

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH SHORE WATER)	
WORKS COMPANY FOR A PURCHASED WATER)	CASE NO. 2002-00385
ADJUSTMENT)	

ORDER

South Shore Water Works Company, Inc. (South Shore) has applied for a purchased water adjustment pursuant to Administrative Regulation 807 KAR 5:067 to recover the cost of its water purchases from the city of Greenup, Kentucky (Greenup). Finding that Administrative Regulation 807 KAR 5:067 does not authorize the requested relief, we deny the application.

South Shore, a corporation organized under the laws of Kentucky, owns and operates facilities in the vicinity of South Shore, Kentucky, that distribute water to approximately 2,264 customers for compensation.¹ It is a utility subject to Commission jurisdiction. KRS 278.010(3)(c); KRS 278.040(1).

In July 2002 South Shore began purchasing water from Greenup to supplement its own production and to ensure adequate water service to certain portions of its water distribution system.² South Shore uses this service on an emergency basis when its system demand significantly reduces water pressures to certain areas of its distribution

¹ Annual Report of South Shore Water Company, Inc. to the Public Service Commission for the year ended December 31, 2001 at 31.

² For a discussion of South Shore's efforts to obtain water from Greenup, see South Shore Water Works Co. v. City of Greenup, Ky., Case No. 2002-00003 (Ky. PSC July 24, 2002).

system. To take water service from Greenup, South Shore pays a minimum bill of \$9.95 per month per meter. A charge is also assessed for any water usage in excess of 2,000 gallons per meter.

On October 23, 2002, South Shore applied for a purchased water adjustment. It requests a 3-month surcharge of 12 cents per 1,000 gallons to recover charges of approximately \$4,246.03 that it expects to pay to Greenup during calendar year 2002. It bases its proposed relief upon Administrative Regulation 807 KAR 5:067.

The purchased water adjustment procedures set forth in Administrative Regulation 807 KAR 5:067 are not applicable to the present case. They address only changes in the rates of existing water suppliers, not the addition of new suppliers. Administrative Regulation 807 KAR 5:067, Section 2, refers to an increase in a supplier's base rate and limits the maximum amount of revenue that any adjustment may produce to the difference between the purchased water billed at the base rate and the purchased water billed at the changed rate. A supplier's base rate is [t]he supplier's rate in effect immediately prior to the most recent increase. 807 KAR 5:067, Section 1. The increase in South Shore's purchased water costs does not result from an increase in the rates assessed by an existing water supplier, but by South Shore's use of a new water supplier. South Shore does not have an existing supplier that is increasing its wholesale rate.

Assuming arguendo that the purchased water adjustment procedure would be available, the formula that Administrative Regulation 807 KAR 5:067 requires the Commission to use to calculate a purchased water adjustment would not accurately

reflect changes in South Shore's water costs due to its use of a new supplier.³ This formula is based upon a water utility's purchases from a supplier for a 12-month period prior to the proposed rate adjustment. In this case, South Shore did not purchase any water from Greenup for the 12-month period before its connection to Greenup's distribution system. The formula, therefore, will not reflect South Shore's purchased water costs from Greenup.⁴

³ Administrative Regulation 807 KAR 5:067 contains no provision to permit a deviation from the its requirements. The Commission lacks any authority to deviate from the required method of calculating purchased water adjustments.

⁴ Calculation of the Purchased Water Adjustment. If a change is made in a base rate charged to a water utility by its supplier(s), the unit charges of the utility's tariff shall be increased or decreased by a purchased water adjustment calculated as follows:

(1) Water purchases shall be computed at the supplier's base rate and the supplier's changed rate using a period of twelve (12) calendar months ending within ninety (90) days of the filing date of the application. The difference between these amounts shows the total change in the applicant's purchased water costs.

(2) The total change in purchased water costs shall be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons, unless the applicant's unaccounted-for water loss exceeds either fifteen (15) percent or the percent allowed in the applicant's last rate case.

(3) In instances where the water loss exceeds fifteen (15) percent and no reasonable percentage has been determined in its last rate case, the actual water sales shall be divided by eighty-five (85) percent yielding the maximum allowable water purchases. Where a reasonable percentage of unaccounted-for water loss was expressly determined in the applicant's last rate case, the actual water sales shall be divided by (100 percent minus the percentage found reasonable) yielding the maximum allowable water purchases. The maximum allowable water purchases shall then be multiplied by the supplier's base rate and the changed rate. The difference between these amounts will be the total allowable change in the applicant's purchased water costs. The total allowable change shall then be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons.

As Administrative Regulation 807 KAR 5:067 does not authorize the requested relief, we find that South Shore's application should be denied. The Commission advises South Shore that inclusion of the cost of purchased water from a new supplier is more appropriately addressed in a general rate adjustment proceeding and that South Shore should make provision for these costs in its next rate adjustment application. To the extent that Greenup subsequently raises its wholesale rates, however, the procedures of Administrative Regulation 807 KAR 5:067 will be available.

IT IS THEREFORE ORDERED that South Shore's Application is denied.

Done at Frankfort, Kentucky, this 30th day of October, 2002.

By the Commission

ATTEST:



Executive Director