

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FLEMING COUNTY WATER)
ASSOCIATION, INC. TO INCREASE WATER) CASE NO. 2005-00166
RATES PURSUANT TO KRS 278.012 AND 807)
KAR 5:068)

ORDER

Fleming County Water Association, Inc. ("Fleming County") has applied for approval to adjust its rates pursuant to the purchased water adjustment procedure. KRS 278.012 and 807 KAR 5:068. Finding that the proposed adjustment does not result from an increase in the rates of a wholesale water supplier but from the water association's decision to change water suppliers and therefore is not subject to the automatic adjustment procedures set forth in KRS 278.012, we deny its application.

Fleming County, a water association organized pursuant to KRS Chapter 273, provides water service to approximately 3,660 customers in Fleming, Mason, and Lewis counties, Kentucky.¹ It does not own any water treatment or production facilities but purchases its water supply. On November 19, 2003, Fleming County entered into an agreement with Greater Fleming County Water Commission for the daily purchase of 900,000 gallons of water at a rate of \$1.86 per 1,000 gallons. This contract became effective on May 1, 2005. Prior to May 1, 2005, Fleming County purchased its total

¹ Report of Fleming County Water Association to the Kentucky Public Service Commission for Calendar Year Ending December 31, 2004 at 27.

water requirements from Rowan Water, Inc., Western Fleming County Water, Vanceburg Utilities and the City of Flemingsburg.

On April 21, 2005, Fleming County applied to the Commission to increase its rates \$0.44 per 1,000 gallons to reflect the increased cost of water that resulted from this change of suppliers. Fleming County makes its application pursuant to KRS 278.012(2) which provides:

When a wholesale supplier selling water or providing sewage treatment to a water association increases its rates, the water association shall have the authority to increase its rates commensurate with the wholesale supplier without prior approval by the commission.

Within twenty (20) days after any such increase in rates, the association shall file its revised tariffs with the commission, together with a copy of the notice from its wholesale supplier showing the increase in the rate charged to the utility, and a statement of the volume of purchased water used or sewage treated to calculate the increase in rates. The commission shall approve the filing or establish revised rates by order no later than thirty (30) days after the above documents are filed with it. Prior to or at the time of the first billing of the new rates, the district shall give notice to its customers of the increase.

The purchased water adjustment procedure set forth in KRS 278.012 and Administrative Regulation 807 KAR 5068 addresses only changes in the rates of existing water suppliers. KRS 278.012, for example, provides that “[when a wholesale supplier selling water. . . to a water association increases its rates, the water association shall have the authority to increase its rates commensurate with the wholesale supplier without prior approval by the commission.” It further requires that, when applying for a purchased water adjustment, a water association must submit “a copy of the notice from its wholesale supplier showing the increase in the rate charged to the utility. . . and a statement of the volume of purchased water used or sewage treated to calculate the

increase in rates.” Likewise, Administrative Regulation 807 KAR 5:068, Section 2, refers to “increase in a supplier’s base rate” and requires that the amount of the increase due to a change in a supplier’s rates be based on the water association’s purchases from that supplier during “the twelve (12) month period ending within ninety (90) days immediately prior to the effective date of . . . [the water association’s] rate adjustment to its customers.”

The purchased water adjustment procedure is not applicable in this case. The increase in Fleming County’s purchased water costs are not the result of an increase in the rates assessed by an existing water supplier, but are due to Fleming County’s decision to change water suppliers. As the procedure is not applicable, Fleming County’s application must be denied.

Our decision today does not leave Fleming County without a means to recover its increased cost of purchased water. It may use the rate adjustment procedures set forth in Administrative Regulation 807 KAR 5:001, Section 10.² If it intends to seek a rate adjustment based solely upon the change in the cost of purchased water, Fleming County may request a deviation from certain of the filing requirements set forth in that regulation.³

IT IS THEREFORE ORDERED that Fleming County’s Application for Purchased Water Adjustment is denied.

² The Commission places Fleming County on notice that in any proceeding to adjust rates based upon the increased cost of purchased water, the Commission will require Fleming County to demonstrate the reasonableness of its decision to change water suppliers.

³ See Case No. 2002-00295, Application of Boone County Water District For An Adjustment of Rates (Ky. PSC Feb. 27, 2003).

Done at Frankfort, Kentucky, this 3rd day of June, 2005.

By the Commission

ATTEST:


Executive Director

Case No. 2005-00166