

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED WATER ADJUSTMENT OF BATH ) CASE NO. 2007-00299  
COUNTY WATER DISTRICT )

ORDER

On July 6, 2007, Bath County Water District ("Bath District") applied for approval to adjust its rates pursuant to the purchased water adjustment procedure.<sup>1</sup> On August 6, 2007, we found that Bath District's supplier, Morehead Utility Plant Board ("Morehead"), had failed to properly notify the Commission of the proposed adjustment in its wholesale water service rates and that, as a result of this failure, Morehead's adjustment was not effective or lawful, could not be assessed, and could not serve as the basis for a purchased water adjustment. Accordingly, we denied Bath District's application.

Morehead subsequently submitted filed revised tariff sheets with the Commission that specify the wholesale service rate that it is currently assessing Bath District and requested an effective date of January 1, 2007. In support of its proposed effective date, Morehead advised the Commission that wholesale contracts between Morehead and the public utilities contained a very specific rate formula, that this rate formula had not changed, and that the revised tariff sheet merely reflected the product of this rate formula. As the rate formula had not changed, it asserts, KRS 278.180(1) did not require any notice to the Commission.

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<sup>1</sup> KRS 278.015; 807 KAR 5:068.

On January 1, 2001, Morehead, Bath District, and Rowan Water, Inc. entered into an agreement for the sale and purchase of water. This agreement provides for the funding of the expansion of Morehead's existing water treatment facilities to meet the projected future needs of the three utilities. It further provides a detailed methodology for allocating the cost of constructing and operating the proposed facilities. Bath District's monthly payments for water consisted of three components: Monthly Capital Costs, Monthly Cash Operation and Maintenance Expense, and Meter and Billing Charge. The contract contains specific formulas to calculate each expense. The contract further provides for a recalculation of the components annually based upon Morehead's actual expenses in the preceding fiscal year. The recalculated components are to be assessed beginning on January 1 of the following year.

As a result of Morehead's submission and argument, the Commission, on its own motion, has reviewed and reconsidered our Order of August 6, 2007 in this proceeding. We are of the opinion that, as the formula set forth in the contract between Morehead and Bath District is the rate for wholesale water service<sup>2</sup> and as this formula has remained unchanged since the contract's execution, KRS 278.180(1) did not require 30 days' notice to the Commission of the recalculated cost components.<sup>3</sup> Under the

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<sup>2</sup> In this respect, the wholesale service rate is similar to an electric utility's fuel adjustment rate. See, e.g., State ex. rel Utilities Commission v. Edmisten, 230 S.E.2d 651, 659 (N.C. 1976) ("the word 'rate' used in the Public Utility Act refers not only to the monetary amount which each customer must ultimately pay but also to the published method or schedule by which that amount is figured").

<sup>3</sup> While KRS 278.180(1) did not require notice, the agreement between Morehead and Bath District required Morehead to provide Bath District at least 60 days' notice of the results of the recalculation. The Commission is of the opinion that the better practice is for Morehead to also file revised tariff sheets with the Commission prior to placing the results of the recalculation into effect.

contract terms, this recalculation may be properly assessed on and after January 1, 2007.

In light of our examination of the wholesale contract and the record of this proceeding and being otherwise sufficiently advised, the Commission finds that:

1. Bath District purchases water from Morehead and Mt. Sterling Water ("Mount. Sterling").

2. On or before January 1, 2007, Morehead recalculated its wholesale water service rate to Bath District in accordance with the terms of its agreement of its water supply agreement with Bath District. Based upon this recalculation, Morehead's water service rate to Bath District increased from \$.786 per 1,000 gallons to \$.908 per 1,000 gallons effective January 1, 2007.

3. On July 6, 2007, Bath District applied for a purchased water adjustment to increase the water rates to its customers effective August 15, 2007. Bath District properly complied with the provisions of KRS 278.015 and 807 KAR 5:068 when submitting its application.

4. During the 12 months ending May 31, 2006, Bath District purchased a total of 408,436,000 gallons of water, 369,481,000 from Morehead, 38,955,000 from Mount. Sterling, and it sold 359,468,000 gallons. The increase in the cost of purchased water is \$45,051.60, resulting in a purchased water adjustment factor of \$0.13 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.13 per 1,000 gallons is fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. Bath District's proposed rates are approved.

2. The purchased water adjustment factor of \$0.13 per 1,000 gallons as calculated in Appendix A is approved.

3. The rates in Appendix B are fair, just, and reasonable and are approved for services that Bath District renders on and after August 15, 2007.

4. Within 20 days of the date of this Order, Bath District shall file with the Commission revised tariff sheets showing the rates approved herein.

5. In lieu of the requirements set forth in 807 KAR 5:068, Section 5, Bath District shall publish notice of the increased rates as soon as possible but no later than 20 days from the date of this Order.

6. The Executive Director shall serve a copy of the Order upon Morehead.

Done at Frankfort, Kentucky, this 26th day of September, 2007.

By the Commission

ATTEST.

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
 COMMISSION IN CASE NO. 2007-00299 DATED September 26, 2007

	New Rate	Base Rate	Amount Changed
Customer Charge	\$18,628.44	\$18,630.53	
12 months	<u>x 12</u>	<u>x 12</u>	
	\$223,541.28	\$223,566.36	(\$25.08)
Purchases in gallons	369,481,000	369,481,000	
Volumetric rate	<u>\$0.0908/1,000</u>	<u>\$0.786/1,000</u>	
	\$335,488.75	\$290,412.07	<u>\$45,076.68</u>
		Increased water cost	<u>\$45,051.60</u>
Increased water cost		\$45,051.60	
Divided by gallons sold		<u>359,468,000</u>	
Purchased water adjustment factor		\$0.13 per 1,000	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2007-00299 DATED September 26, 2007

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

RATES AND CHARGES

5/8" X 3/4" Meter

First	2,000 gallons	\$11.63	Minimum Bill
Next	3,000 gallons	4.89	per 1,000 gallons
Next	5,000 gallons	3.59	per 1,000 gallons
Next	10,000 gallons	2.99	per 1,000 gallons
Next	30,000 gallons	2.79	per 1,000 gallons
Over	50,000 gallons	2.69	per 1,000 gallons

1" Meter

First	10,000 gallons	\$ 44.25	Minimum Bill
Next	10,000 gallons	2.99	per 1,000 gallons
Next	30,000 gallons	2.79	per 1,000 gallons
Over	50,000 gallons	2.69	per 1,000 gallons

2" Meter

First	50,000 gallons	\$ 157.85	Minimum Bill
Over	50,000 gallons	2.69	per 1,000 gallons

F. LEAK ADJUSTMENT RATE 2.23 per 1,000 gallons

G. WHOLESALE WATER RATES:

Sharpsburg Water District 2.67 per 1,000 gallons

City of Frenchburg 2.26 per 1,000 gallons

City of Owingsville  
Monthly Debt Service Payment 4,733.91 Minimum Bill  
All Usage 1.83 per 1,000 gallons

Bulk Sales 7.28 per 1,000 gallons