



Steven L. Beshear  
Governor

Leonard K. Peters  
Secretary  
Energy and Environment Cabinet

Commonwealth of Kentucky  
**Public Service Commission**  
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P.O. Box 615  
Frankfort, Kentucky 40602-0615  
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David L. Armstrong  
Chairman

James W. Gardner  
Vice Chairman

Charles R. Borders  
Commissioner

June 25, 2010

J. Todd P'Pool, Esq.  
25 East Center Street  
Madisonville, KY 42431

Mr. Robert J Tucker  
South Hopkins Water District  
129 South Main Street  
P. O. Box 487  
Dawson Springs, KY 42408

Re: Case No. 2010-00074  
South Hopkins Water District

Gentlemen:

The enclosed memorandum has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Gerald Wuetcher, Executive Advisor/Attorney, at (502) 564-3940, Extension 259.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen  
Executive Director

gw  
Enclosure  
cc: Parties of Record

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File No. 2010-00074  
**FROM:** Gerald Wuetcher **GPW**  
Executive Advisor/Attorney  
**DATE:** June 25, 2010  
**RE:** Conference Call of June 22, 2010

On June 22, 2010, Commission Staff conducted a telephone conference call in this case. Participating were:

Jon Blalock	-	South Hopkins Water District
Roy McGregor	-	South Hopkins Water District
Ruby Poe	-	South Hopkins Water District
Jeannette Purdy	-	South Hopkins Water District
Robert Tucker	-	South Hopkins Water District
Jason Green	-	Commission Staff
Virginia Gregg	-	Commission Staff
Scott Lawless	-	Commission Staff
Gerald Wuetcher	-	Commission Staff

Commission Staff requested the conference to obtain additional information from South Hopkins Water District ("South Hopkins") to address the issues raised in the water district's petition for rehearing and to discuss issues raised in separate correspondence to the Commission's Executive Director. This additional correspondence is attached.

Beginning the conference, Mr. Wuetcher stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of these minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

At Mr. Wuetcher's request, South Hopkins' representatives confirmed the water district's reasons for requesting rehearing. They noted that the water district did not request an adjustment to its wholesale rates. Under the terms of contracts on file with the Commission, these wholesale rates are adjusted annually to reflect the findings of annual audits that the City of Dawson Springs and South Hopkins conduct. They stated that the only rates for which South Hopkins sought adjustment were its retail rates.

Mr. Poe noted that South Hopkins provides wholesale water service to the cities of Earlington and Morton's Gap and to Caldwell County Water District. The wholesale

contract with each city provides that the wholesale rate will be equal to the cost of water purchased from the city of Dawson Springs ("Dawson Springs") plus electrical costs associated with pumping plus \$0.12 per 1,000 gallons (for amortization costs) multiplied by 1.25. Mr. Poe stated that the cost of water is determined by annual audit that Dawson Springs conducts annually in July. The electrical costs are determined by the audit that South Hopkins conducts at the beginning of each year to prepare its annual report to the Commission. Adjustments to the wholesale rate are made on July 1 of each year. Mr. Poe stated that the current rate, which began on July 1, 2009 is \$2.26 per 1,000 gallons. The prior rate, which was assessed from July 1, 2008 to June 30, 2009, was \$2.03 per 1,000 gallons.

Mr. Poe noted that the water district has had only two general rate adjustments in the last 14 years. Prior to the current adjustment, the most recent was in 2008. He noted that the ratemaking process used to determine South Hopkins' rates does not adequately address the water district's unique situation. He noted that the Commission considers South Hopkins and Dawson Spring to be joint producers of water. As a result, South Hopkins is unable to make purchased water adjustments to raise its rates when the cost of water increases. He stated that, based upon advice from Commission Staff, South Hopkins has not sought a purchased water adjustment when its other supplier, the city of Madisonville, has raised its wholesale rate.

