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December 20, 2007

Mr. Carlos F. Miller  
Kenvirons, Inc.  
452 Versailles Road  
Frankfort, Kentucky 40601

Re: West Laurel Water Association  
Case No. 2005-00477

Dear Mr. Miller:

Commission Staff acknowledges receipt of your letter of June 5, 2007 in which you requested review of a rate study that Commission Staff prepared in conjunction with the above-referenced case.

The Commission entered an order on May 15, 2006 in Case No. 2005-00477 in which it approved West Laurel Water Association's proposed rates. KRS 278.400 provides that an application for rehearing on any matter determined in a Commission order must be made within 20 days of service of that order. KRS 278.410 provides that any action for judicial review of a Commission order must be brought within 30 days of service of that order. Accordingly, the time for Cumberland Falls Highway Water District to challenge the proposed rates has run.<sup>1</sup>

Notwithstanding the lateness of its request, Commission Staff has reviewed your allegations. Commission Staff agrees that the Wholesale Production Allocation Factor was incorrectly calculated and that, if properly calculated, this factor would be 0.0347. As the Commodity Factor (0.0425) rather than the Wholesale Production Allocation Factor was used to allocate power and chemical expense to the wholesale customer,<sup>2</sup> this error was not material and had no effect on the allocation of power and chemical expenses.

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<sup>1</sup> The record of Case No. 2005-00477 indicates that West Laurel Water Association published notice of its proposed rates in accordance with Administrative Regulation 807 KAR 5:001, Section 10(3). Despite having notice of the proceeding, Cumberland Falls Highway Water District did not intervene in the proceeding or otherwise attempt to represent its interests as a wholesale customer before the Commission.

<sup>2</sup> In the cost-of-service study included in its application, West Laurel Water Association calculated a commodity factor of 0.0296 and applied this factor to power and chemical expenses. Commission Staff found that West Laurel Water Association had incorrectly calculated this factor. It determined the correct commodity factor was 0.0425 and applied it instead.

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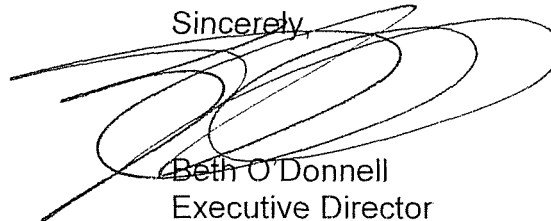
In your letter, you suggest that Commission Staff's use of the Commodity Factor to allocate power and chemical expense is inappropriate and that the use of the Wholesale Production Allocation Factor to allocate this expense is more reasonable. Commission Staff recognizes that several arguments can be advanced for the use of the Wholesale Production Allocation Factor. No such arguments, however, were advanced in Case No. 2005-00477.<sup>3</sup> Moreover, while Commission Staff's use of the Commodity Factor to allocate power and chemical expense can be debated, it is not unreasonable per se or a clear error. Accordingly, Commission Staff is of the opinion that its decision not to use the Wholesale Production Allocation Factor to allocate power and chemical expense is not an adequate basis to re-open this case.

Assuming arguendo that Commission Staff's use of the Commodity Factor to allocate power and chemical expense was erroneous, it does not render the established rate of \$3.62 per 1,000 gallons unreasonable or unfair. To prevent Cumberland Falls Highway Water District from experiencing a significant rate shock, the Commission established a wholesale rate that did not contain any allocation of debt and depreciation expense. If these expenses were allocated to the wholesale customer and the Wholesale Production Allocation Factor used instead, the appropriate wholesale rate would have been \$3.90 per 1,000 gallons.<sup>4</sup>

For the reasons stated above and because of the significant period of time that has elapsed since the entry of the Commission's order in which West Laurel Water Association's current rates were established, Commission Staff has recommended to the Commission that no adjustment to those rates is required. Cumberland Falls Highway District may contest the current rates using the procedures set forth in KRS 278.260. For your reference, a copy of this statute and the Commission's Rules of Procedure are enclosed.

Any questions regarding this matter should be directed to Gerald Wuetcher, Assistant General Counsel, at (502) 564-3940, Extension 259.

Sincerely,



Beth O'Donnell  
Executive Director

2 Encls

cc: Main Case File 2005-00477  
Brad C. Freeman, Esq.  
Parties of Record

<sup>3</sup> In your letter, you do not state why the use of the Water Production Factor is more appropriate or why the use of the Commodity Factor is unreasonable.

<sup>4</sup> The Commission found that an allocation of debt and depreciation expense to the wholesale customer would result in a rate of \$4.28 per 1,000 gallons, or \$0.66 higher than the established rate. Assuming a wholesale rate of \$3.24 without the allocation of debt and depreciation expense and adding \$0.66 to this rate will produce a rate of \$3.90 per 1,000 gallons.