

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE CONTRACT)	
FILING OF SOUTH ANDERSON WATER)	CASE NO.
DISTRICT TO PROVIDE WHOLESALE WATER)	2015-00019
SERVICE TO NORTH MERCER WATER)	
DISTRICT)	

ORDER

South Anderson Water District ("South Anderson"), pursuant to a written contract, provides wholesale water service to the North Mercer Water District ("North Mercer"). On January 20, 2015, the Commission, on its own motion and pursuant to KRS 278.260(1), initiated this proceeding to investigate the reasonableness of the contract.

On June 26, 2015, South Anderson filed an amendment to the contract. The amendment has been agreed upon and executed by South Anderson and North Mercer. Having carefully reviewed the record in this proceeding, the Commission finds that the contract, as amended, is reasonable.

BACKGROUND

On October 21, 2011, South Anderson applied for a Certificate of Public Convenience and Necessity ("CPCN") to construct a waterworks improvement project, for an adjustment in rates, and for approval of its plan to finance the proposed project.¹ One of the stated purposes for the proposed construction was to enable South

¹ Case No. 2011-00420, *Application of South Anderson Water District (1) For a Certificate of Public Convenience and Necessity Authorizing Construction of Major Improvements and Additions to Its Existing Water Distribution System, (2) Seeking Approval of Revised Water Service Rates and Charges, and (3) Seeking Approval of the Issuance of Certain Securities* (filed Nov. 11, 2011) at 1.

Anderson to provide wholesale water service to North Mercer.² The Commission noted that, as of the date of the final Order in that proceeding (November 21, 2011), there was no contract between South Anderson and North Mercer on file with the Commission, and ordered that South Anderson, before providing wholesale water service to North Mercer, file with the Commission a written contract or rate schedule that specifies the provisions under which service is being provided.³

On December 22, 2014, South Anderson applied for approval to adjust its rates pursuant to the purchased water adjustment (“PWA”) procedure.⁴ South Anderson’s PWA application included a request to increase its wholesale water service rate to North Mercer.⁵ On January 13, 2015, while its PWA application was pending, South Anderson filed its written contract (“Agreement”) with North Mercer. The wholesale water service Agreement was entered into on September 19, 2012, and, among other things, it contains the rates for water service.

On January 20, 2015, the Commission found that a purchased water adjustment factor of \$0.14 per 1,000 gallons was fair, just, and reasonable and should be approved.⁶ Because the wholesale rate requested by South Anderson resulted in an adjustment of approximately \$0.245 per 1,000 gallons rather than \$0.14 per 1,000

² *Id.* at 3.

³ *Id.* at 3 and 5.

⁴ Case No. 2014-00443, *Purchased Water Adjustment Filing of South Anderson Water District* (filed Jan. 20, 2015).

⁵ *Id.* at 2.

⁶ *Id.* at 2 and 3.

gallons, the Commission denied the wholesale rate as requested by South Anderson.⁷ The Commission approved a new wholesale rate for South Anderson's provision of water to North Mercer for water service on and after January 1, 2015.⁸ On January 27, 2015, South Anderson issued a new tariff containing the wholesale rate to North Mercer as authorized by the Commission's January 20, 2015 Order in Case No. 2014-00443.⁹

On January 20, 2015, the Commission entered an Order, on its own motion and pursuant to KRS 278.260(1), establishing this proceeding to investigate the reasonableness of South Anderson's Agreement with North Mercer. As we noted in that Order, South Anderson's 2012 Agreement with North Mercer included a clause that stated, in pertinent part, that South Anderson "may increase the rates and charges for service ... by an amount equal to the most recent annual increase in the Producer Price Index (formerly Wholesale Price Index), provided such increase shall not exceed a maximum of 2% (two percent) in any one year, if the mandated fund coverages ... in South Anderson's Bond Ordinance have been met."¹⁰ Further, we noted in that Order "[T]he principal focus of our investigation is on the proposed option through which South Anderson may increase rates based upon an index."¹¹

⁷ *Id.*

⁸ *Id.* See also Appendix B of the same Order. The Commission increased the wholesale rate on file with the Commission by \$0.14 per 1,000 gallons.

