

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED REVISION OF RULES )  
REGARDING THE PROVISION OF )  
WHOLESALE WATER SERVICE BY THE ) CASE NO. 2011-00419  
CITY OF VERSAILLES TO NORTHEAST )  
WOODFORD WATER DISTRICT )

ORDER

The city of Versailles, Kentucky, ("Versailles") has proposed to revise its water purchase contract with Northeast Woodford County Water District ("Northeast Woodford District") to require Northeast Woodford District to purchase its total water requirements from Versailles to the extent that Versailles has capacity to meet those requirements. Based on an extensive evidentiary record, including testimony and briefs, the Commission finds that Versailles' proposed revision is not reasonable under the circumstances presented here and we deny the proposed revision.

PROCEDURE

On September 20, 2011, Versailles filed a tariff sheet setting forth its proposed revision to the conditions under which it provides water service to Northeast Woodford District. It proposed to place this revision into effect on November 1, 2011. On October 27, 2011, after receiving Northeast Woodford District's request to investigate the reasonableness of the proposed revision, the Commission established this proceeding, suspended the operation of the proposed revision, and directed Versailles to take no action to implement the proposed revision until obtaining Commission approval.

After both parties were provided the opportunity to conduct discovery, the Commission conducted an evidentiary hearing on the proposed revision on May 2, 2012.<sup>1</sup> Following the hearing, each party filed a written brief. The matter was submitted for decision on July 6, 2012.

### STATEMENT OF THE CASE

Versailles, a city of the fourth class,<sup>2</sup> owns and operates facilities that treat and distribute water to approximately 6,097 retail customers<sup>3</sup> and provides wholesale water service to Northeast Woodford District and South Woodford Water District ("South Woodford District"). Its water treatment plant has a maximum production capacity of 10 million gallons per day ("MGD").<sup>4</sup> For the calendar year ended December 31, 2010, Versailles had total water sales of 876,693,700 gallons, or average sales of 2.401 MGD of water.<sup>5</sup> Retail sales accounted for 529,744,100 gallons, or 60.43 percent of total

---

<sup>1</sup> At the evidentiary hearing, Bart Miller, Versailles' Director of Public Works, testified on behalf of Versailles. Warner A. Broughman, III, a professional engineer, and John S. Davis, chairman of Northeast Woodford District's Board of Commissioners, testified on behalf of Northeast Woodford District. The written testimony of Allison White, Versailles' City Clerk, and Fred Faust, Northeast Woodford District's bookkeeper, were admitted without objection.

<sup>2</sup> KRS 81.010(4).

<sup>3</sup> Kentucky Infrastructure Authority, *Kentucky Water Management Plan* (Feb. 2014) 106, available at [http://kia.ky.gov/NR/rdonlyres/820DCFC5-F18D-4967-90F1-8B2D60731C89/0/2014\\_DW\\_Management\\_Plan\\_State\\_Web.pdf](http://kia.ky.gov/NR/rdonlyres/820DCFC5-F18D-4967-90F1-8B2D60731C89/0/2014_DW_Management_Plan_State_Web.pdf).

<sup>4</sup> Versailles Response to Commission Staff's Request for Information, Item 6 (filed Jan. 19, 2012).

<sup>5</sup> Testimony of Allison White, Exhibit 6 (filed Nov. 15, 2011). Adjustments were made in the information presented in this exhibit to reflect timing differences and to allow for comparisons with the usage date that Versailles presented in its Response to Commission Staff's Request for Information, Item 14. Because Versailles uses a July 1 to June 30 fiscal year for its operations and did not file any information beyond its 2011 fiscal year, calendar year 2010 is the most recent year for which information is available in the record to draw comparisons between Versailles' water operations and those of Northeast Woodford District and South Woodford District.

annual sales.<sup>6</sup> Water was sold wholesale to Northeast Woodford District, which purchased approximately 172,004,700 gallons, or 19.6 percent of Versailles' total water sales,<sup>7</sup> and to South Woodford District, which purchased 174,944,900 gallons, or 19.96 percent of Versailles' total water sales.<sup>8</sup>

Northeast Woodford District, a water district organized pursuant to KRS Chapter 74, owns and operates water distribution facilities that serve approximately 982 customers who are located in Fayette and Woodford counties.<sup>9</sup> Northeast Woodford District has no water treatment facilities, but has since its inception purchased its total water requirements from Versailles. For the year ended December 31, 2010, Northeast Woodford District purchased an average of 471,246 gallons per day from Versailles. Its average monthly purchase for this period was 14.334 million gallons.

