

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 I WATER)	2014-00149
MAIN EXTENSIONS, FINANCING AND)	
SURCHARGE PHASE 2)	

ORDER

Northern Kentucky Water District (“NKWD”) has applied for a Certificate of Public Convenience and Necessity (“CPCN”) for a project known as Sub-District I, Phase 2. NKWD requests authorization: (1) to construct an additional water main extension; (2) for approval of the addition of customers and areas to the previously approved Sub-District I; and (3) for authority to assess a surcharge to customers to be served by the extension.

Having reviewed the application and being otherwise sufficiently advised, the Commission finds that:

1. Northern District, a water district organized under KRS Chapter 74, provides retail water service to approximately 80,753 customers in Boone, Campbell, and Kenton counties, Kentucky, and wholesale water service to the city of Walton, Kentucky, Pendleton County Water District and Bullock Pen Water District.¹

2. Northern District’s initial application, which was received on May 1, 2014, was supplemented and accepted as filed with the Commission on May 8, 2014. No

¹ *Annual Report of Northern Kentucky Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2013* at 5, 27, and 30.

person has sought intervention in this matter. Northern District has not requested a hearing in this matter and the Commission finds the record complete.

3. In Case 2012-00583,² the Commission authorized NKWD to create a sub-district known as “Sub-District I” for administrative, financing, and ratemaking purposes and issued a CPCN to NKWD for a waterworks improvement project to extend water service to Sub-District I.

4. Sub-District I currently consists 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.

5. The originally approved waterworks improvement project involved the installation of approximately 13,573 linear feet of water mains³ and 19 fire hydrants.

6. NKWD estimated the cost of the originally approved waterworks improvement project encompassing the entirety of Sub-District I to be \$919,323.⁴

7. NKWD financed the Sub-District I waterworks improvement project from the following sources: (1) a Kentucky Infrastructure Authority (“KIA”) grant in the amount

² Case No. 2012-00583, *Application of Northern Kentucky Water District for a Certificate of Convenience and Necessity for the Construction of Sub District I Water Main Extension, Financing and Surcharge* (Ky. PSC Mar. 7, 2013).

³ *Id.*, Application, Item 6.

⁴ *Id.*

of \$500,000; (2) a \$25,000 contribution from Kenton County Fiscal Court;(3) a 2007 Bond Anticipation Note in the amount of \$250,000; and (4) a customer contribution in the amount of \$169,323.⁵

8. The \$169,323 customer contribution will be recovered in the originally approved Sub-District I project through the assessment of a monthly surcharge of \$30 for a 25-year period to customers who are located with Sub-District I.

9. NKWD has completed the originally approved Sub-District I waterworks improvement project. Total cost of this was \$799,291.22. Approximately \$120,031.78 of the budgeted funds remain available for the completion of Sub-District I, Phase 2.⁶

10. NKWD now proposes to fund the Sub-District I, Phase 2 project through the use of remaining funds to construct and install approximately 1,537 linear feet of 8-inch polyvinyl chloride water main along Bird Road⁷ from Wynewood Trail to #1684 Bird Road in Kenton County, Kentucky. This project will serve seven new residences in a rural area that currently has no access to a public water supply.⁸

11. The proposed area for inclusion in the Sub-District I, Phase 2 project was chosen by NKWD based on population density. NKWD asserts that this area is rural, remote from existing water distribution facilities, and has no access to potable water other than cisterns or wells.⁹

⁵ Application, Item 7.

⁶ *Id.*, Item 6.

⁷ *Id.* NKWD originally planned water line extensions to both Bird Road and Northcutt Road. However, after bids were received for both areas, NKWD found it had sufficient funds to extend the water line along Bird Road.

⁸ *Id.*

⁹ *Id.*

12. The selection of unserved area 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.

13. The estimated cost of the Sub-District I, Phase 2 project, including construction and contingencies costs, is \$99,733.18.¹⁰

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

15. The Kentucky Division of Water has approved the plans and specifications of the proposed Sub-District I, Phase 2 water main extension project with respect to sanitary features of design.¹¹

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. The areas placed within a sub-district should, for ratemaking purposes, have some common characteristic or interest. At a minimum, NKWD 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

¹⁰ *Id.*

¹¹ *Id.*, Exhibit B, Letter from Mark Rasche, Professional Engineer, Supervisor, Engineering Section, Water Infrastructure Branch, Kentucky Division of Water, to Jeff Schuchter, Northern KY Water Service, April 11, 2014.

rate that is based solely on a customer's location within the sub-district's territory may be deemed unreasonable.¹²

4. The areas within the existing and proposed expansion of Sub-District I share a common characteristic in possessing a high customer population density as 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.¹³

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 Sub-District I surcharge represents a different arrangement for making water distribution main extensions.

9. NKWD 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.

¹² 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.

¹³ 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).

10. NKWD's plan of financing the Sub-District I, Phase 2 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. NKWD is granted a CPCN to construct the Sub-District I, Phase 2 Water Main Extension Project.

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


9. Within 20 days of the date of this Order, NKWD shall, using the Commission's electronic tariff filing system, file revised tariff sheets to reflect the addition of the proposed inclusion area of Bird Road. This revision shall include a map of the areas and a list of all streets and roadways that have been placed within Sub-District I as a result of this Order.

10. All provisions set forth in the Commission's Order of March 7, 2013, in Case 2012-00583 regarding the surcharge assessed to Sub-District I customers, shall remain in full force and effect.

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

12. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon NKWD's showing of good cause for such extension.

By the Commission

ENTERED 
JUL 01 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

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