

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED WATER ADJUSTMENT FILING OF) CASE NO. 2012-00397
SOUTH HOPKINS WATER DISTRICT)

ORDER

On September 4, 2012, South Hopkins Water District ("South Hopkins District") applied for approval to adjust its rates pursuant to the purchased water adjustment procedure.¹

The Commission, having reviewed the record and being sufficiently advised, finds that:

1. South Hopkins District purchases water from the city of Dawson Springs, Kentucky ("Dawson Springs").

2. a. The 1978 Water Purchase Contract between Dawson Springs and South Hopkins District contains a detailed methodology for determining the rate for purchased water. The rate covers the operation and maintenance expense of the new facilities, the debt service allocated to these facilities, and a water supply facility reserve fund. All costs are based upon the actual cost of water produced and the actual usage of South Hopkins and Dawson Springs. A certified public accountant, who Dawson Springs selects annually, conducts an audit to ascertain the actual cost of water for the operating year.

¹ KRS 278.015; 807 KAR 5:068.

b. Based upon the results of the audit, a new rate for water service is determined. For the 12 months following the audit, South Hopkins District makes monthly payments to Dawson Springs at this rate. When the next annual audit is performed, the precise cost of the water that South Hopkins District uses during the previous 12 months will be determined. If the total cost of water exceeds South Hopkins District's total payments, South Hopkins must pay the difference to Dawson Springs. If total payments exceed total cost, the overpayment is refunded to South Hopkins. The rate is then adjusted to reflect the results of the recent audit. South Hopkins' monthly payments for the following 12 months are based on this new rate.

c. In Case No. 2010-00074,² the Commission established a rate mechanism, which we titled "Water Audit Recovery Charge" ("WARC"), to permit South Hopkins District to recover from its ratepayers any underpayments for a previous year's water purchases that must be paid in a lump sum to Dawson Springs immediately following the audit. Any overpayments that South Hopkins District paid and that Dawson Springs refunded were to be returned to ratepayers through refunds that 807 KAR 5:068 requires.³

3. South Hopkins District has wholesale water service contracts with each of the entities listed in Table I. Each contract, which is on file with the Commission, specifies a formula for determining the wholesale water rate. This formula considers, *inter alia*, South Hopkins District's cost of purchased water from Dawson Springs, makes provisions for revisions based upon the audit that Dawson Springs performs

² Case No. 2010-00074, Application of South Hopkins Water District for Approval of a Proposed Increase in Rates for Water Service (Ky. PSC Sept. 22, 2010).

³ *Id.* at 10-11.

annually, and provides for refunds of any overpayments made to South Hopkins District due to South Hopkins District's overpayments to Dawson Springs.

4. For the fiscal year ending June 30, 2012, Dawson Springs assessed South Hopkins District a wholesale rate of \$2.01421 per 1,000 gallons.

5. Based upon the results of an audit of Dawson Springs' operations for the fiscal year ending June 30, 2012, Dawson Springs' actual cost to provide water service to South Hopkins District was \$1.73657 per 1,000 gallons.

6. Dawson Springs has refunded \$86,705 to South Hopkins District as a result of the audit and has notified South Hopkins District that its wholesale rate to South Hopkins District would decrease from \$2.01421 per 1,000 gallons to \$1.73657 per 1,000 gallons.

7. In accordance with the terms of its wholesale contracts that are filed with the Commission, South Hopkins District proposes to refund immediately to its wholesale customers the difference between the total paid and the actual cost of water. This proposal results in the refunds shown in Table I below.

| Table I | |
|--------------------------------|----------------------|
| Wholesale Customer | Refund Amount |
| City of Earlington | \$17,549.89 |
| Mortons Gap Waterworks | \$12,635.29 |
| Caldwell County Water District | \$252.01 |

8. South Hopkins District proposes to refund its retail customers a total of \$56,267.81 by crediting customers' bills \$2.06 per 1,000 gallons of usage over the next two months.⁴

⁴ \$56,267.81 ÷ 27,255,988 gallons (estimated two months retail sales) = \$2.06 per 1,000 gallons.

9. South Hopkins proposes a purchased water adjustment factor of (\$0.33) per 1,000 gallons for retail customers and the same rate decrease under its formula rate for its wholesale customers.

10. South Hopkins proposes to decrease the rates to its customers effective October 1, 2012.

11. During the 12 months ended June 30, 2012, South Hopkins purchased 312,550,000 gallons of water from Dawson Springs and sold 265,953,582 gallons. The decrease in the cost of purchased water is \$86,776.38, resulting in a purchased water adjustment factor of (\$0.33) per 1,000 gallons.

12. The purchased water adjustment factor of (\$0.33) per 1,000 gallons for its retail customers is fair, just, and reasonable and should be approved.

13. The rates set forth in Appendix B are fair, just, and reasonable and should be approved for service that South Hopkins District renders on and after October 1, 2012.