The relationship between Versailles and Northeast Woodford District began nearly half a century ago. On May 17, 1966, Versailles and Northeast Woodford District executed their first water purchase agreement ("Water Purchase Contract").<sup>10</sup> Under

---

<sup>6</sup> The Commission determined retail sales by subtracting the total volume of wholesale water sales (172,004,700 gallons +174,944,900 gallons) from total sales. Thus, Versailles produced 900 million gallons of water for the period. Non-revenue water is not reflected in these calculations. The most recent information regarding Versailles's water operations indicates that non-revenue water accounts for approximately 21 percent of its total water production. *See Kentucky Water Management Plan* at 106.

<sup>7</sup> Versailles' Response to Commission Staff's Request for Information, Item 14 (filed Jan. 19, 2012). *See also Annual Report of Northeast Woodford County Water District to the Public Service Commission of Kentucky for the Calendar Year Ending December 31, 2010* at 30.

<sup>8</sup> Versailles' Response to Commission Staff's Request for Information, Item 14 (filed Jan. 19, 2012). In its annual report to the Commission, South Woodford District reports a larger amount of purchases than Versailles reports. *See also Annual Report of South Woodford Water District to the Public Service Commission of Kentucky for the Calendar Year Ending December 31, 2010* at 30.

<sup>9</sup> *Annual Report of Northeast Woodford County Water District to the Public Service Commission of Kentucky for the Calendar Year Ending December 31, 2012* at 5, 27.

<sup>10</sup> Testimony of Allison White, Exhibit 1.

the terms of the Water Purchase Contract, which was to last for a term of 40 years,<sup>11</sup> Versailles agreed to furnish Northeast Woodford District water "in such quantity as may be required by the District not to exceed Five Million (5,000,000 gallons) per month."<sup>12</sup> The Water Purchase Contract neither specified a minimum volume of water that Northeast Woodford District must purchase from Versailles nor required Northeast Woodford District to purchase water exclusively from Versailles.

In 1979, Versailles and Northeast Woodford District agreed to modify several provisions of their original Water Purchase Contract. They executed a contract addendum in which Versailles, among other things, agreed

to furnish the District, at the point of delivery hereinafter specified, during the term of this contract addendum, or any renewal or extension thereof, potable treated water meeting applicable purity standards of the State Board of Health in such quantity as may be required by the District to service existing water needs (not more than Five million (5,000,000) gallons per month) and the needs of approved proposed development as of this date. The District shall be entitled to receive reasonable growth in the quantity available to it based on the increase in total quantity pumped by the City. Total quantity limitations may be renegotiated . . . .<sup>13</sup>

In the early 1990s, Northeast Woodford District requested revisions in the Water Purchase Contract to increase the volume of water that Versailles would be required to provide. Northeast Woodford District's monthly purchases had regularly been exceeding five million gallons. During some months it purchased as much as ten million gallons of water. United States Department of Agriculture Rural Development had

---

<sup>11</sup> Water Purchase Contract at 5.

<sup>12</sup> *Id.* at 2.

<sup>13</sup> Water Purchase Contract Addendum (Apr. 3, 1979) at 2.

conditioned funding for a proposed waterworks improvement project upon Northeast Woodford District's obtaining a new water purchase agreement that committed Versailles to providing a larger monthly volume.<sup>14</sup>

While Versailles' officials were sympathetic to Northeast Woodford District's plight, they were concerned about the effect of increased water district purchases on Versailles' ability to meet its own demand. During several council meetings, members of the Versailles City Council expressed concern about the need to expand its water treatment plant and build additional infrastructure to support both needs of the city's residents and of Northeast Woodford District's customers.<sup>15</sup>

On August 3, 1994, Versailles and Northeast Woodford District amended their original water purchase agreement to provide that "the quantity of water furnished to the District shall not exceed 15 million gallons per month, if available."<sup>16</sup> The amendment made no references to a minimum purchase requirement, nor did it place any limitations on Northeast Woodford District's supply options. The 1994 amendment further extended the term of the contract for an additional 30 years from its original termination date of 2006 to 2036.<sup>17</sup> In the year following the contract amendment, Northeast Woodford District purchased a monthly average of 9,698,417 gallons of water from Versailles.<sup>18</sup>

---

<sup>14</sup> Versailles' Response to Commission Staff's Request for Information, Item 1(a) (filed Jan. 19, 2012).

