

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE	)	CASE NO.
SERVICE RATES OF HOPKINSVILLE WATER	)	2009-00373
ENVIRONMENT AUTHORITY	)	

O R D E R

The Hopkinsville Water Environment Authority (“HWEA”) proposes to adjust its existing rate for wholesale water service to Christian County Water District (“Christian District”) effective for service on and after October 5, 2009. Christian District objects to the proposed adjustment and requests an investigation of the proposed adjustment.

Christian District, 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 5,542 customers in Christian County, Kentucky.<sup>1</sup> It is a utility subject to Commission jurisdiction.<sup>2</sup>

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

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<sup>1</sup> Annual Report of Christian County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2008.

<sup>2</sup> KRS 278.010(3)(d); KRS 278.015.

<sup>3</sup> 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.”<sup>4</sup>

*Simpson County Water District* effectively subjects all contracts between municipal utilities and public utilities to the Commission’s jurisdiction, requires all municipal utility transactions with a public utility to comply with the provisions of KRS Chapter 278, and makes Commission approval a prerequisite to any change in a rate that a municipal utility assesses a public utility for wholesale utility service.

Pursuant to the *Simpson County Water District* decision, the Commission, in Administrative Case No. 351, directed that all municipal utilities that provide wholesale utility service to a public utility “file with the Commission a copy of their contracts with the public utility and a schedule of their rates for wholesale service.”<sup>5</sup> We further directed that “[a]ny municipal utility wishing to change or revise a contract or rate for wholesale utility service to a public utility shall, no later than 30 days prior to the effective date of the revision, file with the Commission the revised contract and rate schedule.”<sup>6</sup> KRS 278.160(1) and (2) and KRS 278.180(1) supported and required this directive.

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<sup>4</sup> 872 S.W.2d at 463.

<sup>5</sup> Administrative Case No. 351, Submission of Contracts and Rates of Municipal Utilities Providing Wholesale Service to Public Utilities (Ky. PSC Aug. 10, 1994) at 1 - 2.

<sup>6</sup> *Id.* at 2.

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 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.

On September 3, 2009, HWEA notified the Commission of its intent to increase its wholesale water rate for service provided to Christian District by 37 percent. The tariff page HWEA filed with its notice listed an effective date of October 5, 2009, which provided a 30-day notice period to the Commission as required by KRS 278.180(1).

On September 4, 2009, Christian District filed an objection to HWEA's proposed rates. Based upon the foregoing and being otherwise sufficiently advised, the

Commission finds it appropriate to open these proceedings to investigate the reasonableness of HWEA's proposed wholesale water service rate to Christian District.

IT IS HEREBY ORDERED that:

1. HWEA's proposed rate revision is suspended for five months from October 5, 2009 up to and including March 4, 2010.

2. Christian District is made a party to this proceeding.

3. HWEA shall, no later than October 19, 2009, file with the Commission the original and six copies of the information listed in the Appendix to this Order, with a copy to all parties of record.

a. All responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. A party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

4. At any hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.

5. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

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

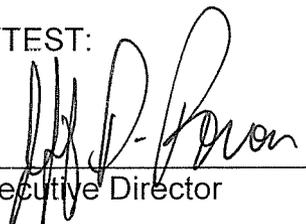
7. To be timely filed with the Commission, a document must be received by the Commission within the specified time for filing, except that any document shall be deemed timely filed if it has been transmitted by United States express mail or by other recognized mail carriers, with the date the transmitting agency received said document from the sender noted by the transmitting agency on the outside of the container used for transmitting, within the time allowed for filing.

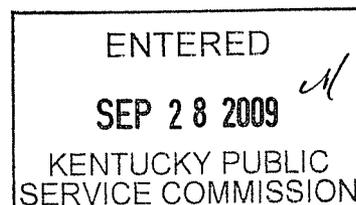
8. Service of any document or pleading shall be made in accordance with 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

9. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission

ATTEST:

  
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Executive Director



## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2009-00373 DATED **SEP 28 2009**

1. Provide in written verified form the direct testimony of each witness that HWEA intends to call at the scheduled hearing in this matter.
2. Provide the independent auditor's reports for HWEA's water operations and sewer operations, shown separately, for the fiscal years ending June 30, 2006, June 30, 2007, June 30, 2008, and, if available, June 30, 2009.
3.
  - a. State the 12-month test period upon which HWEA bases its proposed rate adjustment.
  - b. Explain why this test period was chosen.
4. Provide the general ledgers for HWEA's water and sewer operations for the proposed test period and the most recently concluded fiscal year. These general ledgers shall include all check registers and spreadsheets used to record and track financial transactions.
5. For each outstanding revenue bond issuance related to HWEA's water and sewer operations, provide:
  - a. The bond ordinance or resolution authorizing the issuance of revenue bonds.
  - b. An amortization schedule.
  - c. A detailed explanation of why the debt was incurred.

d. A calculation of the annual debt service payment, including all required payments to debt service reserve accounts or funds, for each of the next three years.

