

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED SEWAGE TREATMENT)	
ADJUSTMENT OF WARREN COUNTY WATER)	CASE NO. 2012-00482
DISTRICT – SEWER DIVISION)	

ORDER

On November 27, 2012, Warren County Water District (“Warren District”) petitioned for rehearing of the Commission’s Order of November 20, 2012, in which we adjusted Warren District’s rates for sewer service to reflect an increase in the rates of its wholesale sewer treatment service provider.¹ Warren District requests that the Commission use a purchase adjustment factor of \$1.31 per 1,000 gallons to calculate the adjustment rather than \$1.32 per 1,000 gallons.

Warren District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that collect sewage for the public for compensation in Warren County, Kentucky.² It provides sewer collection and treatment service to 4,557 customers.³ It collects and transports wastewater to the facilities of Bowling Green Municipal Utilities (“BGMU”), where the wastewater is treated.⁴

¹ Letter from Alan H. Vilines, General Manager, Warren County Water District, to Jeff Derouen, Executive Director, Kentucky Public Service Commission (Nov. 27, 2012). The Commission considers this letter as a petition for rehearing and will treat it accordingly.

² *Annual Report of Warren County Water District – Sewer Division to Kentucky Public Service Commission of the Calendar Year Ending December 31, 2011* at 1.

³ *Id.* at 12.

⁴ *Id.* at 11.

On October 30, 2012, BGMU advised Warren District of an increase in the rate that BGMU charges for wastewater treatment service from \$1.2409 per 1,000 gallons to \$3.2473 per 1,000 gallons for service rendered on and after December 1, 2012.⁵ Anticipating BGMU's action, Warren District's Board of Commissioners voted on September 30, 2012 to adjust its rates for sewage collection and treatment service by 1.31 per 1,000 gallons for service that it rendered on and after December 1, 2012.⁶ On November 1, 2012, Warren District applied to the Commission pursuant to KRS 278.015 to adjustment its rates for sewer service.

KRS 278.015(2) provides:

When a wholesale supplier selling water or providing sewage treatment to a water district; combined water, gas, or sewer district; or water commission increases its rates, the water district or combined water, gas, or sewer district shall have the authority to increase its rates commensurate with the wholesale supplier without prior approval by the commission.

Within twenty (20) days after any such increase in rates, the district shall file its revised tariffs with the commission, together with a copy of the notice from its wholesale supplier showing the increase in the rate charged to the utility, and a statement of the volume of purchased water used or sewage treated to calculate the increase in rates. The commission shall approve the filing or establish revised rates by order no later than thirty (30) days after the above documents are filed with it. Prior to or at the time of the first billing of the new rates, the district shall give notice to its customers of the increase.

⁵ Letter from Gary A. Bridges, Chief Financial Officer, Bowling Green Municipal Utilities to Alan H. Villines (Oct. 30, 2012).

⁶ Application, "Excerpts of Minutes of a Regular Meeting of the Warren County Water District."

Applying the formula set forth in 807 KAR 5:068, which implements KRS 278.015, the Commission calculated that a purchase adjustment factor of \$1.31292⁷ was required to ensure Warren District's recovery of the increased cost in BGMU's treatment services.⁸ Because Warren District assesses rates only to two decimal places, the Commission rounded the purchased adjustment factor to \$1.32 to ensure recovery of the entire increase.

Warren District requests that a purchase adjustment factor of \$1.31 per 1,000 gallons be used to adjust its rates. While recognizing that the use of this factor will allow "slightly less than full recovery of the increase in sewage treatment costs,"⁹ Warren District stated a preference for the lower factor. It states that it had previously committed to its largest users that an adjustment factor of only \$1.31 per 1,000 gallons would be used. This prior commitment and the associated publicity with that commitment outweighs the additional funds generated through the rounding.

