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February 13, 2008

CERTIFICATE OF SERVICE

RE: Case No. 2008-00051
North Middletown Water & Gas System

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 February 13, 2008.

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

Executive Director

BOD/tw
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE WHOLESALE WATER)
SERVICE RATES OF THE CITY OF NORTH)
MIDDLETOWN TO JUDY WATER ASSOCIATION) CASE NO. 2008-00051
TO REFLECT REVISIONS IN THE COST OF)
PURCHASED WATER)

ORDER

The city of North Middletown (“North Middletown”) has filed notice of proposed revisions to its wholesale water service rate to Judy Water Association (“Judy Water”) to reflect increases in its cost of purchased water. Having reviewed the proposed revisions, the Commission finds that North Middletown incorrectly calculated the level of adjustment necessary to pass through its increased purchased water costs to its wholesale customer. By this Order, we authorize an adjustment to recover the full amount of these increased costs.

North Middletown, a city of the fifth class,¹ is located in Bourbon County, Kentucky. It owns and operates a water distribution system that provides water service to residents of North Middletown and wholesale water service to Judy Water.

In October 1999, after negotiations between North Middletown and Judy Water, the parties executed a water purchase contract. This contract provided, inter alia, that North Middletown would be permitted to pass through all increases in price from its

¹ KRS 81.010(5).

supplier, Kentucky-American Water Company ("KAWC"), to Judy Water according to the methodology set forth in Administrative Regulation 807 KAR 5:068.

On December 1, 2007, KAWC adjusted its rates for wholesale water service from \$2.157 per 1,000 gallons to \$2.68381 per 1,000 gallons.² On December 7, 2007, North Middletown filed revised tariff sheets with the Commission in which it proposed to increase its current wholesale rate using an adjustment factor of \$0.4581. These revised tariff sheets did not state an effective date for the proposed adjustment.

Having considered North Middletown's level of water purchases and total water sales for the 12-month period ending December 31, 2007, the Commission finds that North Middletown incorrectly calculated the adjustment factor associated with the increase in KAWC's wholesale rate. Our calculations of the adjustment factor, which are shown in Appendix A of this Order, reflect an adjustment factor of \$0.64. Accordingly, we find that North Middletown's present wholesale rates should be adjusted by a factor of \$0.64 to be consistent with the provisions of the wholesale water service contract between the two utilities.

IT IS THEREFORE ORDERED that:

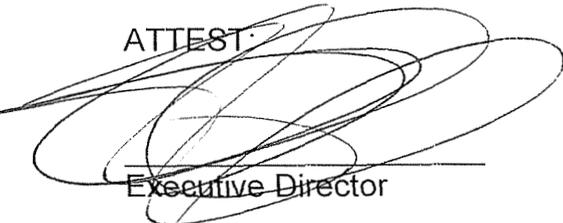
1. North Middletown's proposed rates are denied.
2. North Middletown shall charge the rates set forth in Appendix B to this Order for wholesale water service provided to Judy Water on and after February 20, 2008.

² Case No. 2007-00143, Adjustment of the Rates of Kentucky-American Water Company (Ky. PSC Nov. 29, 2007).

Done at Frankfort, Kentucky, this 13th day of February, 2008.

By the Commission

ATTEST:


Executive Director

Case No. 2008-00051

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00051 DATED FEBRUARY 13, 2008

Monthly Water Rates

	<u>Base Rate</u>	<u>New Rate</u>
Kentucky American		
Purchases in gallons	86,322,750	86,322,750
Volumetric rate	<u>\$2.1570/1,000</u>	<u>\$2.6838/1,000</u>
	\$186,198.17	\$231,673.00
		increased water cost \$ 45,474.82
Decreased water cost		\$ 45,474.82
Divided by gallons sold		<u>70,617,300</u>
Purchased water adjustment factor		\$ 0.64 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00051 DATED FEBRUARY 13, 2008

The city of North Middletown shall assess the following rates and charges to Judy Water Association. 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.

Wholesale Rate to Judy Water Association:

First 70,000 gallons per day	\$2.97 per 1,000 gallons
Over 70,000 gallons per day	\$3.07 per 1,000 gallons