

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ALLEN COUNTY WATER)	CASE NO.
DISTRICT FOR PURCHASED WATER)	2009-00054
ADJUSTMENT)	

O R D E R

On February 9, 2009, Allen County Water District (“Allen District”) submitted to the Commission an application for a purchased water adjustment. Allen District purchases water from the Glasgow Water Company (“Glasgow”) and the city of Scottsville. Glasgow increased its wholesale rates from \$1.40 to \$1.75 per 1,000 gallons effective on July 1, 2008. It has also notified Allen District that its rates will increase again from \$1.75 to \$1.95 per 1,000 gallons effective July 1, 2009. Allen District seeks to adjust the rates to its customers commensurate with Glasgow’s increase.

Allen District’s initial application was supported by water purchase and usage information for a 12-month period from July 2007 to June 2008. Commission regulations, however, require that a purchased water adjustment be calculated by “the increased cost of water purchased based on the twelve (12) month period ending within ninety (90) days immediately prior to the effective date of its rate adjustment to its customers.”¹ Because the information provided by Allen District did not comply with our

¹ 807 KAR 5:068, Section 2(2).

regulations, Commission Staff notified Allen District that the submitted documents were deficient and could not be accepted for filing.

In addition to the filing deficiencies, the materials initially submitted to the Commission contained contradictory information. A resolution of Allen District's Board of Commissioners dated February 3, 2009 states that Allen District "elects to absorb" Glasgow's increase from \$1.40 to \$1.75 per 1,000 gallons, but that it will "calculate its rates on a \$0.20 increase (\$1.75 to \$1.95) from the Glasgow Water Company." The submitted calculation pages, however, are based on Glasgow's increase from \$1.40 to \$1.75 per 1,000 gallons.

On April 13, 2009, Allen District filed additional documents in response to the Commission Staff's deficiency notice. These materials included updated information of the amount of water Allen District purchased from its suppliers. Based on this updated information, the Commission accepted the filing.

The filing indicates that Allen District is attempting to make one single adjustment of its rates based on two separate adjustments from Glasgow. It is seeking to increase its rates by 65 cents per 1,000 gallons based on Glasgow's increases from \$1.40 to \$1.75 and \$1.75 to \$1.95 per 1,000 gallons. Allen District proposes to have its new rates effective on July 1, 2009, the same date on which Glasgow's second increase will be effective.

Commission regulations, however, do not allow for a purchased water adjustment to be based on two separate increases by a supplier. In order to calculate a purchased water adjustment, 807 KAR 5:068 requires a comparison of the supplier's base rate and its changed rate. The regulation provides that "[t]he supplier's rate in

effect immediately prior to the most recent increase shall be considered the base rate.”²

By defining “base rate” as the rate in effect immediately prior to the most recent increase, the regulation does not permit the water district or association to increase its rates through the purchased water adjustment process to recover increased costs due to supplier increases beyond the most recent increase.

Fortunately for Allen District, there is sufficient time to effectively carry out the apparent intent of its Board of Commissioners.³ In order for the utility to change its rates based on both of Glasgow’s increases, it will need to file two separate purchased water adjustments in order to comply with 807 KAR 5:068. The first application will need to be based on the increase from \$1.40 to \$1.75 per 1,000 gallons, and Allen District must make that adjustment to be effective prior to July 1, 2009, the date on which Glasgow’s rates will increase again.⁴ If Allen District fails to increase its rates based on Glasgow’s first increase prior to July 1, 2009, it will not be able to adjust its rates based on that change through a purchased water adjustment because the regulations require the calculations to be based on the most recent increase.⁵ A second adjustment will need to be made in order to adjust Allen District’s rates based on

² 807 KAR 5:068, Section 1 (emphasis added).

³ Although the Board’s resolution states that the Board “elects to absorb” Glasgow’s increase from \$1.40 to \$1.75, it appears that this is only for a one-year period (from July 1, 2008 to June 30, 2009) because Allen District is calculating its rates based on the two increases from \$1.40 to \$1.95.

⁴ If Allen District seeks to minimize the appearance of two increases, the utility could make this first adjustment to be effective on June 30, 2009 and make the second adjustment to be effective on July 1, 2009. Another option would be for this first adjustment to be effective on the day after which meters are read in a certain month (prior to July), so that the customers’ bills for that month are based entirely on the first adjustment.

⁵ Allen District could, of course, still increase its rates through a general rate case even if it were to fail to adjust its rates based on Glasgow’s first increase prior to July 1, 2009.

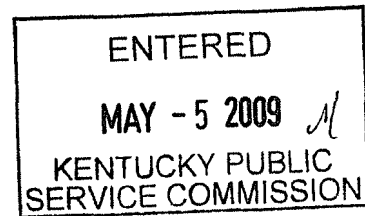
Glasgow's second increase from \$1.75 to \$1.95 per 1,000 gallons. This second adjustment cannot be effective until on or after July 1, 2009.

Because Allen District's purchased water adjustment is based on two separate increases from the same supplier, the Commission finds that the adjustment fails to comply with 807 KAR 5:067.

IT IS THEREFORE ORDERED that:

1. Allen District's purchased water adjustment is denied.
2. Nothing in this Order shall be construed as to prohibit Allen District from filing future purchased water adjustments based on the rate increases from its suppliers.

By the Commission



ATTEST:



Executive Director

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