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Chairman
Northeast Woodford County Water District
225A South Main Street
Versailles, KY 40383

December 20, 2005

RE: Case No. 2005-00369

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/jc
Enclosure

John S. Davis
Chairman
Northeast Woodford County Water
District
225A South Main Street
Versailles, KY 40383

Bruce Southworth
Public Works Director
City of Versailles
P. O. Box 625
Versailles, KY 40303

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE) CASE NO. 2005-00369
RATES OF THE CITY OF VERSAILLES)

O R D E R

On September 27, 2005, the Commission suspended for 5 months the city of Versailles, Kentucky's ("Versailles") proposed adjustment to its existing wholesale water service rate to Northeast Woodford Water District and South Woodford Water District and initiated an investigation into the reasonableness of the proposed rate. In the same Order in which we suspended the proposed rate, we also directed that Versailles submit certain information necessary to support its proposed rate.

The rates that a municipal utility assesses a public utility for utility service are subject to Commission review and regulation.¹ KRS 278.180 requires that no change in these rates may occur without 30 days' notice to the Commission. KRS 278.190 provides that the Commission may suspend any proposed rate change before it becomes effective to investigate the reasonableness of that rate. The burden of proof in such proceedings is upon the utility "to show that the increased rate or charge is just and reasonable."

¹ See Simpson County Water District v. City of Franklin, 872 S.W.2d 460, 463 (Ky. 1994), ("where contracts have been executed between a utility and a city, . . . KRS 278.200 is applicable and requires that by so contracting the City relinquishes the exemption and is rendered subject to PSC rates and service regulation.").

In the present proceeding, Versailles bears the burden of demonstrating that its proposed wholesale water service rate is just and reasonable. As Versailles's notice did not contain any supporting evidence regarding the reasonableness of its proposed rate, the Commission directed in its Order of September 27, 2005 that Versailles provide the documentary and testimonial evidence necessary to meet its burden. We directed that Versailles provide, inter alia, the direct testimony of its witnesses, financial reports, and all cost-of-service studies used to develop the proposed wholesale rate. We made clear in our Order that, as the scheduled hearing in this matter would be solely for the purpose of cross-examination, Versailles's submission would constitute its case-in-chief.²

Based upon our review of Versailles's response to the Commission's Order of September 27, 2005, we have significant concerns as to whether Versailles has met its initial burden of demonstrating the reasonableness of its proposed wholesale rates. Versailles has not provided any verified testimony to support the proposed rates, a supporting cost-of-service study, or a test period of utility operations for 12 months.

We find that, given Versailles's limited experience with Commission proceedings and procedure, an informal conference should be convened to discuss the procedural aspects of this proceeding, the deficiencies in Versailles's response, the evidence necessary to meet the required burden of proof, and revisions to the existing procedural schedule in this case. Commission Staff is instructed to provide to the fullest extent possible all necessary information and assistance on the procedural and substantive

² We originally directed that Versailles submit its supporting documents and information on or before November 4, 2005. We subsequently extended the time in which to submit this information to December 5, 2005.

issues to ensure that Versailles has a full and complete understanding of the obligations that KRS 278.190 imposes. We further find that, pending that conference, the procedural schedule in this matter should be suspended.


IT IS THEREFORE ORDERED that:

1. The procedural schedule in this matter is suspended.
2. An informal conference is scheduled for 10:00 a.m., Eastern Standard Time, on January 12, 2006, in Conference Room 2 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.
3. Versailles shall have representatives present at the conference who are familiar with the development of its proposed rate for wholesale water service.

Done at Frankfort, Kentucky, this 20th day of December, 2005.

By the Commission

ATTEST:



Executive Director