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David L. Armstrong
Chairman

James Gardner
Vice-Chairman

John W. Clay
Commissioner

October 21, 2008

CERTIFICATE OF SERVICE

RE: Case No. 2008-00057
Grayson County Water District

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on October 21, 2008.

A handwritten signature in cursive script that reads "Stephanie Stumbo".

Executive Director

SS/ke
Enclosure



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Grayson County Water District

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|-------------------------------------|---|---------------------|
| THE APPLICATION OF GRAYSON COUNTY |) | |
| WATER DISTRICT FOR AN ADJUSTMENT OF |) | CASE NO. 2008-00057 |
| RATES FOR WATER SERVICE |) | |

ORDER

On April 21, 2008, Grayson County Water District (“Grayson”) filed its application for Commission approval of proposed water rates. The proposed water rates would generate additional annual revenue of \$183,897, a 7-percent increase in normalized test-year water sales of \$2,810,994. To generate the additional annual revenue, Grayson proposed to increase only retail rates for water service. Grayson did not propose an increase to the city of Caneyville (“Caneyville”), Grayson’s only wholesale customer. The proposed rates would increase the monthly cost of 5,000 gallons from \$40.59 to \$43.44, an increase of \$2.85 or 7 percent for retail customers receiving service through a 5/8-inch x 3/4-inch meter.

Commission Staff performed a limited financial review of Grayson’s test-year operations. Staff’s findings and recommendations were summarized in a report that was issued by Commission Order dated August 6, 2008. Although not an official party to the case, a copy of the Order was served upon Caneyville due to Staff’s recommendations concerning Grayson’s wholesale rate. The August 6, 2008 Order allowed all parties and Caneyville 10 days to respond to Staff’s report. The Order also allowed Caneyville 10 days to file for formal intervention.

In its report, Staff recommended that Grayson's requested increase to retail rates be approved by the Commission. Staff also recommended that the 7-percent increase be applied to Grayson's wholesale rate. Staff explained that, in the absence of a cost-of-service study or other evidence supporting an alternative method, it is only appropriate to assign the required increase to all customer classes proportionately. Otherwise, the required increase would be applied discriminately.

Staff determined that a 7-percent across-the-board rate increase would produce additional revenue of \$197,924. With this increase, Staff found that Grayson would be recovering 82 percent of pro forma depreciation expense. Staff determined that to fully fund pro forma depreciation, Grayson would require a 10.3-percent across-the-board increase. Staff presented rates at this level in Attachment C of its report. Staff stated that, if Grayson desired rates that would fully fund depreciation, Grayson could petition the Commission for approval of the rates shown in Attachment C when filing comments to the Staff Report. Staff instructed Grayson that customer notification of such action would be required.

In response to the Commission's Order dated August 6, 2008, the Commission received a letter on August 19, 2008 from John Tomes, Chairman of the Board of Grayson County Water District, requesting that the Commission approve the water service rates shown in Attachment C of the Staff Report. Caneyville did not submit comments to Staff's report, nor did it request intervention.

By letter dated September 5, 2008, Grayson submitted to the Commission proof of customer notice of its August 19, 2008 request. With this letter, Grayson supplied a copy of Grayson's public notice as published in *The Record* on August 28, 2008, an

affidavit for proof of publication, and a copy of a letter dated August 22, 2008 and delivered to James Paul Embry, Mayor of Caneyville, notifying the city of Grayson's request. The Commission has received no comments or requests for intervention in response to Grayson's notice of its revised rate request.

After considering the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings contained in the Staff Report are supported by the evidence of record, are reasonable, and should be adopted as the findings of this Commission.

2. The rates requested by Grayson in its original application are not sufficient to fully fund cash operating expenses and depreciation and should be denied.

3. The rates calculated by Staff and shown in the Staff Report at Attachment C fully fund cash operating expenses and depreciation and should be approved.

4. Grayson has provided proper notification to the Commission and its customers of its request for approval of the rates included in Attachment C of the Staff Report.

