sup>3</sup> With the exception of the main that runs along 19th Street, all of the mains in question are 4-inch mains. The 19th Street main is a 10-inch cast iron main.

3. NKWD estimates the age of the transmission mains in question to be 87 years or greater.

4. As the estimated service life of water transmission and distribution mains in NKWD's system is 62.5 years,<sup>4</sup> the transmission mains in question have exceeded their estimated service lives.

5. Between 2002 and 2011, NKWD experienced 41 breaks in the transmission main sections that are proposed for replacement.

6. NKWD proposes to replace the water transmission mains in question with the following: 1,390 linear feet of 8-inch ductile iron main on Parkview Avenue; 436 linear feet of 4-inch ductile iron main on Harrison Avenue; 1,515 linear feet of 8-inch ductile iron main on 18th Street; 1,587 linear feet of 12-inch ductile iron main on 19th Street; 1,389 linear feet of 8-inch ductile iron main on Summer Hill Avenue; and 106 linear feet of 4-inch ductile iron and 247 linear feet of 2-inch high density polyethylene transmission main on Hulbert Alley.

7. The proposed construction is expected to reduce service disruptions, improve the reliability and continuity of service, and reduce maintenance expense.

8. The proposed construction will not result in additional customers.

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<sup>4</sup> See Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study*, App. A (Ky. PSC Nov. 21, 2007).

9. Based upon final bid award, the proposed project's cost of construction is \$1,088,276.<sup>5</sup>

10. Estimated total cost of the proposed project, including design and geotechnical engineering, miscellaneous costs, and contingencies, is \$1,240,000.

11. The proposed project is part of NKWD's 2009 Water Main Replacement Program. This program is designed to replace aged and deteriorating water mains and to coordinate water main replacement with local government street replacement programs to reduce replacement costs.<sup>6</sup> NKWD budgeted \$3,000,000 toward this program in 2009 and used proceeds from bond anticipation notes that it issued in 2009 to fund the program.<sup>7</sup> In 2011, NKWD issued revenue bonds to retire the 2009 bond anticipation notes.<sup>8</sup>

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<sup>5</sup> NKWD published a request for bids on the proposed project and received sealed bids from eight firms. NKWD publicly opened and read these bids on January 10, 2012. The project engineer reviewed these bids and recommended the bid of Walter Martin Excavating, Inc. as the lowest and best bid at a cost of \$1,088,276. See Letter from Morey L. Lampson, Director of Water and Wastewater, CDP Engineers, Inc., to Steve Broering, NKWD (Feb. 7, 2012). Our review of the stated bid amounts indicates a bid amount of only \$1,084,676 (based bid of \$940,804 + Alternate B bid of \$143,872). NKWD offered no explanation for this discrepancy. On February 29, 2012, NKWD's Board of Commissioners approved the award of the construction contract for the proposed project to Walter Martin Excavating, Inc. See Application, Exhibit C.

<sup>6</sup> Although the purpose of the program is intended to reduce NKWD's street replacement costs, that result does not appear to have occurred with this project. The project had two alternatives. Alternative A involves NKWD assuming the cost of asphaltic concrete milling and paving only for the portion of the street that it disturbed at a cost of \$75,344. Alternative B involves NKWD assuming the cost of asphaltic concrete milling and paving for its portion and for the remainder of the street at a cost of \$143,872. NKWD choose the higher cost Alternative B. The cost difference between these options is \$68,528. Assuming the base bid and total bid stated in the project engineer's recommendation are correct, this difference is \$72,128 (\$1,088,276 - (\$940,804 + \$75,344)). See Footnote 5 for a discussion of the bid calculation discrepancy.

<sup>7</sup> See Application, Exhibit O at 16, in Case No. 2010-00094, *Application of Northern Kentucky Water District for an Adjustment of Rates, Issuance of Bonds, and Tariff Changes* (Ky. PSC filed June 4, 2010).

<sup>8</sup> The Commission has previously approved the issuance of these revenue bonds. See Case No. 2010-00094, *Application of Northern Kentucky Water District for an Adjustment of Rates, Issuance of Bonds, and Tariff Changes* at 28 and 30 (Ky. PSC Jan. 7, 2011).

12. The proposed project will be financed with funds budgeted for the 2009 Water Main Replacement Program. NKWD will not issue any additional securities or evidences of indebtedness to finance the proposed project.

13. The Kentucky Division of Water has approved the plans and specifications for the proposed project.

14. The proposed project does not conflict with the existing certificates or service of other utilities operating in the same area and under the Commission's jurisdiction.

15. The proposed project will not result in the wasteful duplication of facilities or excessive investment in plant and facilities.

16. The public convenience and necessity require the construction of the proposed project.

17. As NKWD will not be issuing any additional securities or evidences of indebtedness to finance the proposed project and as the planned funding sources have already received Commission authorization, additional Commission approval of the proposed project's funding is not required.

IT IS THEREFORE ORDERED that:

1. NKWD is granted a Certificate to construct the proposed project as set forth in its application.

2. NKWD shall notify 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. NKWD shall furnish documentation of the total costs of this project, including the cost of construction and all other capitalized

costs (engineering, legal, administrative, etc.), 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.

4. NKWD shall file 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 substantial completion of the construction certificated herein.

5. NKWD shall require construction to be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil, electrical, 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.

6. NKWD’s application for approval of its plan of financing for the proposed project is denied as moot.

7. Any documents filed in the future pursuant to this Order shall reference this case number and shall be retained in the utility’s general correspondence file.

By the Commission

ENTERED 2  
APR 09 2012  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST

  
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Executive Director

Case No. 2012-00059

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