Having reviewed the petition for rehearing and being otherwise sufficiently advised, the Commission finds that:

⁷ Increased sewage cost	\$1,071,092.57
Divided by gallons of water sold	<u>815,810,000</u>
Purchased water adjustment factor per 1,000 gallons	\$1.31292

⁸ Warren District's treatment cost have increased by \$1,071,092.57 as a result of BGMU's rate adjustment. The calculation of this increase appears below:

	Base Rate	Adjusted Rate
Gallons Treated	533,838,000	533,838,000
Wholesale Rate	<u>x \$1.2409 per 1,000 gals</u>	<u>x \$3.2473 per 1,000 gals</u>
Total	\$662,439.57	\$1,733,532.14

$$\text{Increased Cost} = \$1,733,532.14 - \$662,439.57 = \$1,071,092.57.$$

⁹ A purchased adjustment factor of \$1.31292 per 1,000 gallons of water sold will produce additional revenues of \$1,071,092.56. A purchased adjustment factor of \$1.31 per 1,000 gallons of water sold will produce additional revenue of \$1,067,711.10. Increased costs resulting from BGMU's rate adjustment will exceed revenues generated by the purchased treatment adjustment by \$2,381.46. This difference represents less than 0.2 percent of the total increase in treatment cost.

1. Warren District's petition for rehearing should be granted.
2. KRS 278.015 requires the Commission to adjust a water district's rates to reflect the increased costs resulting from an increase in its supplier's rates.
3. Given the apparent inability of Warren District to bill a rate beyond two decimal places, the relative small size of the deficit resulting from the use of the adjustment factor of \$1.31 per 1,000 gallons, and Warren District's request to use the adjustment factor of \$1.31 per 1,000 gallons, the use of the adjustment factor of \$1.31 per 1,000 gallons is consistent with KRS 278.015.
4. The rates set forth in the Appendix to this Order properly reflect the application of the adjustment factor of \$1.31 per 1,000 gallons to Warren District's rates as they existed prior to December 1, 2012.
5. As KRS 278.015 permitted Warren District to place its proposed rates into effect on December 1, 2012 without prior Commission approval and did not require Warren District to notify the Commission for 20 days following the proposed revision, the rates set forth in the Appendix in this Order should be made effective for service rendered on and after December 1, 2012.

IT IS THEREFORE ORDERED that:

1. Warren District's petition for rehearing is granted.
2. The rates set forth in the Appendix to this Order are approved for sewer service that Warren District rendered on and after December 1, 2012.
3. Within 20 days of the date of this Order, Warren District shall file with the Commission revised tariff sheets setting forth the rates set forth in the Appendix to this Order.

By the Commission

ENTERED
DEC 19 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2012-00482

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00482 DATED DEC 19 2012

The following rates and charges are prescribed for the customers in the area served by Warren County Water District – Sewer Division. 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.

Monthly Rates for all areas outside the City of Smiths Grove

First	2,000	gallons	\$ 11.86	Minimum bill
Next	6,000	gallons	5.13	per 1,000 gallons
Next	12,000	gallons	3.94	per 1,000 gallons
Next	80,000	gallons	3.55	per 1,000 gallons
Over	100,000	gallons	2.93	per 1,000 gallons

Minimum Bills for all Meters

5/8"	First	2,000	gallons	\$ 11.86	Minimum bill
3/4"	First	3,000	gallons	\$ 16.99	Minimum bill
1	First	5,000	gallons	27.25	Minimum bill
1 1/2"	First	10,000	gallons	50.55	Minimum bill
2"	First	16,000	gallons	74.16	Minimum bill
3"	First	30,000	gallons	125.42	Minimum bill
4"	First	50,000	gallons	196.42	Minimum bill
6"	First	100,000	gallons	373.92	Minimum bill

Monthly Rates for inside the City of Smiths Grove

First	2,000	gallons	\$ 18.30	Minimum bill
Next	6,000	gallons	5.30	per 1,000 gallons
Next	12,000	gallons	5.10	per 1,000 gallons
Next	80,000	gallons	4.50	per 1,000 gallons
Over	100,000	gallons	3.70	per 1,000 gallons

Minimum Bills for all Meters

5/8"	First	2,000	gallons	\$ 18.30	Minimum bill
3/4"	First	3,000	gallons	\$ 23.60	Minimum bill
1	First	5,000	gallons	34.20	Minimum bill
1 1/2"	First	10,000	gallons	60.30	Minimum bill
2"	First	16,000	gallons	89.90	Minimum bill
3"	First	30,000	gallons	156.30	Minimum bill
4"	First	50,000	gallons	246.30	Minimum bill
6"	First	100,000	gallons	471.30	Minimum bill

Alan H Vilines
Engineering Manager
Warren County Water District
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