14. Because the decrease in the wholesale rate that Dawson Springs assessed to South Hopkins District became effective on July 1, 2012 and the proposed reduction in South Hopkins District's rates is effective on October 1, 2012, South Hopkins District's customers will not receive the benefit of the first three months of the lower rates. To ensure that the effects of the lower rates are passed through to South Hopkins District's customers, South Hopkins District should, for purposes of recalculating its WARC in 2013, consider the difference in revenues collected for retail sales from July 1, 2012 to September 30, 2012 at the then-authorized rate and at the rate approved in this Order as an overcollection of the WARC charge.

IT IS THEREFORE ORDERED that:

1. South Hopkins District's proposed refund methodology is approved.
2. The purchased water adjustment factor of (\$0.33) per 1,000 gallons as calculated in Appendix A is approved.
3. South Hopkins District's proposed rates, as set forth in Appendix B of this Order, are approved for service rendered on or after October 1, 2012.
4. The tariff sheets contained in South Hopkins District's Application are accepted as filed.⁵
5. For purposes of recalculating its WARC Charge in 2013, South Hopkins District shall consider the difference in revenues collected for retail sales from July 1, 2012 to September 30, 2012 at the then-authorized rate and at the rate approved in this Order as an overcollection of the WARC charge.

⁵ South Hopkins District filed two revised tariff sheets with its Application. The first sheet reflected revisions to its retail rates resulting from the purchased water adjustment. The second sheet reflected the product of the formulas set forth in its wholesale contracts as a result of the 2012 audit. In our Order of September 22, 2010, we directed South Hopkins District to file a revised tariff sheet when it recalculated its wholesale rates using the formulas contained in the wholesale contracts. *Id.* at 12 ("After recalculating its wholesale water rates pursuant to the terms of its wholesale water contracts and prior to assessing the recalculated rates, South Hopkins shall file with the Commission the calculations upon which the recalculated rates are based and revised tariff sheets that state the recalculated wholesale rates."). Our directive is intended only to ensure that the Commission and public are aware of the current product of the wholesale rate formulas. As the formulas set forth in the contracts are the wholesale rate and have not changed, neither KRS 278.160 nor KRS 278.180 specifically requires new tariffs sheets. See Case No. 2007-00299, *Purchased Water Adjustment of Bath County Water District* (Ky. PSC Sept. 26, 2007) at 2. See also *State ex. rel Utilities Commission v. Edmisten*, 230 S.E.2d 651, 659 (N.C. 1976) ("the word 'rate' used in the Public Utility Act refers not only to the monetary amount which each customer must ultimately pay but also to the published method or schedule by which that amount is figured"). We have accepted the second sheet for informational purposes only. The rates reflected in the second revised tariff sheet do not substitute for the rate specified in the wholesale contracts.

By the Commission

ENTERED 
OCT 03 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2012-00397

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00397 DATED **OCT 03 2012**

| | New Rate | Base Rate |
|-----------------------------------|--------------------------|----------------------------|
| Purchases in gallons | 312,550,000 | 312,550,000 |
| Volumetric rate | <u>\$1.73657 / 1,000</u> | <u>\$2.01421 / 1,000</u> |
| | \$ 542,764.95 | \$ 629,541.33 |
| | Decreased water cost | (\$ 86,776.38) |
| Decreased water cost | | (\$86,776.38) |
| Divided by gallons sold / 1,000 | | <u>265,953.582</u> |
| | | (0.326) |
| Purchased water adjustment factor | | (\$0.33) per 1,000 gallons |

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00397 DATED **OCT 03 2012**

The following rates and charges are prescribed for the customers in the area served by South Hopkins 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-Inch Meter

| | | | |
|-------|----------------|--------|-------------------|
| First | 1,000 gallons | \$9.42 | Minimum Bill |
| Next | 9,000 gallons | 4.95 | per 1,000 gallons |
| Next | 10,000 gallons | 4.59 | per 1,000 gallons |
| Next | 30,000 gallons | 4.23 | per 1,000 gallons |
| Over | 50,000 gallons | 3.56 | per 1,000 gallons |

1-Inch Meter

| | | | |
|-------|----------------|---------|-------------------|
| First | 10,000 gallons | \$54.00 | Minimum Bill |
| Next | 10,000 gallons | 4.59 | per 1,000 gallons |
| Next | 30,000 gallons | 4.23 | per 1,000 gallons |
| Over | 50,000 gallons | 3.56 | per 1,000 gallons |

2-Inch Meter

| | | | |
|-------|----------------|----------|-------------------|
| First | 20,000 gallons | \$ 99.90 | Minimum Bill |
| Next | 30,000 gallons | 4.23 | per 1,000 gallons |
| Over | 50,000 gallons | 3.56 | per 1,000 gallons |

3-Inch Meter

| | | | |
|-------|----------------|----------|-------------------|
| First | 50,000 gallons | \$226.70 | Minimum Bill |
| Over | 50,000 gallons | 3.56 | per 1,000 gallons |

Robert J Tucker
Chairman
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