Mr. Poe noted that the true-up provisions in the water district's agreement with the city of Dawson Springs have created significant problems. Under the terms of the agreement, a rate for water that the City produces is set annually based upon the results of an audit performed in July to determine the cost of water for the preceding fiscal year. The water district is required to pay the City any difference between the actual cost of water obtained from the City and the amount paid through the rate in effect for the prior year. Mr. Poe noted that since 2001 the water district was required to make additional payments of \$107,850 because the wholesale rate failed to recover the actual cost of water. In 2009 the water district made a one-time payment of approximately \$58,000 to the city of Dawson Springs. None of these payments, Mr. Poe noted, can be recovered from South Hopkins' ratepayers.

Addressing the use of the Commission's Purchased Water Adjustment ("PWA") regulation, Mr. Wuetcher noted that the Commission's determination in Case No. 10098 precluded South Hopkins from using the PWA regulation to adjust its rates to reflect changes in the rate that the city of Dawson Springs assesses for water. This determination does not prevent South Hopkins from using the PWA regulation to adjust its rates for changes in Madisonville's wholesale rate. The adjustment, Mr. Wuetcher noted, would be to the rates of all of South Hopkins' customers, not merely those customers who are served with water that is purchased from Madisonville. Mr. Wuetcher urged South Hopkins to take advantage of the PWA regulation to immediately adjusted its retail and wholesale rates to reflect any changes in the wholesale rate that Madisonville charges. Mr. Wuetcher further stated that any Commission Staff advice to the contrary was in error.

As to the recovery from ratepayers of annual payments to the city of Dawson Springs for unrecovered costs of water, Mr. Wuetcher stated that such payments could not be recovered under the PWA regulation in any circumstance. The regulation, he stated, permits only a prospective adjustment of rates to reflect a supplier's adjustment in its wholesale rate. Mr. Wuetcher suggested that South Hopkins consider requesting a rider or surcharge that would permit the recovery of these payments. This rider or surcharge would serve as a mechanism to passthrough any payments or refunds to South Hopkins' ratepayers. Mr. Wuetcher further noted that any surcharge could only be imposed as part of a general rate adjustment and questioned whether such a surcharge could be authorized as part of the current Commission proceeding. He also noted that the Kentucky Supreme Court is currently considering the Commission's legal authority to authorize surcharges and that an adverse ruling may prevent the Commission from authorizing the proposed surcharge.

Mr. Wuetcher also suggested that South Hopkins consider requesting the Commission to reconsider its decision in Case No. 10098. If, upon reconsideration, the Commission determines that South Hopkins is not a joint producer of water, the water district could again use the PWA regulation to adjust its rates to reflect changes in the cost of water from Dawson Springs.

Mr. Lawless suggested that, in lieu of a rider/surcharge, South Hopkins consider requesting Dawson Springs to add any underpayments/overcharges to the revised rate that is placed into effect after completion of the annual audit. Mr. Poe stated that South Hopkins would consider making such a request. Other conference participants suggested that Dawson Springs would not be very receptive to such request since it would lengthen the time needed to recover any underpayments from a month to a year.

Mr. Poe and Mr. Tucker stated that the water district was very interested in considering the rider/surcharge proposal and the proposed request for reconsideration of the Commission's decision in Case No. 10098. Mr. Poe noted that South Hopkins is experiencing some financial problems despite its continuing efforts to reduce costs. He noted that South Hopkins has the lowest rates among nearby Commission-regulated water utilities. He expressed some disappointment and concern about the promptness and quality of the advice and assistance that Commission Staff had recently rendered.

Mr. Wuetcher acknowledged shortcomings in the assistance that Commission Staff had recently rendered, but stated that Commission Staff would continue to assist South Hopkins and was prepared to assist it in the issues discussed during the conference.

The conference then adjourned.

cc: Parties of Record

*FA*

Commissioners:  
Robert Tucker, Chairman  
Ruby Poe  
Roy McGregor

**South Hopkins Water District**

Phone 270-797-5760  
Fax 270-797-3800  
129 S. Main St. P. O. Box 487  
Dawson Springs, KY 42408

April 14, 2010

*PENDING CASE  
#2010-00160*

**RECEIVED**  
APR 19 2010  
PUBLIC SERVICE  
COMMISSION

Mr. Jeff Derouen  
Executive Director  
Public Service Commission  
P O Box 615  
Frankfort, KY 40602

Dear Mr. Derouen:

South Hopkins Water District requests assistance in a cost-based rate increase application.

