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John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

May 15, 2008

CERTIFICATE OF SERVICE

RE: Case No. 2008-00109
Garrard County Water Association, Inc.

I, Stephanie Stumbo, 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 May 15, 2008.

Executive Director

SS/rs
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED WATER ADJUSTMENT OF) CASE NO. 2008-00109
GARRARD COUNTY WATER ASSOCIATION)

ORDER

On April 14, 2008, Garrard County Water Association ("Garrard County") applied for approval to adjust its rates pursuant to the purchased water adjustment procedure.¹ KRS 278.012; 807 KAR 5:068.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that:

1. Garrard County purchases water from the city of Lancaster ("Lancaster"), the city of Berea ("Berea"), and the city of Danville ("Danville").
2. On April 1, 2008, Lancaster increased its rate for wholesale water service from \$1.87 per 1,000 gallons to \$1.91 per 1,000 gallons.
3. Garrard County states that at an unknown date, but after November 19, 1992, Berea increased its wholesale rate to Garrard County from \$1.95 per 1,000 gallons to \$1.98 per 1,000 gallons.

¹ Garrard County tendered its application for a purchased water adjustment on March 26, 2008. The Commission rejected this tender because the application failed to comply with certain provisions of 807 KAR 5:068. We accepted the application on April 14, 2008 when Garrard County cured these deficiencies.

4. In Case No. 1992-00252,² the Commission established for Berea College Water Utility Department a wholesale water service rate of \$1.95 per 1,000 gallons.

5. On April 20, 1994, Berea College Water Utility Department revised its published rate schedules to pass through to its wholesale water service customers the water withdrawal fees that the Kentucky River Authority assessed.³

6. On May 6, 1994, the Commission authorized Garrard County to adjust its rates for water service to reflect the increase in Berea College Water Utility Department's wholesale water service rate from \$1.95 per 1,000 gallons to \$1.978 per 1,000 gallons.⁴

7. Commission records indicate that Berea College Water Utility Department did not revise its wholesale service rates after April 20, 1994.

8. All of Berea College Water Utility Department's water production and distribution assets were transferred to Berea on or about January 26, 2005.⁵

9. Berea has not revised or otherwise amended Berea College Water Utility Department's wholesale service rates.

² Case No. 1992-00052, Adjustment of Rates of Berea College Water Utility (Ky. PSC Nov. 28, 1992).

³ See Berea College Water Utility Department Tariff, PSC. No. 4, Seventh Revised Sheet No. 7 (effective April 20, 1994).

⁴ Case No. 1994-00131, Purchased Water Adjustment of Garrard County Water Association, Inc. (Ky. PSC May 6, 1994).

⁵ Case No. 2004-00331, Joint Application of Berea College and the City of Berea for an Order Authorizing the Transfer of Utility Assets Pursuant to KRS 278.020(5) and (6) (Ky. PSC Dec. 9, 2004). See also Letter from Judge B. Wilson II, Berea College General Counsel, to Anita Mitchell, Staff Attorney, Kentucky Public Service Commission (May 22, 2006).

10. The billing information that Garrard County submitted with its application indicates that Berea is assessing the same wholesale service rate that Berea College Water Utility Department was assessing when the Commission approved the transfer of its assets to Berea.

11. Garrard County has failed to establish that an adjustment to its rates pursuant to the purchased water adjustment procedure is required because of any increase in Berea's wholesale water service rates.

12. Garrard County states that at an unknown date, but after February 14, 2000, Danville increased its wholesale rate from \$1.38 per 1,000 gallons to \$1.60 per 1,000 gallons.⁶

13. On July 23, 1999, Danville and Garrard County executed a water purchase contract under which Danville agreed to provide wholesale water service to Garrard County. This contract provided for a declining block rate schedule for wholesale water service. On February 14, 2000, the Commission approved the rates set forth in this contract.⁷

14. Since February 14, 2000, Danville has not filed with the Commission any revisions to its water purchase contract with Garrard County or a revised schedule of rates for wholesale water service.

