

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE )  
WATER SERVICE RATES OF THE CITY OF ) CASE NO. 98-497  
AUGUSTA, KENTUCKY )

ORDER

On June 24, 1999, the City of Augusta, Kentucky ( Augusta ) and Bracken County Water District ( Bracken District ) submitted a Settlement Agreement regarding Augusta s rate for wholesale water service. By this Order, the Commission rejects the Settlement Agreement and establishes a rate of \$1.21 per 1,000 gallons for Augusta s wholesale water service to Bracken District.

On September 14, 1998, Augusta filed tariff sheets with the Commission proposing to increase its wholesale water rate to Bracken District from \$0.65 to \$1.09 per 1,000 gallons. On September 30, 1998, after receiving a request from Bracken District to investigate the proposed rate adjustment, the Commission suspended the proposed rate for five months and directed Augusta to file certain information in support of its proposed rate adjustment. After Augusta alleged that failure to place the proposed adjustment into effect would materially impair its credit and operations, the Commission on October 28, 1998 authorized Augusta to place the proposed rate increase into effect subject to refund.

Alleging that it lacked the expertise and resources to comply with the Commission s Orders to provide certain information in support of its proposed

adjustment, Augusta sought relief from those Orders and requested that the Commission assist it in the preparation of its application. On December 30, 1998, the Commission relieved Augusta from its obligation to comply with earlier Orders and directed Commission Staff to investigate the proposed rate adjustment and prepare a report of its findings and recommendations.

On May 7, 1999, Commission Staff issued a report of its findings and recommendations. Commission Staff found that, based upon Augusta's operations for the year ending June 30, 1998, the city's revenue requirement to produce water was \$264,446. Based upon Augusta's total water plant production of 219,366,000 gallons for that period, Commission Staff recommended a wholesale water rate of \$1.21 per 1,000 gallons.

Following the issuance of the Commission Staff Report, the Commission directed the parties to submit comments upon Commission Staff's findings and recommendations. By our Order of May 7, 1999, we advised the parties that the failure to submit objections to the Commission Staff Report would be deemed as acceptance of those findings and recommendations. Augusta did not submit any objections. Bracken District requested a delay in the scheduled hearing and copies of Commission Staff's workpapers. On June 10, 1999, prior to an informal conference in this matter, the parties advised the Commission that they had reached agreement on the wholesale rate. On June 25, 1999, they submitted their Settlement Agreement to the Commission.

The Settlement Agreement contains the following provisions:

1. The rate for wholesale water service that Augusta provides to Bracken District should be \$1.30. This

rate is based upon Commission Staff's proposed revenue requirement and use of the total number of gallons of treated water sold.

2. As of June 22, 1999, Augusta had not recovered from rates approximately \$145,000 of operation expenses. Pursuant to the parties water purchase contract, Bracken District is obligated for \$108,000 of this deficit. Bracken District intends to borrow the funds to repay this amount and then assess a surcharge of \$.28 per 1,000 gallons on its customers for the next 36 months to recover this amount. Augusta shall be responsible for \$37,000 of the deficit.

3. The parties agree that: Augusta must construct lagoons at its water treatment plant to comply with the regulations of the Kentucky Natural Resources and Environmental Protection Cabinet; a future rate increase will be necessary to finance this construction; and an automatic adjustment clause should be added to Augusta's filed rate to immediately pass the cost of the proposed improvement to Bracken District.

Having reviewed the Settlement Agreement, the Commission finds insufficient evidence to conclude that the proposed rate is reasonable. Commission Staff's recommended rate of \$1.21 per 1,000 gallons is based upon the cost of water production being spread equally among all water produced at the plant.<sup>1</sup> Commission Staff based its proposed rate upon total treated water because of the lack of jointly used water mains. Simply put, Bracken District receives its water very near Augusta's water treatment plant. The water main that connects the water treatment plant to Bracken District's distribution system was recently constructed and therefore unlikely to experience any significant water loss. Using total number of gallons of treated water

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<sup>1</sup>  $\$264,446 \div 219,3666,100 \text{ gallons} = \$1.21 \text{ per } 1,000 \text{ gallons}$

ensures that Bracken District is not allocated water line loss that is attributable to Augusta's retail sales.