<sup>15</sup> *Id.*, Item 1(a)-(c).

<sup>16</sup> Amendment to Water Purchase Contract, ¶ 1 (found at Testimony of Allison White, Exhibit 2).

<sup>17</sup> *Id.* at 1.

<sup>18</sup> Testimony of Bart Miller at 2 (filed Nov. 15, 2011).

In the late 1990s, Versailles began experiencing problems meeting its customer demand. Versailles' water treatment plant was constructed in 1966 and had an original capacity of 1 MGD.<sup>19</sup> Versailles doubled the plant's capacity in 1980 and again in 1992.<sup>20</sup> After the 1992 expansion, the plant had a capacity of 4 MGD. In July 1999, the Kentucky Division of Water ("DOW") notified Versailles that if its current rate of growth continued, Versailles would have to add additional capacity or obtain an additional source of water.<sup>21</sup> In August 2001, a DOW official notified Versailles that, based upon the plant's average daily production, Versailles' water treatment plant had for the calendar year ending June 30, 2001, operated at or above 85 percent of its design capacity and that in several months it had operated in excess of 90 percent of its design capacity. The official raised the possibility of a ban on new connections to Versailles' water distribution system.<sup>22</sup>

After exploring several options to resolve its water capacity needs, the Versailles City Council on July 1, 2003, authorized an expansion of its water treatment plant's capacity from 4 MGD to 10 MGD and an upgrade of the water supply main necessary to transport water from the water treatment plant to Versailles' water distribution system.<sup>23</sup>

---

<sup>19</sup> Versailles' Response to Commission Staff's Request for Information, Item 4 (filed Jan. 19, 2012).

<sup>20</sup> *Id.*, Item 5.

<sup>21</sup> Letter from Vicki L. Ray, Manager, Drinking Water Branch, Division of Water, to Jerry Holt, Versailles Water System (July 6, 1999).

<sup>22</sup> Letter from Vicki L. Ray, Manager, Drinking Water Branch, Division of Water, to Jason Walton, Superintendent, Versailles Water System (Aug. 28, 2001).

<sup>23</sup> Versailles' Response to Commission Staff's Request for Information, Item 7 (filed Jan. 19, 2012).

Total cost of these improvements was approximately \$13,424,117.<sup>24</sup> To finance the cost of these improvements, Versailles issued notes and three series of bonds.<sup>25</sup> Of the \$28,502,325 of debt that Versailles issued, approximately \$12,965,555 was related to these improvements.<sup>26</sup> The bonds in each bond series mature over a 20-year period.<sup>27</sup> Construction on the water treatment plant and water distribution system improvements was completed in 2006.

While Versailles was addressing its water capacity issues, Northeast Woodford District sought a supplementary source of water. It views a supplemental source as a way to enhance its system integrity, provide an increase in water pressure, and provide an alternate supply of water in the event of an emergency or a failure of its primary supplier's system.<sup>28</sup> In 2005, it proposed to the Bluegrass Area Water Management Council the construction of an interconnection between its water distribution system and

---

<sup>24</sup> *Id.*, Item 5. The total cost of the water treatment plant expansion was \$11,108,764.66. The cost of the distribution system improvements was \$ 2,315,352.25.

<sup>25</sup> The individual debt instruments that Versailles issued are shown below:

<b>Debt Instrument</b>	<b>Total Issuance Amount</b>	<b>Proceeds Used for Water Facilities</b>	<b>Final Payment Date</b>
2000 Bond Anticipation Notes	\$1,567,325	\$ 414,569	06/15/2005
Water & Sewer Revenue Bonds, 2001 Series	\$9,800,000	\$8,836,207	12/01/2021
Water & Sewer Revenue Bonds, 2004 Series	\$8,635,000	\$2,999,960	12/01/2024
Water & Sewer Revenue Bonds, 2005 Series	\$8,500,000	\$ 714,819	12/01/2025

<sup>26</sup> Grants funded approximately \$395,562 of the total cost. Testimony of Allison White at 2.

<sup>27</sup> Versailles' Response to Commission Staff's Request for Information, Item 11 (filed Jan. 19, 2012).