⁶ The Commission assumes that Garrard County's reference to a base rate of \$1.38 in its application refers to the average cost of water per 1,000 gallons.

⁷ Case No. 1999-00353, An Investigation Into the Proposed Wholesale Water Contract Between the City of Danville, Kentucky and Garrard County Water Association (Ky. PSC Feb. 14, 2000).

15. Danville's rate for wholesale water service to a jurisdictional utility is subject to Commission approval.⁸

16. KRS 278.180(1) provides that no utility may change its rates except upon 30 days' notice to the Commission.⁹

17. As Danville has not provided the Commission with the notice of any rate change that KRS 278.180 requires, its rate adjustment is not effective or lawful, may not be assessed, and may not serve as the basis for a purchased water adjustment.¹⁰

18. During the 12 months ended February 2008, Garrard County purchased 253,776,100 gallons from Lancaster. It sold 323,829,781 gallons of water during the same period. The increase in the cost of purchased water is \$10,151.04, resulting in a purchased water adjustment factor of \$0.04 per 1,000 gallons.

19. The purchased water adjustment factor of \$0.04 per 1,000 gallons is fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. Garrard County's proposed rates are denied.

⁸ See *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460 (Ky. 1994).

⁹ *Id.* at 463 ("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").

¹⁰ The Commission's Executive Director has advised Danville that it must comply with KRS 278.180 and Administrative Regulation 807 KAR 5:011 to adjust its wholesale water service rate to Garrard County. Letter from Stephanie Stumbo, Executive Director, Public Service Commission, to Hugh Coomer, Mayor, City of Danville (April 21, 2008).

2. The purchased water adjustment factor of \$0.04 per 1,000 gallons as calculated in Appendix A is approved.

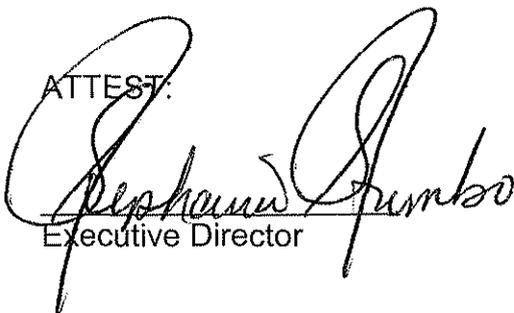
3. The rates set forth in Appendix B are fair, just, and reasonable and are approved for services on or after the date of this Order.

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

Done at Frankfort, Kentucky, this 15th day of May, 2008.

By the Commission

ATTEST:


Stephanie Jumbo
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00109 DATED MAY 15, 2008

	New Rate	Base Rate
City of Lancaster		
Purchases in gallons	253,776,100	253,776,100
Volumetric rate	\$ 1.91/1,000	\$ 1.87/1,000
	\$484,712.35	\$474,561.31
	Increased water cost \$ 10,151.04	
Increased water cost		\$10,151.04
Divided by gallons sold		<u>323,829,781</u>
Equals purchased water adjustment factor		\$0.04 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00109 DATED MAY 15, 2008

The following rates and charges are prescribed for the customers in the area served by Garrard County 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.

RATES

Monthly Water Rates

5/8" X 3/4" Meter

First	1,000	gallons	\$10.08	Minimum Bill
Next	1,000	gallons	5.18	per 1,000 gallons
Next	1,000	gallons	4.08	per 1,000 gallons
Next	2,000	gallons	3.88	per 1,000 gallons
All Over	5,000	gallons	3.58	per 1,000 gallons

1" Meter

First	5,000	gallons	27.10	Minimum Bill
All Over	5,000	gallons	3.58	per 1,000 gallons

1½" Meter

First	10,000	gallons	45.00	Minimum Bill
All Over	10,000	gallons	3.58	per 1,000 gallons

2" Meter

First	25,000	gallons	98.70	Minimum Bill
All Over	25,000	gallons	3.58	per 1,000 gallons