

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE JACKSON) CASE NO. 2011-00240
COUNTY WATER ASSOCIATION)

ORDER

Jackson County Water Association (“Jackson County”) has proposed revisions to its rates for wholesale water service. By this Order, the Commission approves the proposed rate adjustment and establishes a wholesale rate of \$3.50 per 1,000 gallons. For a wholesale customer that has a monthly usage of 500,000 gallons of water, its monthly bill will increase between \$420 and \$555.¹

Jackson County, a water association organized pursuant to KRS Chapter 273,² owns and operates facilities that produce and distribute water to approximately 4,592 retail customers in Jackson and Rockcastle Counties, Kentucky.³ It also provides

¹ Because Jackson County's current wholesale rates vary according to customer, the establishment of a uniform wholesale rate will affect each wholesale customer differently. The table below shows the effect on the adjustment on each wholesale customer's monthly bill.

Customer	Current Rate (\$/1,000 gals)	Monthly Bill	Approved Rate (\$/1,000 gals)	Monthly Bill	Increase
Estill County Water District No. 1	\$2.66	\$1,330	\$3.50	\$1,750	\$420
E. Rockcastle Water Association	\$2.66	\$1,330	\$3.50	\$1,750	\$420
Beattyville	\$2.55	\$1,275	\$3.50	\$1,750	\$475
McKee	\$2.39	\$1,195	\$3.50	\$1,750	\$555

² See <https://app.sos.ky.gov/ftshow/%28S%28kxq0u145oi02my55db0bq055%29%29/default.aspx?path=ftsearch&id=0025632&ct=09&cs=99999> (last visited Apr. 17, 2012).

³ *Annual Report of Jackson County Water Association to the Public Service Commission for the Calendar Year Ended December 31, 2010* at 5, 27.

wholesale water service to Estill County Water District No. 1, Eastern Rockcastle Water Association, and the cities of Beattyville and McKee.⁴ Jackson County's last general rate adjustment occurred on June 19, 2007.⁵

In 2010, Jackson County entered into an agreement with Rural Development ("RD"), an agency of the U.S. Department of Agriculture, to finance the construction of a \$6,340,000 waterworks improvement project to increase Jackson County's raw water supply. As a condition to providing funding for the project, RD required Jackson County to increase its retail rates by approximately 37.2 percent, but did not mandate any specific revisions to Jackson County's wholesale rates.

On October 14, 2010, Jackson County applied to the Commission pursuant to KRS 278.023 to adjust its rates to obtain the required increase. KRS 278.023 requires the Commission to accept agreements between water utilities and the U.S. Department of Agriculture and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. Once the minimum filing requirements are met, the Commission lacks any discretionary authority to modify or reject any portion of such agreement. In this instance, Jackson County's application met the minimum filing requirements and the Commission proceeded to enter the required Order to approve the required increase in retail rates.⁶ In the absence of any express requirement within the agreement between

⁴ *Id.* at 30.

⁵ Case No. 2006-00467, *Application of Jackson County Water Association for Approval of a Proposed Increase in Rates* (Ky. PSC June 19, 2007).

⁶ Case No. 2010-00399, *Application of Jackson County Water Association For A Certificate Of Convenience and Necessity, Financing, and Adjustment of Rates Pursuant To KRS 278.023* (Ky. PSC Nov. 10, 2010).

RD and Jackson County for an adjustment of Jackson County's wholesale water rates, the Commission took no action regarding those rates.

On June 21, 2011, Jackson County filed with the Commission revised tariff sheets in which it proposed to adjust its wholesale water rates to produce a uniform wholesale rate of \$3.50 per 1,000 gallons. Currently, Jackson County charges differing wholesale rates to its wholesale customers. In support of its proposed adjustment, Jackson County submitted a cost-of-service study. Jackson County proposed to place the revised rates into effect on August 1, 2011.

On July 29, 2011, the Commission suspended the proposed rate and initiated this proceeding. Jackson County's wholesale customers, although notified of the proposed adjustment, did not seek intervention in this proceeding. No persons have requested leave to intervene in this proceeding. Commission Staff issued two requests for information to Jackson County, to which the utility has adequately responded. Jackson County has not requested a hearing in this matter.

Jackson County has requested the proposed adjustment to its wholesale rates to complete the proposed adjustments first requested in Case No. 2010-00399 and to ensure that its wholesale rates reflect the costs related to the expansion of Jackson County's raw water supply.⁷ In support of its proposed adjustment, Jackson County has presented a study of its costs to provide wholesale service. This study is based upon its operations for the calendar year ending December 31, 2010⁸ and uses a methodology

⁷ Jackson County's Response to Commission Staff's Request for Information, Item 1 (filed Nov. 1, 2011).

⁸ In determining the cost of providing water service to the city of McKee ("McKee"), Jackson County has used a ten-year average of its sales to McKee. McKee did not purchase any water from Jackson County in 2010 and its purchases have fluctuated over a 10-year period.

that is consistent with water industry practice and that the Commission has generally accepted. The results of this study show that Jackson County's cost to provide wholesale water service is \$4.32 per 1,000 gallons.

The Commission notes that the Jackson County's proposed wholesale rate does not fully reflect the cost of providing wholesale water service. Jackson County has acknowledged this fact, but states that it selected a lower rate to make the rate of increase consistent with that imposed upon its retail customers. Jackson County proposed to establish a uniform wholesale rate that would result in an increase in the rates of its wholesale customers relatively equivalent to that experienced by its retail customers in 2010.⁹ While this approach is not unreasonable, the Commission encourages and expects the utility, in future rate case proceedings, to propose rates that will more closely reflect the cost of providing service.

Having considered the evidence and being otherwise sufficiently advised, the Commission finds that the evidence supports proposed revision to the wholesale water service rates and that the proposed rates are fair, just, and reasonable and should be approved for service rendered on and after the date of this Order.

⁹ The table below shows the percentage increase on each wholesale customer's volumetric rate:

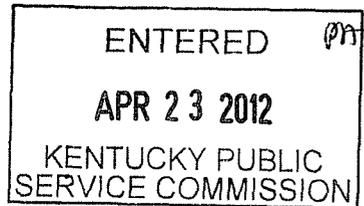
			Current	Proposed	Percentage
			Rate	Rate	Increase
Estill Co. No., 1			2.66	3.50	31.6%
Eastern Rockcastle			2.66	3.50	31.6%
City of Beattyville			2.55	3.50	37.3%
City of McKee			2.39	3.50	46.4%

IT IS THEREFORE ORDERED that:

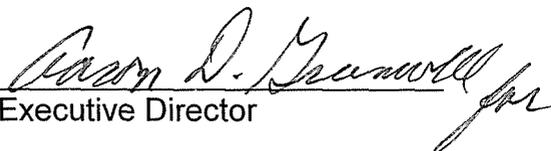
1. Jackson County's proposed wholesale water service rates as set forth in the Appendix to this Order are approved for wholesale water service rendered on and after the date of this Order.

2. Within 20 days of the date of this Order, Jackson County shall file with the Commission a revised tariff sheet setting forth the approved rates

By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00240 DATED APR 23 2012

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

Wholesale Water Rate

Eastern Rockcastle County Water Association	\$3.50 per 1,000 gallons
City of Beattyville	\$3.50 per 1,000 gallons
City of McKee	\$3.50 per 1,000 gallons
Estill County Water District No. 1	\$3.50 per 1,000 gallons

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