In their Settlement Agreement, the parties fail to explain why Augusta's rate should be based upon total gallons of treated water sold. They do not provide, nor has the Commission found in the record, any evidence that total gallons of treated water sold represents only the amount of water that left Augusta's treatment plant and entered Augusta's distribution system. Such evidence is necessary to ensure that Bracken District is not allocated the cost of water line loss incurred to serve Augusta's retail customers.<sup>2</sup>

In the absence of supporting evidence, the Commission finds that the agreed rate should be rejected. The Commission, however, encourages both parties to request rehearing to present additional evidence on the calculation of total gallons of treated water sold and its components. The Commission recognizes that, given the late submission of the Settlement Agreement, and the limited time available for Commission review, the parties may possess additional information that addresses the

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<sup>2</sup> Line loss is the amount of . . . commodity lost between the utility's . . . production source and the customer's premises or two intermediate points in the utility's system. Public Utilities Reports, Inc., P.U.R. Glossary for Utility Management 83 (1992). If treated water sold is based only upon the amount of water sold to Bracken District and the amount registered on Augusta retail customer's meters, it does not reflect the water that was lost between Augusta's water treatment plant and Augusta's retail water meters. Using treated water sold in that factual situation will allocate the cost of this lost water to Bracken District. Since this water was not lost in providing water service to Bracken District, it should not be allocated to the water district or the water district's customers.

Commission's concerns but that was not presented to us. We will favorably entertain any petition for rehearing whose purpose is to present that evidence.

As to the provisions related to the undercharge recoverable, the Commission finds insufficient evidence to support the stipulation that Augusta's present rates produced an undercharge of \$145,000. The Commission further finds that the Settlement Agreement's provisions related to any surcharge that Bracken District may assess to recover its portion of the undercharge recoverable are not the proper subject of this proceeding. Bracken District may by separate application request authority to assess such surcharge. The Commission will give careful consideration to such application.

The Commission further finds that the parties' proposal for the addition of an automatic adjustment clause to Augusta's filed rate is premature and should be deferred until the actual cost of the proposed water treatment plant lagoons are known and construction is near completion. The Commission suggests that a rate revision to reflect these costs may be a more appropriate method of cost recovery rather than an automatic adjustment mechanism.<sup>3</sup>

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

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<sup>3</sup> The Commission suggests that the parties consider the use of an automatic adjustment mechanism to recover or return any excessive costs or charges. Section 3 of the Water Supply Agreement currently requires a lump sum payment or refund within 60 days of the determination of the actual year variable costs. An automatic adjustment mechanism would allow recovery or refunds of such charges on an extended but more orderly basis and would permit Bracken District to use its existing purchased water adjustment clause to pass such refunds or additional charges on to its customers.

1. The recommendations and findings contained in the Commission Staff Report are supported by the evidence of record, are reasonable, and are hereby adopted as the findings of the Commission in this proceeding and are incorporated by reference as if fully set out herein.

2. The rate of \$1.21 per 1,000 gallons is the fair, just, and reasonable rate for Augusta's wholesale water service to Bracken District and will produce sufficient annual revenues to cover Augusta's cost of providing such service to Bracken District.

3. The rate proposed by Augusta would not produce revenue sufficient to cover Augusta's cost of providing wholesale water service to Bracken District and should be denied.

4. The rate set forth in the Settlement Agreement would generate revenues in excess of that found necessary to cover Augusta's cost of providing wholesale water service to Bracken District and should be denied.

IT IS HEREBY ORDERED that:

1. The rate proposed by Augusta in its application is hereby denied.

2. The rate set forth in the Settlement Agreement is hereby denied.

3. The rate of \$1.21 per 1,000 gallons is approved for wholesale water service rendered by Augusta to Bracken District on and after the date of this Order.

4. All provisions involving utility rates that are set forth in the Settlement Agreement and that are not specifically approved herein are denied.

5. Within 30 days of the date of this Order, Augusta shall file with the Commission its revised tariff setting out the rate approved herein.

Done at Frankfort, Kentucky, this 14<sup>th</sup> day of July, 1999.

By the Commission

ATTEST:

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Executive Director