

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED WATER ADJUSTMENT OF) CASE NO.
CANNONSBURG WATER DISTRICT) 2008-00494

ORDER

KRS 278.015 provides that, when a wholesale supplier selling water to a water district increases its rates, the water district "shall have the authority to increase its rates commensurate with the wholesale supplier without prior approval by the commission." It requires the Commission to "approve the filing or establish revised rates by order no later than thirty days" after the filing of certain documents with the Commission.

On December 1, 2008, Cannonsburg Water District ("Cannonsburg") applied, pursuant to KRS 278.015 and 807 KAR 5:068, to adjust its water rates to reflect increases in the wholesale water rates of Big Sandy Water District ("Big Sandy District") and the city of Ashland ("Ashland"). In its application, Cannonsburg submitted, *inter alia*, a revised tariff sheet, notices from its suppliers showing an increase in the wholesale water rate, and a statement of the volume of purchased water used to calculate the revised rates. In its notice, Ashland stated that its wholesale rate would increase on January 1, 2009.¹

¹ Letter from Steven W. Corbitt, Ashland City Manager, to Danny Clarkson, Manager, Cannonsburg Water District (Sept. 8, 2008). For the adjustment of Big Sandy District's wholesale rate, see Case No. 2008-00487, *Purchased Water Adjustment of Big Sandy Water District* (Ky. PSC Dec. 18, 2008).

The Commission has since discovered that Ashland did not adjust its wholesale water service rate effective January 1, 2009. On February 9, 2009, Ashland filed notice with the Commission of its intent to increase its wholesale water service rate on March 1, 2009 and requested that the Commission permit a lesser notice period than required in KRS 278.180.²

On December 19, 2008, the Commission approved the application of a \$0.59 purchased water adjustment factor to Cannonsburg's existing rates. Because KRS 278.015 authorizes purchased water adjustments only upon the increase in a wholesale water supplier's rate and Cannonsburg's wholesale supplier had not increased its wholesale water service rate, the Commission lacked legal authority to authorize the adjustment and our Order of December 19, 2008 was void.

Notwithstanding the absence of any change in Ashland's wholesale water service rates, Cannonsburg experienced an increase in its purchased water cost as a result of an increase in Big Sandy District's wholesale rate. Given the small volume of water that Cannonsburg purchases from Big Sandy District and the small level of increase in the wholesale rate, the purchased water adjustment factor resulting from Big Sandy District's wholesale rate adjustment is \$0.00036 per 1,000 gallons of water.³ Application of this factor to Cannonsburg's existing rates does not produce any

² See Case No. 2009-00057, *Application for Deviation by the City of Ashland* (Ky. PSC filed Feb. 9, 2009).

³ See Appendix A to this Order.

measurable change.⁴ Accordingly, we find that, in the absence of any adjustment to Ashland's wholesale water service rate, Cannonsburg's rates should have remained unchanged and that the only rates that Cannonsburg could lawfully charge for water service provided on and after January 1, 2009 were those in effect on December 31, 2008.

IT IS THEREFORE ORDERED that:

1. The Commission's Order of December 19, 2008 is declared null and void and is stricken.
2. For service rendered on and after January 1, 2009 and until otherwise authorized, Cannonsburg shall charge only the rates that are set forth in Appendix B, which were effective on December 31, 2008.
3. The tariff sheets that reflected Cannonsburg's rates as of December 31, 2008 remain in effect.
4. To the extent that Cannonsburg has billed and collected any rates in reliance upon the Commission's Order of December 19, 2008, it shall immediately adjust or credit each customer's account for any rates that it assessed in excess of those in effect on December 31, 2008.
5. Within 30 days from the date of this Order, Cannonsburg shall verify in writing to the Commission that all customer accounts that were billed at rates that differ

⁴ Purchased water adjustments are generally rounded to the higher cent to ensure a water utility recovers fully any increased purchased water costs. In this case, however, that practice would produce an unreasonable result. Application of a purchased water adjustment factor of \$0.01 would permit the water district to recover \$3,389.23 more than the total increased cost of purchased water. The total increased cost of purchased water is only \$122.54.