<sup>28</sup> Testimony of Warner A. Broughman, III at 1-2 (filed Mar. 7, 2012).

that of the Frankfort Plant Board.<sup>29</sup> Northeast Woodford District also filed with the Kentucky Infrastructure Authority ("KIA") a proposed project profile that set forth the reasons for the proposed interconnection. In addition to enhancing system integrity and establishing an emergency supply, Northeast Woodford District stated that the connection would assist in keeping its primary supplier's price "in line."<sup>30</sup> The Bluegrass Area Water Management Council approved the proposed connection for funding in 2005. The Kentucky General Assembly appropriated \$300,000 for the connection in 2006.<sup>31</sup>

On April 19, 2011, Northeast Woodford District and Frankfort Plant Board executed an agreement in which they agreed to connect their respective water distribution systems. Under the terms of the agreement, Northeast Woodford District agreed to purchase three million gallons of water monthly during the term of the agreement.<sup>32</sup> The Agreement has a term of 42 years.<sup>33</sup>

To implement the agreement, Northeast Woodford District constructed 7,200 linear feet of 8-inch water pipeline and a booster station to connect its distribution

---

<sup>29</sup> Testimony of John S. Davis at 4 - 5 (filed Mar. 7, 2012). Northeast Woodford District made its original proposal in 2002. The Bluegrass Area Water Management Council approved the project and funding for the project was obtained. Northeast Woodford District initiated discussions with the Frankfort Plant Board regarding an interconnection on May 8, 2001. Northeast Woodford District's Response to Commission Staff's Request for Information, Item 7 (filed Mar. 30, 2012). The route of the proposed connection, however, was subsequently revised and new funding was required.

<sup>30</sup> PSC Staff Hearing Exhibit 1 at 1. WX21239013 is the project identifier that the Water Resource Information System has assigned the project.

<sup>31</sup> 2006 Ky. Acts Ch. 252.

<sup>32</sup> Testimony of Fred Faust, Exhibit B at 2 (filed Mar. 2, 2012).

<sup>33</sup> *Id.* at 3.



system to Frankfort Plant Board's distribution system. Northeast Woodford District's total cost for the proposed facilities is expected to be in excess of \$493,152.<sup>34</sup>

Upon completion of the proposed connection, Northeast Woodford District intends to purchase three million gallons of water monthly from Frankfort Plant Board and to reduce its monthly purchases from Versailles by a similar amount.<sup>35</sup> The water purchased from Frankfort Plant Board will not be confined to one area within the water district. Northeast Woodford District intends to occasionally shut down its pump station at its connection with Versailles and instead pump water only from the Frankfort Plant Board connection to meet the minimum three million gallons per month purchase requirement.<sup>36</sup>

Northeast Woodford District disavows any intention to maximize its purchases from Frankfort Plant Board. It asserts that its construction of a connection to, and water supply agreement with, Frankfort Plant Board are intended only to supplement its water supply from Versailles. Its goal is to enhance its system integrity and provide an alternate source of water in the event of an emergency or failure of Versailles' system. Northeast Woodford District further asserts that Versailles will continue to be its primary supplier as long as Versailles' rates for wholesale water service are "not unduly disproportionate" to the Frankfort Plant Board's rates.<sup>37</sup>

---

<sup>34</sup> Northeast Woodford District's Response to Commission Staff's Request for Information, Item 3 (filed Mar. 30, 2012).

<sup>35</sup> Frankfort Plant Board currently charges a wholesale rate of \$2.01 per 1,000 gallons of water, plus an additional \$0.20 per 1,000 gallons for the Kentucky River Authority water withdrawal fee, for a total of \$2.21 per 1,000 gallons of water, which is \$0.12 per 1,000 gallons less than Versailles' current wholesale rate.

<sup>36</sup> *Id.*, Item 14.

<sup>37</sup> *Id.*, Item 22.

Notwithstanding these assertions, Northeast Woodford District's decision will result in a monthly revenue loss of \$6,990, or \$83,880 annually, to Versailles.<sup>38</sup> Believing that this revenue loss will: 1) impair its ability to meet its obligations on the debt that it incurred to increase its water treatment plant's capacity and to improve its transmission system; and 2) require significant increases in the rates that Versailles assesses to its remaining customers,<sup>39</sup> Versailles seeks to revise its existing contract with Northeast Woodford District to require the water district to purchase its water requirements from Versailles until those requirements exceed 15 million gallons monthly. Simply put, if the proposed revision becomes effective, Northeast Woodford District will be obligated to purchase all of its water from Versailles each month until Northeast Woodford District's demand for that month reached 15 million gallons. For the portion of its monthly demand that exceeds 15 million gallons, Northeast Woodford District would be free to purchase water from any supplier it so chooses.

