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Sterling Francis
Francis Water Company
P.O. Box 38
Garrett, KY 41630

November 18, 2005

CERTIFICATE OF SERVICE

RE: Case No. 2004-00338
Francis Water Company

I, Beth O'Donnell, 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 November 18, 2005.

A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over a horizontal line.

Executive Director

BOD/jc
Enclosure

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Honorable David Edward Spenard
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF FRANCIS)	
WATER COMPANY FOR APPROVAL)	
OF A PROPOSED INCREASE IN)	CASE NO.
RATES, FINANCING, AND AN)	2004-00338
INCREASE IN NON-RECURRING)	
CHARGES)	

O R D E R

On January 21, 2005, the Commission approved an increase in the water service rates of Francis Water Company ("Francis"). We further directed that Francis investigate the feasibility of purchasing its water requirements from a regional water supplier and any other feasible reorganization venture and to submit a written report of its investigation.

On June 10, 2005, Francis submitted a written report of its investigation in which it concluded that its continued production of water was the most cost effective method of providing water service.¹ In its report, Francis considered only two alternative options: wholesale water purchases from Prestonsburg City Utilities ("Prestonsburg") or Southern Water and Sewer District ("Southern District").

Francis summarily dismissed purchases from Prestonsburg as a feasible alternative to its present production of water. Prestonsburg's current wholesale water service rate is \$3.00 per 1,000 gallons. The annual cost of purchasing Francis's total

¹ Letter of Darrell Madden, Certified Public Accountant, to Beth O'Donnell, Executive Director, Public Service Commission (June 3, 2005).

water requirements from Prestonsburg would be \$70,200.² This amount exceeds Francis's annual cost to produce its total water requirements, which Francis estimates to be \$66,516.³ Francis notes that any purchases of water from Prestonsburg would require the construction of approximately 15 miles of water main and suggests that it would be required to assume this cost.⁴

Francis next turns to Southern District. Assuming a wholesale water rate of \$2.40 per 1,000, Francis calculates that the purchase of its total water requirements from Southern District would cost \$56,160.⁵ It further calculates that, regardless of whether its total water requirements were purchased from Southern District, it would have to continue to employ two employees to operate and maintain its distribution system. It estimates the annual cost of these employees to be \$55,208. The total annual cost of water, therefore, would be \$109,368. Francis also questioned the quality of Southern District's water and asserted that, based upon Southern District's history of violations of water quality regulations, its water "could cause harm to the customers"

² 1,950,000 gallons/month x 12 months x \$3.00/1,000 gallons = \$70,200.

³ Letter of Darrell Madden, Certified Public Accountant, to Beth O'Donnell, Executive Director, Public Service Commission (June 3, 2005) at 2.

⁴ In its report Francis failed to discuss its discussions, if any, with Prestonsburg regarding the cost of providing wholesale water service or the financial arrangements under which a water main would be constructed to serve Francis. It also failed to indicate the source of the Prestonsburg wholesale water rate.

⁵ 1,950,000 gallons/month x 12 months x \$2.40/1,000 gallons = \$56,160. The assumed wholesale rate is the rate that Southern District currently charges the city of Hindman. See Case No. 2005-00374, Application of Southern Water and Sewer District of Floyd and Knott Counties, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023 (Ky. PSC Oct. 14, 2005).

and that use of Southern District as its supplier “would be totally wrong and impractical.”⁶

The Commission questions Francis’s concerns about the quality of Southern District’s water. The United States Environmental Protection Agency’s Safe Drinking Water Information System⁷ indicates that Kentucky water quality regulators have reported three health-based violations and eight monitoring and reporting violations for Southern District since 1993. Of the eight monitoring and reporting violations, only one was considered to be significant. In contrast Kentucky regulators reported 43 monitoring and reporting violations for Francis during the same period. Thirty-three of these violations were classified as significant. Based upon the available information, we find no basis to conclude that the quality of Southern District’s water is inferior than that of Francis’s water.

We further question several elements of Francis’s cost analysis. We find no support within Francis’s report for the employment of two persons to operate its distribution system. Assuming that two employees are required, there is no evidence to suggest that, in the absence of any water production system to operate, the utility would need these employees to work the same number of hours that they currently work. Moreover, there is no discussion in Francis’s report or investigation on its part of the possibility of contracting with Southern District for the operation of the Francis water distribution system. Such a contract would eliminate the need for any employees.

⁶ Letter from Francis Water Company to Beth O’Donnell, Executive Director, Public Service Commission (June 10, 2005).

⁷ See <http://www.epa.gov/safewater/dwinfo/ky.htm> (last visited Nov. 10, 2005).

In light of these questions, the Commission is of the opinion that Francis should continue to investigate regional operational alternatives. It should continuously assess the feasibility and viability of purchasing its total water requirements from regional suppliers rather than operating its own production facilities. It would also engage in continuous dialogue with regional water suppliers to ensure that it has a current and complete view of the economics of water purchases. Through this process, Francis must not only consider its own economic interests, but those of its customers.

The Commission places Francis on notice that we will continue to monitor Francis's operations and the potential for a regionalized solution to Francis's water requirements. In our earlier Order, we required Francis to submit annual written reports on the upgrading and replacement of its equipment, its staffing requirements, and its efforts to comply with environment regulations. We intend to review these reports closely to ensure that Francis is properly addressing the needs and interests of its customers.

IT IS THEREFORE ORDERED that this case is closed and removed from the Commission's docket.

Done at Frankfort, Kentucky, this 18th day of November, 2005.

By the Commission

ATTEST:


Executive Director