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David M. Ellis
Superintendent
Prestonsburg City Utilities Comm.
2560 South Lake Drive
Prestonsburg, KY 41653

January 30, 2008

RE: Case No. 2007-00218

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/rs
Enclosure



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Hubert Halbert
Southern Water & Sewer District Water Division
P. O. Box 610
245 Kentucky Route 680
McDowell, KY 41647

January 30, 2008

RE: Case No. 2007-00218

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PRESTONSBURG CITY UTILITIES COMMISSION'S)
EMERGENCY WATER SUPPLY AGREEMENT) CASE NO. 2007-00218
WITH SOUTHERN WATER AND SEWER DISTRICT)

ORDER

Prestonsburg City Utilities Commission ("Prestonsburg") has entered into a contract with Southern Water and Sewer District ("Southern District") to provide an emergency supply of water during peak demand periods.¹ This Agreement sets forth an initial rate and provides that "all rates in this Agreement shall be adjusted annually on the anniversary date of this Agreement to correspond with the Consumer Price Index, but no such increase under this provision shall increase rates by more than four percent (4%) per year."

Finding that the provisions of the wholesale contract that provide for an automatic adjustment of the wholesale rate based upon the Consumer Price Index represent a methodology that has not been previously approved and should be further reviewed, the Commission, on its own motion, HEREBY ORDERS that:

1. Pursuant to KRS 278.260, this proceeding is initiated to examine the reasonableness and lawfulness of the automatic adjustment provisions of the Emergency Supply Contract between Prestonsburg and Southern District.

¹ Prestonsburg and Southern District executed the Emergency Water Supply Agreement on July 25, 2005. Prestonsburg did not file the Agreement with the Commission until April 23, 2007.

2. Prestonsburg and Southern District are made parties to this proceeding.

3. Prestonsburg shall file with the Commission within 30 days of the date of this Order the information requested in Appendix A.

4. 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.

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

Done at Frankfort, Kentucky, this 30th day of January, 2008.

By the Commission

ATTEST



Executive Director

Case No. 2007-00218

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00218 DATED JANUARY 30, 2008

Prestonsburg, pursuant to 807 KAR 5:001, shall file with the Commission the original and 5 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before 30 days from the date of this Order. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be 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.

Prestonsburg shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any requests to which Prestonsburg fails or refuses to furnish all or part of the requested information, Prestonsburg shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in

responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. State the amount of sales that Prestonsburg has made to Southern District under the Emergency Water Supply Contract in 2006 and 2007.

2. State whether Prestonsburg considers the Consumer Price Index to be an accurate measure of changes in the cost of providing wholesale water service. If yes, explain why.

3. In Case No. 2006-00067,² the Commission voiced the following criticism of the Consumer Price Index:

[T]he proposed mechanism, which is based upon the CPI, is based upon too large and diverse a group of goods and services. The CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. This basket contains 8 major categories of goods and services: food and beverages; housing; apparel; transportation; medical care; recreation; education and communication; and other goods and services. Several of these categories are unrelated to the provision of water service. Their presence in the basket limits the CPI's accuracy as an adjustment mechanism. For example, increases in the cost of food and beverages, apparel and education would produce a positive increase in the CPI but have no effect on the cost of goods and services that are used to provide water service. An automatic adjustment mechanism must provide an accurate measurement of changes in the cost of providing water service. It therefore should be based principally on those goods and services that are reasonably likely to be used to provide water service.

State whether Prestonsburg agrees with this criticism. Explain.

² Case No. 2006-00067, Proposed Adjustment of the Wholesale Water Service Rate of the City of Lawrenceburg (Ky. PSC Nov. 21, 2006) at 3-4 (footnote omitted).

4. Identify all other price indexes that the parties considered when negotiating the Emergency Water Supply Contract. For each price index listed, state the reasons why the index was not selected.

5. 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.