#### ANALYSIS

This case involves a proposed revision to the conditions under which a municipal water utility provides water service to a public water utility. Kentucky courts have generally held that "all operations of a municipally owned utility whether within or without the territorial boundaries of the city" are exempt from Commission jurisdiction.<sup>40</sup> The

---

<sup>38</sup> Versailles' current rate is \$2.33 per 1,000 gallons. Using this rate and assuming a reduction of 3,000,000 gallons of sales monthly, the revenue lost is equal to 3,000,000 gallons of water multiplied by \$2.33 per 1,000 gallons. This amount represents only the loss of revenue. It does not consider any reductions in chemical costs or pumping costs as a result of the lesser amount of water to treat or pump.

<sup>39</sup> Letter from William K. Moore, counsel for Versailles, to Kentucky Public Service Commission (Sept. 19, 2011) at 3.

<sup>40</sup> *McClellan v. Louisville Water Co.*, 351 S.W.2d 197, 199 (Ky.1961). See also *City of Mount Vernon v. Banks*, 380 S.W.2d 268, 270 (Ky.1964) ("In the operation of a water plant a municipal corporation is not under the jurisdiction of the Public Service Commission.").

exception to this exemption occurs when a municipal utility contracts to provide utility service to a Commission-regulated utility. KRS 278.200 provides:

The commission may, under the provisions of this chapter, originate, establish, change, promulgate and enforce any rate or service standard of any utility that has been or may be fixed by any contract, franchise or agreement between the utility and any city, and all rights, privileges and obligations arising out of any such contract, franchise or agreement, regulating any such rate or service standard, shall be subject to the jurisdiction and supervision of the commission, but no such rate or service standard shall be changed, nor any contract, franchise or agreement affecting it abrogated or changed, until a hearing has been had before the commission in the manner prescribed in this chapter.

Any interpretation or revision by a municipal utility to the rate or service standard for sales to a Commission-regulated utility triggers the Commission's jurisdiction and requires an opportunity for a hearing by the Commission before the proposed revision can become effective.<sup>41</sup>

Thus, KRS 278.200 confers jurisdiction on the Commission to address Versailles' proposed revision. Versailles has not contested the Commission's jurisdiction over the proposed revision. While not disputing the Commission's authority to consider Versailles' proposal, Northeast Woodford District contends that the Commission lacks the authority to impose a new or revised condition of service upon a Commission-regulated utility unless that utility consents to the condition. Northeast Woodford District argues that its existing contract establishes certain contractual obligations between itself and Versailles, and the Commission cannot interpret KRS 278.200 to impair these

---

<sup>41</sup> Simpson County Water District v. City of Franklin, Ky., 872 S.W.2d 460, 463 (1994) ("[W]here contracts have been executed between a utility and a city . . . KRS 278.200 is applicable and requires that by so contracting the City relinquishes the exemption and is rendered subject to PSC rates and service regulation.")

obligations. It argues that such an interpretation would violate Section 19 of the Kentucky Constitution, which provides that no law impairing the obligation of contracts shall be enacted.

The Commission finds no merit in these arguments. Kentucky courts have previously held that KRS 278.200 authorizes the Commission to modify contracts involving utility rates and services as a valid use of the state's police power to regulate utility rates and service.<sup>42</sup> The Commission may revise any rate or service standard in a contract between a municipal utility and public utility despite objections by either party if the Commission finds that the proposed revision is reasonable under the circumstances.<sup>43</sup>

Thus, having determined that the Commission has jurisdiction over the contract revision proposed by Versailles, the crucial question is whether Versailles' proposed revision is reasonable. Neither the existing contract's history nor language supports the proposed provision. The record indicates that Versailles had the opportunity at the time of the 1994 Amendment to the Water Purchase Contract to insist that Northeast Woodford District agree to a minimum requirements provision, but chose not to do so. The 1994 Amendment contains no specific language indicating that Northeast Woodford District had to take any quantity of water. The minutes of the Versailles' City Council

---

<sup>42</sup> See, e.g., *Southern Bell Telephone and Telegraph Co. v. City of Louisville*, 96 S.W.2d 695, 699 (Ky. 1936) ("The power conferred upon municipalities to enter into contracts fixing rates in the first instance for public utility service does not deprive the state of its right to exercise its police power of regulating rates. The authority to regulate rates of public utilities is primarily a legislative function of the state, and the right is essentially a police power."). See also Case No. 8572, *Rate Adjustment of Kenton County Water District* (Ky. PSC Mar. 22, 1983) ("KRS 278.200 expressly granted the Commission the power to abrogate contracts.").

