

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATE OF THE) CASE NO. 2006-00067
CITY OF LAWRENCEBURG, KENTUCKY)

ORDER

The city of Lawrenceburg, Kentucky (“Lawrenceburg”) proposes to adjust its existing rate for wholesale water service to South Anderson Water District (“South Anderson District”) effective for service on and after February 27, 2006. Lawrenceburg’s proposed rate is set forth in a rate schedule and an amendment to its present Water Purchase Contract with South Anderson Water District. Both documents provide, *inter alia*, that Lawrenceburg’s rate shall be adjusted annually “in accord with the increase in the Consumer Price Index as provided by the Kentucky Governor’s Office for Local Development.”

Having considered the proposed rate revision and being otherwise sufficiently advised, the Commission finds that, pursuant to KRS 278.190, further proceedings are necessary to determine the reasonableness of the proposed rate revision. As the principal focus of our investigation is on the proposed automatic adjustment factor and as Lawrenceburg and South Anderson District have agreed to the proposed rates, the Commission finds that the proposed rates should be suspended for one day and then be permitted to become effective subject to refund.

The Commission further finds that South Anderson District, as a party to the proposed contract, has a significant interest in this proceeding and its presence in this proceeding will likely lead to presentation of issues or development of facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting this proceeding and should therefore be made a party to this proceeding.

IT IS THEREFORE ORDERED that:

1. Lawrenceberg's proposed rate revision is suspended from February 27, 2006 to February 28, 2006. The proposed rate shall become effective subject to refund on February 28, 2006.

2. Lawrenceberg shall maintain its records in a manner to permit the Commission to determine the amounts to be refunded in the event a refund is ordered.

3. South Anderson District is granted full intervention status in this proceeding.

4. a. All interrogatories and requests for production of documents shall be placed in a bound volume with each item tabbed and be appropriately indexed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided, with copies to all parties of record and 6 copies to the Commission.

b. Each response shall be under oath or accompanied by a signed certification of the preparer or person supervising the preparation of the response on

behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. A party shall make timely amendment to any prior response if it obtains information upon the basis of which it knows that the response was incorrect when made, or though correct when made is now incorrect in any material respect.

d. A party that refuses to furnish the requested information shall, when stating its refusal or objection, provide a written explanation of the specific grounds for its failure to furnish.

5. All documents that this Order requires to be filed with the Commission shall be served upon all other parties.

6. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

7. Lawrenceburg shall, within 30 days of the date of this Order, file with the Commission the original and 6 copies of the information listed in Appendix A, with a copy to all parties of record. Lawrenceburg's response shall conform to the requirements set forth in Paragraph 4 of this Order.

Done at Frankfort, Kentucky, this 24th day of February, 2006.

By the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00067 February 24, 2006

1. Provide a copy of all correspondence, electronic mail messages, or other written communications between Lawrenceburg and South Anderson District since January 1, 2004 regarding revisions to Lawrenceburg's wholesale rate.

2. Provide the minutes of each meeting of the Lawrenceburg City Council since January 1, 2004 in which a proposed rate adjustment to Lawrenceburg's wholesale customers was discussed.

3. a. Identify all persons or entities to which Lawrenceburg provides wholesale water service.

b. For each customer listed above, provide for each of the previous 24 months its monthly water usage and the amount that Lawrenceburg charged it for service.

4. Provide Lawrenceburg's current rate schedule for its retail customers and for each of its wholesale customers.

5. a. State the annual effect of the proposed rate adjustment on Lawrenceburg's revenues from wholesale water service to each of its wholesale water service customers.

b. Show all calculations made and state all assumptions used to derive the response to Item 5(a).

6. Provide a copy of the most recent cost-of-service study of Lawrenceburg's water operations.

7. a. Identify the person who prepared most recent cost-of-service study of Lawrenceburg's water operations.
 - b. Provide the preparer's curriculum vitae.
8. State whether the proposed rate adjustment is based upon the most recent cost-of-service study of Lawrenceburg's water operations.
9. If the proposed rate is not based upon the most recent cost-of-service study of Lawrenceburg's water operations, describe how Lawrenceburg determined the proposed wholesale rate and state who participated in the determination.
10. Provide all calculations and state all assumptions that Lawrenceburg used to determine the proposed rate adjustment.
11. a. State the 12-month test period upon which Lawrenceburg bases its proposed rate adjustment.
 - b. Explain why this test period was chosen.
12. Provide the "Enterprise Funds Uniform Financial Information Report" that Lawrenceburg submitted to the Kentucky Department of Local Government for the fiscal years ending June 30, 2004, and June 30, 2005.
13. Refer to Lawrenceburg's "Basic Financial Statements, Supplementary Information and Independent Auditor's Report – Fiscal Year Ending June 30, 2005" at 16 – 17. Provide a Statement of Net Assets that reflects Lawrenceburg's water operations only.
14. Refer to Lawrenceburg's "Basic Financial Statements, Supplementary Information and Independent Auditor's Report – Fiscal Year Ending June 30, 2005" at 16 – 17. List each asset that is contained in the category "Capital assets - Land and

construction in progress" and that is used to provide water service. For each listed asset, provide a brief description and state its book value and whether the asset is also used to provide sewer service.

