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Commonwealth of Kentucky  
**Public Service Commission**  
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Vice Chairman

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Commissioner

May 28, 2008

Honorable Lonnie Campbell  
City of Harrodsburg  
208 South Main Street  
Harrodsburg, Kentucky 40330

Tebbs S. Moore, Esq.  
Phillips Moore Huston PSC  
122 Mooreland Avenue  
Harrodsburg, Kentucky 40330

Ms. Deborah Norman  
City of Harrodsburg  
208 South Main Street  
Harrodsburg, Kentucky 40330

Ms. Norman and Gentlemen:

North Mercer Water District and Lake Village Water Association, Inc. have advised the Public Service Commission that the City of Harrodsburg ("Harrodsburg") has increased its rate for wholesale water service for service rendered on and after April 1, 2008.

In *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460 (Ky. 1994), the Kentucky Supreme Court held that the Public Service Commission has jurisdiction over contracts between municipal utilities and public utilities and that changes in any rate that a municipal utility assesses a public utility for wholesale utility service must be approved by the Public Service Commission. Pursuant to the *Simpson County Water District* decision, the Public Service Commission in Administrative Case No. 351 directed that "[a]ny municipal utility wishing to change or revise a contract or rate for wholesale utility service to a public utility shall, no later than 30 days prior to the effective date of the revision, file with the Commission the revised contract and rate schedule." A copy of the *Simpson County Water District* decision and the Public Service Commission's Order are enclosed.

Consistent with KRS 278.160 and the Public Service Commission's Order in Administrative Case No. 351, contracts and rate schedules filed with the Public Service Commission shall control the rates and conditions of service of the parties. Changes to those currently on file with the Public Service Commission shall be made in accordance

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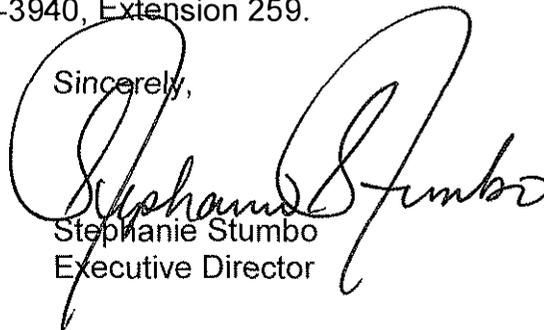
with KRS 278.180 and Administrative Regulation 807 KAR 5:011. Until such changes are approved by the Commission, the prior contracts and rate schedules remain in effect.

The Public Service Commission has not approved the rate increase that became effective April 1, 2008. Therefore, Harrodsburg may bill North Mercer Water District and Lake Village Water Association only at the rates contained in the most recent rate schedule that Harrodsburg has filed with the Commission. Until Harrodsburg files its proposed revisions with and obtains the approval of the Public Service Commission, it may not charge a rate that differs from that rate schedule. For your reference, a copy of that rate schedule is also enclosed. Furthermore, Harrodsburg must either refund to the water utilities the additional charges collected since April 1, 2008, or credit that amount to their accounts. I respectfully request that Harrodsburg advise the Public Service Commission, within 10 days of the date of this letter, of the action that it intends to take to resolve this situation.

For your reference, I am enclosing the Public Service Commission's letter of October 16, 2007, which contains detailed guidance on the procedures that a municipal utility must follow when changing its rates for utility service to public utilities.

Any questions regarding this letter should be directed to Gerald Wuetcher, Assistant General Counsel, at (502) 564-3940, Extension 259.

Sincerely,



Stephanie Stumbo  
Executive Director

4 Enclosures

Cc: North Mercer Water District  
Lake Village Water Association, Inc.