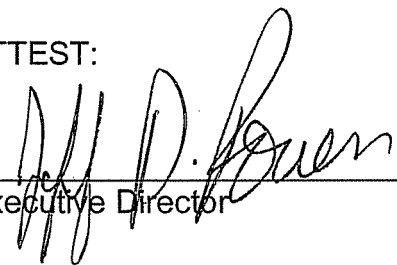
from those in effect on December 31, 2008 have been credited for any amounts in excess of the effective rate.⁵

6. Nothing in this Order shall be construed to prevent Cannonsburg from applying for a purchased water adjustment for any adjustment in Ashland's wholesale water service rate that becomes effective after the date of this Order or from including the increased purchased water costs related to Big Sandy District's wholesale rate adjustment in such application.

Done at Frankfort, Kentucky, this 11th day of March, 2009.

By the Commission

ATTEST:


Executive Director

⁵ Commission regulations prohibit Cannonsburg from refiling the application previously submitted in this case to adjust. In that application, Cannonsburg used water sales from September 2007 to August 2008 to calculate the proposed adjustment. Section 2 of 807 KAR 5:068 provides that a "water district or water association shall determine the increased cost of water purchased based on the twelve (12) month period ending within ninety (90) days immediately prior to the effective date of its rate adjustment to its customers." Any effort to adjust Cannonsburg's rates based upon Ashland's announced wholesale rate adjustment must be based upon water purchases for a 1-year period that ends no earlier than December 1, 2008.

Case No. 2008-00494

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00494 DATED MARCH 11, 2009

	New Rate	Base Rate	
Cannonsburg Water Purchases in gallons			
Ashland	434,539,000	434,539,000	
Big Sandy	3,063,380	3,063,380	
Volumetric rate			
Ashland	\$1.430/1,000	\$1.430/1,000	
Big Sandy	\$1.950/1,000	\$1.910/1,000	
	\$627,364.36	\$627,241.83	
		Increased water cost	\$122.53
Increased water cost		\$	122.53
Divided by gallons sold			<u>341,177,500</u>
Purchased water adjustment factor			\$0.00036 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00494 DATED MARCH 11, 2009

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

Monthly Water Rates

5/8" X 3/4" Meter:

First	2,000 gallons	\$ 15.08	Minimum bill
Next	3,000 gallons	5.44	per 1,000 gallons
Next	15,000 gallons	5.06	per 1,000 gallons
Next	30,000 gallons	4.68	per 1,000 gallons
Next	50,000 gallons	4.31	per 1,000 gallons
All Over	100,000 gallons	3.91	per 1,000 gallons

1 1/2" Meter:

First	5,000 gallons	\$ 31.40	Minimum bill
Next	15,000 gallons	5.06	per 1,000 gallons
Next	30,000 gallons	4.68	per 1,000 gallons
Next	50,000 gallons	4.31	per 1,000 gallons
All Over	100,000 gallons	3.91	per 1,000 gallons

2" and 3" Meters:

First	20,000 gallons	\$ 107.30	Minimum bill
Next	30,000 gallons	4.68	per 1,000 gallons
Next	50,000 gallons	4.31	per 1,000 gallons
All Over	100,000 gallons	3.91	per 1,000 gallons

6" Meter:

First	50,000 gallons	\$ 247.70	Minimum bill
Next	50,000 gallons	4.31	per 1,000 gallons
All Over	100,000 gallons	3.91	per 1,000 gallons

12" Meter:

First	100,000 gallons	\$ 463.20	Minimum bill
All Over	100,000 gallons	3.91	per 1,000 gallons

Danny R Clarkston
Manager
Cannonsburg Water District
1606 Cannonsburg Road
Ashland, KY 41102