

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC ALTERNATIVE RATE	)	CASE NO.
ADJUSTMENT FILING OF FARMDALE WATER	)	2020-00021
DISTRICT	)	

ORDER

On January 22, 2020, Farmdale Water District (Farmdale District) filed an application (Application) requesting to adjust its monthly water service rates pursuant to the procedures set forth in 807 KAR 5:076. To ensure the orderly review of the Application, the Commission established a procedural schedule by Order dated February 10, 2020.

Using the operating ratio method<sup>1</sup> and its pro forma test-year operations, Farmdale District determined that it could justify a revenue increase of \$153,145, or 13.50 percent.<sup>2</sup> The rates requested by Farmdale District would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$3.80, from \$30.40 to \$34.20, or approximately 12.50 percent.<sup>3</sup> Farmdale District proposed to revise its rate design

---

<sup>1</sup> Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

<sup>2</sup> Application, Attachment 4, Pro Forma Income Statement and Revenue Requirement Calculation.

<sup>3</sup> *Id.*, Attachment 1, Customer Notice.

through the preparation of a cost-of-service study (COSS). Farmdale District's proposed rate design establishes a revised declining usage block rates.

On April 27, 2020, Commission Staff (Staff) issued a report (Staff Report) summarizing its findings. By applying the Operating Ratio Method, as generally accepted by the Commission, Staff found Farmdale District's Overall Revenue Requirement to be \$1,309,681. A revenue increase of \$175,299, or 15.45 percent, is necessary to generate the Overall Revenue Requirement Staff determined that Farmdale District could justify. Staff further recommended that the Commission approve Farmdale District's proposed change in its rate design. Staff performed a COSS following the guidelines and procedures recommended by the American Water Works Association (AWWA) in its Water Rates Manual M-1. The AWWA guidelines are general applicable industry guidelines for performing a COSS and, therefore, are a reasonable method for calculating rates. The rates set forth in Appendix B to this report are based upon Staff's COSS and will produce Staff-determined revenues sufficient to recover the revenue requirement of \$1,309,681 from water sales.

On May 1, 2020, Farmdale District filed with the Commission its comments to Staff's Report (Comments).<sup>4</sup> Farmdale District advised the Commission of its acceptance of the amount of revenue increase set forth in the Staff Report issued April 27, 2020. Farmdale District waived its right to request an informal conference or a formal hearing. Farmdale also renewed its April 13, 2020 motion requesting the Commission authorize a \$3.00 per month water loss reduction surcharge for each active meter.

---

<sup>4</sup> Letter from the General Manager of Farmdale County Water District, Robert Capps, to Executive Director of the Public Service Commission, Gwen R. Pinson (Jan. 16, 2020).

In its May 28, 2020 Order, the Commission ordered Farmdale District to publish a one-time notice, following the requirements of 807 KAR 5:076, Section 5, of its amended rates and of its requested water loss reduction surcharge. On June 12, 2020, Farmdale District submitted the requested proof that the customer notice was published on June 2, 2020, in the *State Journal* newspaper.

### BACKGROUND

Farmdale District, a water district organized pursuant to KRS Chapter 74, provides water service to approximately 2,655 residential and commercial customers located in Anderson, Franklin, and Shelby counties, Kentucky.<sup>5</sup> Farmdale District's last general rate adjustment occurred in 2014.<sup>6</sup>

### TEST PERIOD

The calendar year ended December 31, 2018, should be used as the test year to determine the reasonableness of Farmdale District's existing and proposed water rates as required by 807 KAR 5:076, Section 9.

### WATER LOSS

Pursuant to 807 KAR 5:066, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. As noted in the Staff Report, Farmdale District's actual test-year water loss was 30.17 percent, or 15.17 percent above the allowable limit. Accordingly, Staff reduced test-year expenses by \$96,002.<sup>7</sup> The Commission places greater emphasis on monitoring utilities that consistently exceed the fifteen 15 percent

---

<sup>5</sup> *Annual Report of Farmdale County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* (2018 Annual Report) at 12 and 49.

