

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED WATER ADJUSTMENT OF EAST) CASE NO. 2004-00455
CLARK COUNTY WATER DISTRICT)

O R D E R

On November 23, 2004, East Clark County Water District ("East Clark District") applied for approval to adjust its rates pursuant to KRS 278.015 and 807 KAR 5:068 to reflect an increase in the rates of its wholesale water supplier. On December 22, 2004, we approved certain revisions to East Clark District's rates. On January 6, 2005, we amended our earlier Order to reflect the Commission's approval of certain revisions in East Clark District's rate design. Because of pleadings submitted in Cases No. 2005-00264¹ and No. 2005-00322,² the Commission, on September 20, 2005, reopened this case to reexamine our earlier findings in this case and correct errors in the original calculation of East Clark District's adjusted rates.

After obtaining additional information from East Clark District, the Commission finds that two errors occurred when we calculated the water district's proposed rate adjustment. First, we used the incorrect volume of water sales in calculating the appropriate adjustment factor. As reflected in Table I, East Clark District in its original application understated by over 13,000,000 gallons the total amount of water that it

¹ Case No. 2005-00264, East Clark County Water District's Proposed Revisions to Its Wholesale Water Service Rate (Ky. PSC filed June 6, 2005).

² Case No. 2005-00322, East Clark County Water District v. City of Winchester (Ky. PSC filed Aug. 1, 2005).

purchased during the 12-month period prior to its application.³ By understating the amount of East Clark District's purchases, we understated the amount of the purchased water adjustment factor necessary to ensure East Clark District's complete recovery of its cost of water.

TABLE I

EAST CLARK DISTRICT'S REPORTED WATER PURCHASES		
Month	Original PWA Application	Response to PSC Order of 9/20/05
November 2003	11,648,665	11,648,665
December 2003	10,392,605	10,392,605
January 2004	12,809,716	12,809,716
February 2004	10,934,230	10,940,000
March 2004	9,811,332	9,811,332
April 2004	11,251,424	11,251,424
May 2004	11,761,628	11,761,628
June 2004	12,571,072	12,717,000
July 2004	9,217,340	13,034,124
August 2004	9,509,847	12,945,871
September 2004	8,979,444	12,574,813
October 2004	8,248,550	10,992,581
Total (gallons)	127,135,853	140,879,759

Second, we failed to comply with the requirement of Administrative Regulation 807 KAR 5:066, Section 1, that the adjustment "be added to all the utility's rate schedules on a per unit basis regardless of customer class" and the Commission's own admonishment that "revisions to a water district's rate design or additions to a water district's existing rate schedule" were not permissible in a purchased water adjustment proceeding.⁴ Instead of applying the purchased water adjustment factor to East Clark

³ Response of East Clark District to the Commission's Order of September 20, 2005, Item 14.

⁴ Case No. 2004-00455, Order of Dec. 22, 2004 at 2.

District's existing rate schedule, which included a wholesale service rate to Winchester Municipal Utilities ("WMU"), we calculated an adjustment without consideration of that existing wholesale service rate and permitted wholesale transactions to be converted to "retail transactions."

Based upon the new evidence of East Clark District's water purchases from WMU, we find that a purchased water adjustment of \$1.36 per 1,000 gallons is the appropriate adjustment factor to apply to East Clark District's rates as they existed on December 31, 2004. The calculations that establish this factor are set forth in Appendix A.

The Commission recognizes that, as a result of these errors, East Clark District has since January 1, 2005 assessed rates to its retail customers that are inconsistent with Administrative Regulation 807 KAR 5:068 and that will not permit the full recovery of recent increases in its cost of purchased water. While the Commission lacks authority to establish retroactively the rates set forth in Appendix B, we may authorize a surcharge upon retail customers to permit the recovery of accrued water costs.⁵ If East Clark District wishes to assess such a surcharge, it should petition the Commission.

Finally, while the Commission today orders a new wholesale rate for East Clark District's sales to WMU, we recognize that both East Clark District and WMU have asserted in other proceedings before us that the terms of their Water Purchase Agreement are controlling and that the rates established in this Order are not the appropriate rates for East Clark District's wholesale water service sales to WMU.

⁵ Kentucky Public Service Commission v. Cumberland Falls Highway Water District, 834 S.W.2d 726 (Ky.App. 1992).

Nothing contained in this Order should be construed as a ruling on those arguments.

We defer any ruling on those arguments to later proceedings.