IT IS THEREFORE ORDERED that:

1. The rates for water service proposed by Grayson in its application are hereby denied.

2. The rates for water service as set out in Appendix A of this Order are approved for services rendered by Grayson on and after the date of this Order.

3. Within 30 days of the date of this Order, Grayson shall file with the Commission its revised tariff as approved herein.

Done at Frankfort, Kentucky, this 21st day of October, 2008.

By Commission

ATTEST


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00057 DATED OCTOBER 21, 2008

The following rates and charges are prescribed for the customers in the area serviced by Grayson County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Monthly Water Rates

5/8" x 3/4" Meter

| | | |
|-------|-----------------|------------------------|
| First | 1,500 gallons | \$16.85 Minimum Bill |
| Next | 8,500 gallons | 7.98 per 1,000 gallons |
| Next | 40,000 gallons | 7.15 per 1,000 gallons |
| Next | 100,000 gallons | 6.32 per 1,000 gallons |
| Over | 150,000 gallons | 5.52 per 1,000 gallons |

3/4" Meter

| | | |
|-------|-----------------|------------------------|
| First | 3,000 gallons | \$28.82 Minimum Bill |
| Next | 7,000 gallons | 7.98 per 1,000 gallons |
| Next | 40,000 gallons | 7.15 per 1,000 gallons |
| Next | 100,000 gallons | 6.32 per 1,000 gallons |
| Over | 150,000 gallons | 5.52 per 1,000 gallons |

1" Meter

| | | |
|-------|-----------------|------------------------|
| First | 5,000 gallons | \$44.77 Minimum Bill |
| Next | 5,000 gallons | 7.98 per 1,000 gallons |
| Next | 40,000 gallons | 7.15 per 1,000 gallons |
| Next | 100,000 gallons | 6.32 per 1,000 gallons |
| Over | 150,000 gallons | 5.52 per 1,000 gallons |

1 1/2" Meter

| | | |
|-------|-----------------|------------------------|
| First | 10,000 gallons | \$84.65 Minimum Bill |
| Next | 40,000 gallons | 7.15 per 1,000 gallons |
| Next | 100,000 gallons | 6.32 per 1,000 gallons |
| Over | 150,000 gallons | 5.52 per 1,000 gallons |

2" Meter

| | |
|----------------------|------------------------|
| First 16,000 gallons | \$127.54 Minimum Bill |
| Next 34,000 gallons | 7.15 per 1,000 gallons |
| Next 100,000 gallons | 6.32 per 1,000 gallons |
| Over 150,000 gallons | 5.52 per 1,000 gallons |

3" Meter

| | |
|----------------------|------------------------|
| First 30,000 gallons | \$227.60 Minimum Bill |
| Next 20,000 gallons | 7.15 per 1,000 gallons |
| Next 100,000 gallons | 6.32 per 1,000 gallons |
| Over 150,000 gallons | 5.52 per 1,000 gallons |

4" Meter

| | |
|----------------------|------------------------|
| First 50,000 gallons | \$370.56 Minimum Bill |
| Next 100,000 gallons | 6.32 per 1,000 gallons |
| Over 150,000 gallons | 5.52 per 1,000 gallons |

6" Meter

| | |
|-----------------------|------------------------|
| First 100,000 gallons | \$686.59 Minimum Bill |
| Next 50,000 gallons | 6.32 per 1,000 gallons |
| Over 150,000 gallons | 5.52 per 1,000 gallons |

8" Meter

| | |
|-----------------------|-------------------------|
| First 150,000 gallons | \$1,002.61 Minimum Bill |
| Over 150,000 gallons | 5.52 per 1,000 gallons |

10" Meter

| | |
|-----------------------|-------------------------|
| First 250,000 gallons | \$1,554.14 Minimum Bill |
| Over 250,000 gallons | 5.52 per 1,000 gallons |

Wholesale

| | |
|--------------------|--------------------------|
| City of Caneyville | \$2.00 per 1,000 gallons |
|--------------------|--------------------------|