



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James Gardner
Vice-Chairman

John W. Clay
Commissioner

W. Scott Althausen
Richmond Utilities Board
300 Hallie Irvine Street
P. O. Box 700
Richmond, KY 40475

November 12, 2008

RE: Case No. 2008-00373

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Stumbo".

Stephanie Stumbo
Executive Director

SS/tw
Enclosure



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David L. Armstrong
Chairman

James Gardner
Vice-Chairman

John W. Clay
Commissioner

John C. Clark
Madison County Utility District
P. O. Box 670
297 Michelle Drive
Richmond, KY 40476-0670

November 12, 2008

RE: Case No. 2008-00373

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Stumbo".

Stephanie Stumbo
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE PROPOSED)
WHOLESALE WATER SERVICE CONTRACT) CASE NO. 2008-00373
BETWEEN THE RICHMOND UTILITIES BOARD)
AND MADISON COUNTY UTILITIES DISTRICT)

O R D E R

Richmond Utilities Board ("Richmond") is an agency of the city of Richmond, a city of the second class located in Madison County, Kentucky.¹ It owns and operates a water treatment and distribution system that provides, *inter alia*, wholesale water service to Madison County Utilities District ("MCUD") and Kirksville Water Association.

MCUD, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that are used in the distribution of water to the public, for compensation, to approximately 9,736 customers in Madison County, Kentucky.² It is a utility subject to Commission jurisdiction.³

KRS 278.010(3) exempts municipal utilities from Commission regulation by excluding cities from the definition of "utility."⁴ In *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460 (Ky. 1994), however, the Kentucky Supreme Court held

¹ KRS 81.010(2).

² Annual Report of Madison County Utilities Board to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2007 at 5, 27.

³ KRS 278.010(3)(d); KRS 278.015.

⁴ See *McClellan v. Louisville Water Company*, 351 S.W.2d 197 (Ky. 1961).

that this exemption did not extend to contracts for utility service between a municipal utility and a public utility. The Court ruled that "where contracts have been executed between a utility and a city . . . KRS 278.200 is applicable and requires that by so contracting the [c]ity relinquishes the exemption and is rendered subject to . . . [Commission] rates and service regulation."⁵

Simpson County Water District and KRS 278.200⁶ effectively subject all contracts between municipal utilities and public utilities to the Commission's jurisdiction, and they require all municipal utility transactions with a public utility to comply with the provisions of KRS Chapter 278. KRS 278.160 provides:

(1) Under rules prescribed by the commission, each utility shall file with the commission, within such time and in such form as the commission designates, schedules showing all rates and conditions for service established by it and collected or enforced. The utility shall keep copies of its schedules open to public inspection under such rules as the commission prescribes.

(2) No utility shall charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules, and no person shall receive any service from any

⁵ *Simpson County Water District*, 872 S.W.2d at 463.

⁶ KRS 278.200 provides:

The commission may, under the provisions of this chapter, originate, establish, change, promulgate and enforce any rate or service standard of any utility that has been or may be fixed by any contract, franchise or agreement between the utility and any city, and all rights, privileges and obligations arising out of any such contract, franchise or agreement, regulating any such rate or service standard, shall be subject to the jurisdiction and supervision of the commission, but no such rate or service standard shall be changed, nor any contract, franchise or agreement affecting it abrogated or changed, until a hearing has been had before the commission in the manner prescribed in this chapter.

utility for a compensation greater or less than that prescribed in such schedules.

KRS 278.180(1) provides:

[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. However, the commission may, in its discretion, based upon a showing of good cause in any case, shorten the notice period from thirty (30) days to a period of not less than twenty (20) days. The commission may order a rate change only after giving an identical notice to the utility. The commission may order the utility to give notice of its proposed rate increase to that utility's customers in the manner set forth in its regulations.

Accordingly, KRS 278.160(1) and (2) and KRS 278.180(1) require that a municipality file with the Commission contracts involving rates and service between the municipality and a utility subject to Commission jurisdiction.

On April 3, 2008, Richmond applied to the Commission to increase its wholesale rates to \$2.08 to MCUD effective July 1, 2008. With its application, Richmond provided a copy of a contract for service and sale of water between itself and MCUD. The contract was to "extend for a term beginning with the date of execution of this contract by both Parties and ending on December 31, 2038," and it was dated April 9, 2007. The contract provided for a wholesale rate of \$2.02 per 100 cubic feet, to be effective 60 days after a city ordinance approving the rate, but no earlier than July 1, 2007. In addition to the \$2.02 rate, the contract provided for an automatic annual adjustment based on the Consumer Price Index ("CPI").

The Commission accepted Richmond's tariff that increased its wholesale rates to MCUD to \$2.08 per 100 cubic feet of water effective July 1, 2008, but Richmond's contract gives us concern. We have previously rejected automatic adjustment clauses

based on the CPI for two reasons.⁷ First, the CPI is a measure of the prices paid by consumers on a variety of goods and services that are unrelated to the cost of providing water service.⁸ Second, the likelihood of negative CPI growth is remote. An automatic adjustment mechanism should reflect any change in the cost of water service, including reductions.⁹

In addition to the automatic adjustment, one of the contractual provisions also states: "This Agreement shall become effective upon approval of the Kentucky Public Service Commission and the Farmers Home Administration. If such approvals are not obtained within thirty (30) days from the date of this Agreement, then the City and the Water District are relieved from any obligations hereunder." The contract was submitted to the Commission on April 3, 2008, and has not yet been accepted by the Commission.

Based upon the foregoing and being otherwise sufficiently advised, the Commission finds it appropriate to open these proceedings to investigate the reasonableness of the proposed wholesale water service contract between Richmond and MCUD.

The Commission HEREBY ORDERS that:

1. Richmond shall state in writing within 20 days of the date of this Order:
 - a. Why the contract should not be declared void because of Richmond's failure to obtain Commission approval to accept the contract within 30 days from the date of the agreement.

⁷ See Case No. 2006-00067, Proposed Adjustment of the Wholesale Water Service Rate of the City of Lawrenceburg, Kentucky (Ky. PSC Nov. 21, 2006).

⁸ *Id.* at 3-4.

⁹ *Id.* at 4.

b. Whether Richmond considers the CPI to be an accurate measure of changes in the cost of providing wholesale water service. If yes, explain why.

c. Why automatic annual adjustments to Richmond's wholesale water service based upon a price index are more reasonable than periodic rate filings with the Commission based upon Richmond's actual cost of providing water service.

2. MCUD is made a party to this proceeding.

3. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

4. All documents that this Order requires to be filed with the Commission shall be served upon all other parties.

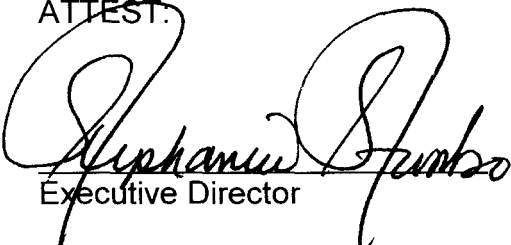
5. Any motion requesting an informal conference with Commission Staff to consider matters that may aid in the handling or disposition of this proceeding shall be filed with the Commission no later than 20 days from the date of this Order.

Done at Frankfort, Kentucky, this 12th day of November, 2008.

By the Commission

Vice Chairman Gardner abstains.

ATTEST:


Executive Director