IT IS THEREFORE ORDERED that:

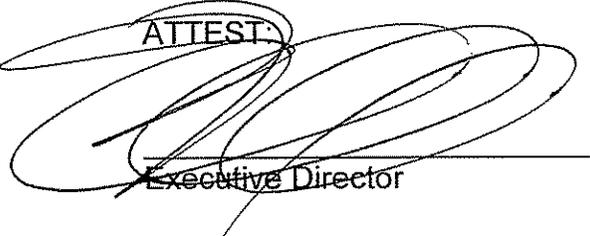
1. The purchased water adjustment of \$1.36 per 1,000 gallons and the rates in Appendix B are fair, just, and reasonable and are approved for service rendered on and after the date of this Order.

2. Within 20 days of the date of this Order, East Clark District shall file with the Commission revised tariff sheets showing the rates approved herein.

Done at Frankfort, Kentucky, this 21st day of February, 2006.

By the Commission

ATTEST:


Executive Director

Case No. 2004-00455

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2004-00455 DATED February 21, 2006.

East Clark County Water District

SUPPLIER	NEW RATE	OLD RATE (per 1,000)			
City of Winchester	(attachment)	\$1.5770	(\$1.18 / 100 cubic feet) / .748 = \$1.577 / 1,000 gallons		
TWELVE MONTH TEST PERIOD: November 2003 through October 2004					
SUPPLIER	GALLONS PURCHASED DURING TEST PERIOD				
City of Winchester	18,832,200				
TOTAL	18,832,200				
SUPPLIER	COST AT NEW RATE	COST AT OLD RATE			
City of Winchester	\$376,928.81	\$222,173.58			
TOTAL	\$376,928.81	\$222,173.58	=	INCREASED WATER COST \$154,755.23	
TOTAL GALLONS SOLD FOR THE TEST PERIOD :			113,392,596		
Increased Water Cost / (total gallons sold / 1000) = Purchased Water Adjustment Factor					
\$154,755.23	/	113,392,596	/100	=	1.364773675
					ROUNDED 1.36
	Sold	Purchased	Sold	Purchased	
January	-	-	-	-	
February	-	-	-	-	
March	-	-	-	-	
April	-	-	-	-	
May	-	-	-	-	
June	-	-	-	-	
July	-	-	-	-	
August	-	-	-	-	
September	-	-	-	-	
October	-	-	-	-	
November	-	-	-	-	
December	-	-	-	-	
TOTAL	-	-	-	-	

PURCHASES FROM WINCHESTER SHOWN IN CUBIC FEET									
	Bills	Cubic Feet	100	400	1,500	15,000	333,000	350,000	
First 100	0	0	0						
Next 400	9	3,400	900	2,500					
Next 1,500	7	9,800	700	2,800	6,300				
Next 15,000	3	21,000	300	1,200	4,500	15,000			
Next 333,000	36	3,735,300	3,600	14,400	54,000	540,000	3,123,300		
Over 350,000	24	15,062,700	2,400	9,600	36,000	360,000	7,992,000	6,662,700	
Total	79	18,832,200	7,900	30,500	100,800	915,000	11,115,300	6,662,700	

COST TO EAST CLARK FOR PURCHASED WATER					
	Bills	Cubic Feet	Rate	Cost to East Clark	
First 100	79	7,900	\$ 4.37	\$ 345.23	
Next 400		30,500	3.24	988.20	
Next 1,500		100,800	3.03	3,054.24	
Next 15,000		915,000	2.88	26,352.00	
Next 333,000		11,115,300	2.19	243,425.07	
Over 350,000		6,662,700	1.54	102,605.58	
Total	79	18,832,200		\$ 376,770.32	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2004-00455 DATED February 21, 2006.

The following rates and charges are prescribed for the customers in the area served by East Clark County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8" X 3/4" Meter

First	2,000	\$26.34	Minimum Bill
Next	8,000	10.92	per 1,000 gallons
Next	40,000	9.70	per 1,000 gallons
Over	50,000	8.48	per 1,000 gallons

1" Meter

First	5,000	\$59.10	Minimum Bill
Next	5,000	10.92	per 1,000 gallons
Next	40,000	9.70	per 1,000 gallons
Over	50,000	8.48	per 1,000 gallons

1 1/2" Meter

First	10,000	\$113.70	Minimum Bill
Next	40,000	9.70	per 1,000 gallons
Over	50,000	8.48	per 1,000 gallons

2" Meter

First	20,000	\$210.70	Minimum Bill
Next	30,000	9.70	per 1,000 gallons
Over	50,000	8.48	per 1,000 gallons

3" Meter

First	30,000	\$307.70	Minimum Bill
Next	20,000	9.70	per 1,000 gallons
Over	50,000	8.48	per 1,000 gallons

4" Meter

First	50,000	\$501.70	Minimum Bill
Over	50,000	8.48	per 1,000 gallons

Wholesale Rate

\$3.39 per 1,000 gallons