6. List all persons on HWEA's payroll during the proposed test period. For each employee, state his or her job duties, total wages paid during the fiscal year, current salary or wage rate, and the percentage of work hours spent performing duties for each city division (e.g., water, sewer, police department, public works) during the fiscal year. If HWEA's records do not permit the allocation of an employee's work hours among city divisions, provide an estimate for each employee and explain how HWEA derived the estimate.

7. For each employee listed in Item 6, describe how HWEA allocated his or her payroll and payroll overhead charges to each city division for the proposed test period. This response shall include a detailed explanation of all allocation procedures. Payroll overhead charges include payroll taxes, health insurance premiums, pension costs, and any other employee benefit costs.

8. a. List all joint or shared costs that HWEA incurred during the proposed test period. For each cost, list the vendor, total expense amount, amounts allocated per division, and the basis for allocation.

b. Describe the procedures to allocate joint and shared costs among HWEA's divisions for the proposed test period.

c. Provide all internal memoranda, policy statements, correspondence, and documents related to the allocation of joint and shared costs.

9. Provide detailed depreciation schedules for the water and sewer divisions. A separate schedule shall be provided for each division.

10. Provide an adjusted trial balance and audit adjustments for the proposed test period and the most recently completed fiscal year. The trial balance shall be traced and referenced directly to the general ledgers requested in Item 4.

11. Provide the "Enterprise Funds Uniform Financial Information Report" that HWEA submitted to the Kentucky Department of Local Government for the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009.

12. a. Identify all persons or entities to which HWEA provides wholesale water service.

b. For each customer listed above, provide for each of the previous 24 months its monthly water usage and the amount that HWEA charged it for service.

13. a. Complete the table below for all sizes of line:

<b>Water Main Size</b>	<b>Total Miles Of Line</b>	<b>Miles Of Lines Used By HWEA To Serve Its Wholesale Customers</b>
14"		
12"		
10"		
8"		
6"		
4"		
2"		

b. Who paid for the water main(s) that HWEA uses to deliver water to HWEA's wholesale customer(s)?

14. a. What is the maximum capacity of HWEA's water treatment plant?

b. For each of the customers listed in response to Item 12(a), state:

(1) The amount of HWEA's total water treatment plant capacity currently reserved for that customer.

(2) The minimum and maximum quantity of water (in gallons) that the customer may purchase in a month under the terms of its present water purchase contract with HWEA.

c. Describe the changes, if any, that HWEA expects within the next three years in the level of water treatment capacity reserved for each of the customers listed in Item 12(a) and state the reason(s) for HWEA's expectations.

15. a. Who owns the master meter(s) through which HWEA provides water to the customers listed in Item 12(a)?

b. Through how many master meters does HWEA provide water service to each of the customers listed in Item 12(a)?

c. Who is responsible for maintaining these master meters?

16. Provide a system map showing all HWEA facilities that are used to serve the customers listed in Item 12(a). This map shall, at a minimum, show all master meters, pumping stations, storage tanks, water transmission mains, and water distribution mains used to serve the customers listed in Item 12(a). The size of all mains shall be clearly indicated on this map.

17. What portion, if any, of HWEA's water main(s) that serve the customers listed in Item 12(a) are gravity-fed?

18. a. List HWEA's water sales (in gallons) for each month of the previous 36 months for each of its wholesale customers and for its retail customers.

b. List the total amount billed by HWEA for water service for each month of the previous 36 months to each of its wholesale customers and to its retail customers.

19. Provide HWEA's current rate schedule for its retail customers and for each of its wholesale customers.

20. Complete the table below:

<b>HWEA</b>	<b>Gallons for Test Period</b>	<b>Gallons for Fiscal Year Ending June 30, 2009</b>
Plant Use		
Line Loss (Unaccounted for)		
Sales to Retail		
Sales to Christian County Water District		
Sales to Other Wholesale Customers		
Total Produced and Purchased		
Total Sold		

21. a. State whether HWEA provides unmetered water service to any entities (e.g., service to municipal buildings, fire departments, or protection services).

b. If unmetered service is provided, then for each type of service, estimate the percentage of the total unmetered amount.

22. Provide a copy of the cost-of-service study upon which the proposed rate is based.

23. a. Identify the person who prepared the cost-of-service study upon which the proposed rate is based.

b. Provide the preparer's curriculum vitae.

c. List all cases before the Commission in which the preparer has submitted a cost-of-service study.

d. List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.

24. If the proposed rate is not based upon a cost-of-service study, describe how HWEA determined the proposed wholesale rate and state who participated in the determination.

25. Provide the ordinance or resolution of the Hopkinsville City Council in which the proposed rate adjustment was approved.

26. Provide the minutes of each meeting of the Hopkinsville City Council since January 1, 2009 in which a proposed rate adjustment to HWEA's wholesale customers was discussed.

27. Provide a copy of all correspondence, electronic mail messages, or other written communications between HWEA and its wholesale customers since January 1, 2007 regarding revisions to HWEA's wholesale rate.

28. Provide all contracts for water service between HWEA and Christian County Water District that have not been filed with the Commission.

29. a. State the annual effect of the proposed rate adjustment on HWEA's revenues from wholesale water service to each of its wholesale water service customers.

b. Show all calculations made and state all assumptions used to derive the response to Item 29(a).

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