

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

WATER RATE AGREEMENT BETWEEN CITY)
OF LANCASTER AND GARRARD COUNTY) CASE NO. 2007-00114
WATER ASSOCIATION)

O R D E R

On March 15, 2007, the city of Lancaster, Kentucky ("Lancaster") notified the Commission of a proposed revision to its wholesale water service rate for Garrard County Water Association ("Garrard County"). Lancaster proposed to place the revised rate in effect on April 10, 2007. Lancaster's notice fails to comply with KRS 278.180(1), which requires a utility to provide the Commission with 30 days' prior notice of any rate revision.¹

In addition to its proposed rate revision, Lancaster has filed an amendment to its present Water Rate Agreement with Garrard County. The Water Rate Agreement provides, inter alia, that Lancaster's rate will be "reviewed every two (2) years by an independent third party to identify any need for an increase or decrease in wholesale rates. For those years when an independent rate review is not required, a rate adjustment, if necessary, will be equal to the state of Kentucky's Consumer Price Index as calculated by the Governor's Office for Local Development (GOLD)."

¹

[N]o change shall be made by any utility in any rate except upon thirty (30) days' notice to the commission, stating plainly the changes proposed to be made and the time when the changed rates will go into effect.

Having considered the proposed rate revision and being otherwise sufficiently advised, the Commission finds that, pursuant to KRS 278.190, further proceedings are necessary to determine the reasonableness of the proposed rate revision. The principal focus of our investigation will center on the reasonableness of the proposed automatic adjustment mechanism set forth in the contract amendment.² KRS 278.190(2) places the burden upon Lancaster to demonstrate that the proposed automatic adjustment mechanism is reasonable.

IT IS THEREFORE ORDERED that:

1. This proceeding is established to investigate the reasonableness and lawfulness of Lancaster's proposed rate revision.
2. Lancaster shall not implement the proposed revision until providing the appropriate notice to the Commission that KRS 278.180(1) requires.
3. Within 30 days of the date of this Order, Lancaster shall show cause in writing why the proposed automatic adjustment is reasonable, would produce a fair, just and reasonable rate for water service and is a reliable and accurate measure of the changes in the cost of producing and distributing water to Garrard County.

Done at Frankfort, Kentucky, this 17th day of April, 2007.

By the Commission

ATTEST:



Executive Director

² We note an automatic adjustment mechanism very similar to that contained in the contract amendment was recently proposed and rejected. See Case No. 2006-00067, Proposed Adjustment of the Wholesale Water Service Rate of the City of Lawrenceburg, Kentucky (Ky. PSC Nov. 21, 2006).