15. Refer to Lawrenceburg's "Basic Financial Statements, Supplementary Information and Independent Auditor's Report – Fiscal Year Ending June 30, 2005" at 16 – 17. List each asset that is contained in the category "Capital assets – Other capital asset" and that is used to provide water service. For each listed asset, provide a brief description and state its book value and whether the asset is also used to provide sewer service.

16. Refer to Lawrenceburg's "Basic Financial Statements, Supplementary Information and Independent Auditor's Report – Fiscal Year Ending June 30, 2005" at 18. Provide a Statement of Revenue, Expenses and Changes in Fund Net Assets that reflects Lawrenceburg's water operations only.

17. Refer to Lawrenceburg's "Basic Financial Statements, Supplementary Information and Independent Auditor's Report – Fiscal Year Ending June 30, 2005" at 28. List each of the improvements reflected in "Utilities System Improvements," state the total amount ("spent" and "remaining commitment") of each improvement and state whether the improvement is related to the provision of water service.

18. Refer to Lawrenceburg's "Basic Financial Statements, Supplementary Information and Independent Auditor's Report – Fiscal Year Ending June 30, 2005" at 28. Identify each asset whose depreciation is reflected in water utilities depreciation expense of \$447,164 and the level of depreciation attributed to that asset.

19. For each outstanding revenue bond issuance related to Lawrenceburg's water and sewer operations, provide:

- a. An amortization schedule.
- b. A detailed explanation of why the debt was incurred.
- c. A calculation of the annual debt service payment, including all

required payments to debt service reserve accounts or funds, for each of the next 3 years.

20. a. Complete the table below:

Water Main Size	Total Miles Of Line	Miles Of Lines Used By Lawrenceburg To Serve Its Wholesale Customers
36"		
30"		
24"		
20"		
18"		
16"		
14"		
12"		
10"		
8"		
6"		
4"		
2"		

If Lawrenceburg has water mains whose size(s) are not listed, also provide the information for those main sizes.

b. Who paid for the water main(s) that Lawrenceburg uses to deliver water to Lawrenceburg' wholesale customer(s)?

21. a. What is the maximum capacity of Lawrenceburg' water treatment plant?

b. For each of the customers listed in response to Item 3(a), state:

(1) The amount of Lawrenceburg' total water treatment plant capacity currently reserved for that customer.

(2) The minimum and maximum quantity of water (in gallons) that the customer may purchase in a month under the terms of its present water purchase contract with Lawrenceburg.

c. Describe the changes, if any, that Lawrenceburg expects within the next 3 years in the level of water treatment capacity reserved for each of the customers listed in Item 3(a) and state the reason(s) for Lawrenceburg' expectations.

22. a. Who owns the master meter(s) through which Lawrenceburg provides water to the customers listed in Item 3(a)?

b. Through how many master meters does Lawrenceburg provide water service to each of the customers listed in Item 3(a)?

c. Who is responsible for maintaining these master meters?

23. What portion, if any, of Lawrenceburg' water main(s) that serve the customers listed in Item 3(a) are gravity fed?

24. a. List Lawrenceburg' water sales (in gallons) for each month of the previous 36 months for each of its wholesale customers and for its retail customers.

b. List the total amount billed by Lawrenceburg for water service for each month of the previous 36 months to each of its wholesale customers and to its retail customers.

25. Complete the table below:

Lawrenceburg	Gallons for Test Period	Gallons for Fiscal Year Ending June 30, 2005
Plant Use		
Line Loss (Unaccounted for)		
Sales to Retail		
Sales to South Anderson District		
Sales to Other Wholesale Customers		
Total Produced and Purchased		
Total Sold		

26. Explain why automatic annual adjustments to Lawrenceburg's wholesale water service based upon a price index are more reasonable than periodic rate filings with the Commission based upon Lawrenceburg's actual cost of providing water service.

27. State whether Lawrenceburg considers the Consumer Price Index prepared by the Kentucky Department for Local Government is to be an accurate measure of changes in the cost of providing wholesale water service. If yes, explain why.

28. Identify all other price indexes that the parties considered when negotiating the "Amendment to Water Purchase Contract." For each price index listed, state the reasons why the index was not selected.

29. Explain why the proposed adjustment mechanism allows for a rate adjustment in the event of an increase in the Consumer Price Index but does not provide for an adjustment if a decrease in the Consumer Price Index occurs.