<sup>43</sup> KRS 278.200 expressly provides that the Commission may originate, establish or change any rate or service standard established by a contract between a public utility and a city. KRS 278.030 and KRS 278.040 impose a duty upon the Commission to ensure that such rates and service are fair, just, and reasonable. See *Kentucky Public Service Commission v. Commonwealth ex rel. Conway*, 324 S.W.3d 373 (Ky. 2010).

Meetings indicate that Versailles' leaders had strong concerns about maintaining an adequate supply for their retail customers. The 1994 Amendment requires Versailles to provide 15 million gallons of water monthly only if it is available.

The absence of a minimum requirements provision in the 1994 Amendment is especially striking in view of such a provision in Versailles' water purchase contract with South Woodford District. In the current version of that contract, which was executed in 1966 and then amended in 1979 and 1984, the purchaser, South Woodford District, agreed to

**exclusively purchase** 7.5 million gallons of water during the entire term of this Contract, renewals, or extensions thereof. Should the District purchase water or acquire water from a source other than the City, it shall be required to take the minimum of 7.5 million gallons per month.<sup>44</sup>

Clearly, if Versailles and Northeast Woodford District had agreed upon a minimum level of monthly purchases by Northeast Woodford District, similar language would have been included in the 1994 Amendment. The fact that Versailles entered different purchase arrangements with its two wholesale customers indicates an intent to treat these wholesale customers differently and to not impose any minimum purchase requirement upon Northeast Woodford District.

Moreover, the record does not contain clear and convincing evidence that Versailles' facilities were expanded solely to meet the demands of Northeast Woodford District. The studies that Versailles commissioned indicated that significant growth in

---

<sup>44</sup> Water Purchase Contract at 3 (emphasis added), available at [https://psc.ky.gov/tariffs/Water/Municipals/Versailles/Contracts%20and%20Info/South%20Woodford%20County%20Water%20District/1984\\_Amendment%20to%20Water%20Purchase%20Contract.pdf](https://psc.ky.gov/tariffs/Water/Municipals/Versailles/Contracts%20and%20Info/South%20Woodford%20County%20Water%20District/1984_Amendment%20to%20Water%20Purchase%20Contract.pdf).

Versailles retail customers was likely.<sup>45</sup> To the extent that Versailles' expansion of its water treatment plant appears to be intended to meet this additional retail demand, we are unable to find that the expansion was made solely to meet the demands of Northeast Woodford District. Thus, we are not persuaded that it would be reasonable to require Northeast Woodford District to pay for a minimum level of Versailles' expansion costs, and we decline to impose a minimum purchase obligation on this water district.<sup>46</sup>

### CONCLUSION

Having carefully reviewed the record in this matter and based upon the analysis set forth above, the Commission finds that Versailles' proposed contract revision with Northeast Woodford District is unreasonable should be denied.

IT IS THEREFORE ORDERED that Versailles' proposed contract revision with Northeast Woodford District is denied.

---

<sup>45</sup> Versailles' Response to Commission Staff's Request for Information, Item 9(b) (filed Jan. 19, 2012).

<sup>46</sup> Other means are available to Versailles to ensure that Northeast Woodford District pays the appropriate costs of wholesale water service provided to it. If Versailles believes that the rates it charges to Northeast Woodford District are insufficient, Versailles may file to adjust its wholesale rate to more accurately account for its costs to provide wholesale water service. A detailed cost-of-service study, which should support such application, can accurately demonstrate the true costs that Versailles is incurring to serve Northeast Woodford District. To the extent that Versailles incurs reasonable fixed costs through the construction of water treatment and distribution facilities attributable to meeting its obligations under its water purchase agreement with Northeast Woodford District, Versailles should be permitted the full recovery of those costs.

By the Commission

ENTERED  
AUG 12 2014  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
\_\_\_\_\_  
Executive Director

John S Davis  
Chairman  
Northeast Woodford County Water District  
225A South Main Street  
Versailles, KY 40383

Joesph M Hoffman  
Joseph M. Hoffman and Associates  
100 United Drive  
Suite 4B  
Versailles, KENTUCKY 40383

William K Moore  
126 South Main Street  
Versailles, KENTUCKY 40383