

# **PURCHASED WATER ADJUSTMENTS: FREQUENTLY ASKED QUESTIONS**

## **What is a Purchased Water Adjustment?**

A Purchased Water Adjustment (PWA) is an adjustment to a jurisdictional water utility's rate for water service to reflect a change in the utility's wholesale cost of water purchased from a third party.

## **Why are PWAs necessary?**

PWAs enable water utilities to adjust the amount they charge their customers to reflect changes in their purchased water costs. Without PWAs, water utilities would have to adjust their base rates more frequently and those adjustments could be greater.

## **Do utilities earn a profit on the PWA?**

No. PWAs serve strictly as a means for passing through changes in the wholesale cost of water on a dollar-for-dollar basis.

## **How often does a PWA occur?**

A PWA can occur whenever the wholesale costs change. Wholesale water suppliers are required to apply for rate adjustments to the Kentucky Public Service Commission (PSC). If an adjustment to the wholesale water supplier's rate is granted, the water utility purchasing water from the supplier may pass the increase in the wholesale cost through to its customers in the form of a PWA.

## **How is the PWA amount determined?**

The PWA is an incremental adjustment based on the wholesale cost of water. A utility's base rate includes an amount that reflects the wholesale cost at the time that the base rate was determined. The PWA reflects only the variation, either up or down, from the wholesale cost already reflected in the base rate.

## **How is the wholesale cost determined?**

The wholesale cost of water is based on the cost of withdrawing water from a supply source, treating it to meet drinking water standards, and providing it to the wholesale purchaser's system. If the wholesale provider is a for-profit utility, the wholesale cost includes a reasonable rate of return on equity as determined by the PSC.

## **Which wholesale supplier costs are regulated by the PSC?**

Most entities that supply wholesale water to a utility under PSC jurisdiction are subject to PSC regulation of that wholesale transaction. Those include municipal utilities that otherwise are not subject to PSC regulation with respect to rates and service.

## **Must a water utility that engages in PWAs decrease its rates when its wholesale cost of water declines?**

Yes. The Kentucky Public Service Commission's (PSC) regulations require water utilities that use PWAs to adjust their rates to reflect all changes in wholesale costs, whether these costs increase or decline. Furthermore, it requires water utilities that use PWAs to refund to its customers within two months any refund of wholesale charges that the water utility receives from its wholesale supplier.

**Does the Kentucky Public Service Commission (PSC) review the PWA amounts for each utility?**

Yes. Every PWA filing is reviewed by the PSC to insure that the PWA accurately reflects the change in the water utility's purchased cost of water.

**How does the PSC know if the PWA accurately reflects water costs for a utility?**

Utilities are required to fully document all of their wholesale water costs.

**Can the public access PWA information?**

Yes. Documents provided to the PSC that do not involve confidential information become public records.

**What is the legal authority for the PWA?**

The statutory foundations for the PWA are KRS 278.012 and KRS 278.015, which delineate the PSC's authority over water associations and water districts; KRS 278.040, which gives the Commission exclusive jurisdiction over the regulation of rates and services of utilities, and KRS 278.030, which grants the PSC the authority to set rates that are fair, just and reasonable. The regulations permitting PWAs are 807 KAR 5:067 and 807 KAR 5:068.