It is our understanding the PSC will provide assistance in this area when requested.

Your early response will be appreciated.

Respectfully,



Robert J. Tucker  
Chairman

RJT/jp

**RECEIVED**  
APR 19 2010  
FINANCIAL ANA

ATTACHMENT 2



Steven L. Beshear  
Governor

Leonard K. Peters  
Secretary  
Energy and Environment Cabinet

Commonwealth of Kentucky  
Public Service Commission  
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David L. Armstrong  
Chairman

James W. Gardner  
Vice Chairman

Charles R. Borders  
Commissioner

May 6, 2010

Mr. Robert J. Tucker  
South Hopkins Water District  
Post Office Box 487  
Dawson Springs, Kentucky 42408

Dear Mr. Tucker:

Commission Staff acknowledges receipt of your letter of April 14, 2010 in which South Hopkins Water District requests assistance in the preparation of an application for rate adjustment.

Commission Staff believes that a rate application is unnecessary. South Hopkins Water District recently applied for a rate adjustment. On April 28, 2010, the Commission issued an order in Case No. 2010-00074 in which it approved rates that would increase the water district's annual revenues from water sales by approximately 12 percent. Based upon its review of South Hopkins Water District's Annual Report for 2009, Commission Staff is of the opinion that an application for rate adjustment using 2009 as the test period to calculate the water district's revenue requirement would not generate significantly higher rates than those recently authorized.

In conversations with Commission Staff, water district representatives have indicated that the Commission's current regulatory treatment of its water purchase agreement with the City of Dawson Springs has resulted in significant financial concerns and limited the water district's ability to recover its total costs of service. Commission Staff recommends that a telephone conference call be conducted between representatives of Commission Staff and South Hopkins Water District to discuss this agreement and the Commission's regulatory treatment of the agreement.

To arrange this conference, contact Gerald Wuetcher, Executive Advisor, at (502) 564-3940, Extension 259. Direct any inquiries regarding this letter to Mr. Wuetcher.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen  
Executive Director

ATTACHMENT 3 *Wuetcher*

Commissioners:  
Robert Tucker, Chairman  
Ruby Poe  
Roy McGregor

**South Hopkins Water District**

Phone 270-797-5760  
Fax 270-797-3800  
129 S. Main St. P. O. Box 487  
Dawson Springs, KY 42408

RECEIVED

MAY 25 2010

PUBLIC SERVICE  
COMMISSION

May 20, 2010

RECEIVED  
MAY 25 2010  
GENERAL COUNSEL

Mr. Jeff Derouen  
Executive Director  
Public Service Commission  
P O Box 615  
Frankfort, KY 40602-0615

Dear Mr. Derouen:

South Hopkins Water District acknowledges receipt of your letter of May 6, 2010 wherein you declined our request for assistance in an application for a rate increase.

You recommended a telephone conference call be conducted between the water district and Commission Staff to discuss our water purchase agreement. We are willing to meet with Commission Staff rather than using a phone conference.

If this meets with your approval, please advise a date, time and place for such a meeting.

Sincerely,

*Robert J. Tucker*  
Robert J. Tucker  
Chairman

cc: Jerry Wuetcher

RJT/jp

Various Water Districts Sales Rates

Gals	Caldwell County	Christian County	Muhlenberg County	Nebo	North Hopkins	South Hopkin
1,000	\$ 20.26	21.65				8.16
2,000	30.32	27.30	19.27	18.51	23.24	12.29
3,000	40.38	32.95	25.51	23.27	34.56	16.62
4,000	50.44	38.60	31.75	30.73	45.88	20.85
5,000	58.45	44.25	37.99	37.74	54.85	25.08
6,000	66.46	49.90	44.34	44.75	63.82	29.31
7,000	74.47	55.55	50.47	51.76	72.79	33.54
8,000	82.48	61.20	56.71	58.77	80.34	37.77
9,000	90.47	66.85	62.95	65.78	87.63	42.00
10,000	98.50	72.50	69.19	72.79	95.45	46.23

Cost of water Purchased

1,000	1.9162			3.79	3.79	1.59912
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As of 3-9-10