⁹ *South Anderson Water District, Rates and Charges and Rules and Regulations for Furnishing Water Service*, P.S.C. KY. No. 2, 11th Revised Sheet, Number 4.

¹⁰ Order (Ky. PSC Jan. 20, 2015) at 1.

¹¹ *Id.* at 2. See for background, Case No. 2006-00067, *Proposed Adjustment of the Wholesale Water Service Rate of the City of Lawrenceburg, Kentucky* (Ky. PSC Nov. 21, 2006) (adjustment mechanism based upon the Consumer Price Index stricken as having no legal effect); and Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009) (pro forma adjustments based upon the Consumer Price Index disallowed for a rate application that uses a historical test period).

In opening this investigation, we made North Mercer, a signatory to the 2012 Agreement, a party to this case. The Commission also required South Anderson to respond to requests for information contained in an Appendix to the January 20, 2015 Order. Additionally, on March 24, 2015, South Anderson and North Mercer attended an informal conference with Commission Staff.

On June 26, 2015, South Anderson filed an Amendment to the 2012 Agreement ("Amendment"). The 2015 Amendment removed, in its entirety, the clause in the 2012 Agreement concerning South Anderson's stated option to increase rates based upon an index. The 2015 Amendment adds language through which South Anderson confirms that it will comply with and follow the procedures established by KRS Chapter 278 and the Commission's regulations for any proposed adjustment of its rates. Finally, the 2015 Amendment states new rates for water service to North Mercer.

Having considered the record and being otherwise sufficiently advised, the Commission finds that:

1. South Anderson and North Mercer executed a wholesale contract on September 19, 2012.

2. The 2012 Agreement between South Anderson and North Mercer contained a rate indexing provision through which South Anderson stated that it could increase the rates and charges for service based upon annual increases in the Producer Price Index, formerly known as the Wholesale Price Index.

3. South Anderson has not utilized the rate indexing provision contained in the 2012 Agreement.¹²

¹² South Anderson's Response to the Appendix to the Commission's January 20, 2015 Order, Items 5.c. and 6.

4. South Anderson and North Mercer have executed and filed an Amendment to the 2012 Agreement through which the parties remove, in its entirety, the indexing provision from their Agreement.

5. The new rates for wholesale water service established by the 2015 Amendment increase North Mercer's cost of water by an approximate \$0.11 per 1,000 gallons.

6. The increase in wholesale water service through the 2015 Amendment is for the purpose of incorporating into the wholesale rates the effect of a purchased water adjustment factor approved in Case No. 2013-00298,¹³ which was a PWA application that was filed after the execution of the 2012 Agreement.¹⁴

7. The rates in the 2015 Amendment should be approved for service rendered on and after July 26, 2015.

8. South Anderson should file a revised tariff showing the approved rates.

9. The 2012 Agreement between South Anderson and North Mercer, as amended, is reasonable and should be approved.

10. The purpose of this investigation has been served, and there is no need to conduct further proceedings in this matter regarding the agreement, as amended.

IT IS THEREFORE ORDERED that:

1. The 2012 Agreement and the 2015 Amendment between South Anderson and North Mercer is approved.

¹³ Case No. 2013-00298, *Purchased Water Adjustment Filing of South Anderson Water District* (Ky. PSC Aug. 8, 2013).

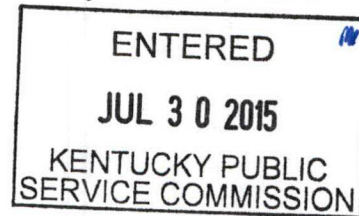
¹⁴ South Anderson's Response to the Commission's January 20, 2015 Order, Item 5.b.

2. The rates set forth in the 2015 Amendment between South Anderson and North Mercer, which includes an increase in North Mercer's cost of water by approximately \$0.11 per 1,000 gallons, are approved for wholesale water service on and after July 26, 2015.

3. Within 20 days of the date of this Order, South Anderson shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the approved rates.

4. This case is closed and is removed from the Commission's docket.

By the Commission



ATTEST:



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