<sup>6</sup> Case No. 2013-00485, *Alternative Rate Filing of Farmdale Water District* (Ky. PSC July 23, 2014).

<sup>7</sup> Staff Report, page 17. \$92,915 (Purchased Water) + \$3,087 (Electricity) = \$96,002.

unaccounted-for water loss threshold.<sup>8</sup> Farmdale District was a party to Commission Case No. 2019-00041 due to its sustained excessive water loss and the Commission recognizes Farmdale District has filed this application, including its motion for surcharge, as part of its effort to address its water loss and comply with the Commission's November 22, 2019 final Order in that case.<sup>9</sup>

### WATER LOSS SURCHARGE

The requested surcharge would produce \$95,000 per year for total collections over the four year period of \$380,000. Farmdale District also proposed that certain conditions be imposed for the monthly surcharge.

Farmdale District has engaged the services of the Kentucky Rural Water Association, Inc. (KRWA) and HMB Professional Engineers, Inc. (HMB) to assist in Farmdale District's ongoing water loss reduction efforts.<sup>10</sup> Farmdale District, KRWA, and HMB have identified several projects that could reduce Farmdale District's water loss, and the parties are in the preliminary stages of drafting a formal Water Loss Reduction Plan.<sup>11</sup> Farmdale District will file its Water Loss Reduction Plan with the Commission when it is finalized.<sup>12</sup> The list of activities currently under consideration for inclusion in the Water Loss Reduction Plan includes (1) obtaining sophisticated leak detection

---

<sup>8</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Mar. 12, 2019) (investigating jurisdictional water utilities that report over 35 percent water loss in their annual reports on file with the Commission).

<sup>9</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

<sup>10</sup> Farmdale District's Motion for Surcharge filed April 13, 2020 at 1–2.

<sup>11</sup> *Id.* at 2.

<sup>12</sup> *Id.*

(listening device) equipment; (2) installing additional zone meters; (3) installing a new flow meter; (4) installing additional bypass meters; (5) installing additional isolation valves; (6) replacing Blue Max tubing service lines; and (7) replacing approximately 0.5 mile of 6-inch diameter Asbestos Concrete (AC) transmission main.<sup>13</sup>

To date, Farmdale District has purchased a fire hydrant meter to accurately measure the volume of water that it flushes through its system. In addition, Farmdale District has obtained a conditional commitment (Letter of Conditions) from Rural Development to fund the replacement of approximately five miles of AC pipe along Kentucky Highway 151 and Green Wilson Road.

The use of a surcharge is consistent with prior Commission action in cases involving water districts with excessive unaccounted-for water loss.<sup>14</sup> In establishing water-loss surcharges, the Commission recognized that the adjustments required to be made to comply with the 15 percent line-loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict cash flow and could impair a water district's ability to take the necessary action to focus on its leak detection and repair. Using a surcharge to fund a water district's water loss reduction project allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district's use of those funds. In its report

---

<sup>13</sup> *Id.*

<sup>14</sup> See, e.g., Case No. 96-126, *An Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997); Case No. 2011 -00217, *Application of Cannonsburg Water District for (1) Approval of Emergency Rate Relief and (2) Approval of the Increase in Nonrecurring Charges*, (Ky. PSC June 4, 2012); Case No. 2018-00017, *Application of Martin County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 5, 2018); Case No. 2018-00429, *Application of Graves County Water District for an Alternative Rate Adjustment* (Ky. PSC Sept. 30, 2019); and Case No. 2019-00119, *Electronic Application of Estill County Water District No. 1 for a Surcharge to Finance Water Loss Control Efforts* (Ky. PSC Mar. 24, 2010).

entitled, “*Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019*” that was fully incorporated in the final Order in Case No. 2019-00041, the Commission recommended more frequent rate cases and pursuing qualified infrastructure improvement surcharges, the proceeds of which will be devoted exclusively to infrastructure improvement and replacement.<sup>15</sup>

Therefore, the Commission finds that a monthly surcharge is a reasonable means for Farmdale District to recover the cost of its water leak detection and repair program in order to reduce the increased expense and lost revenue from unaccounted-for water loss. Farmdale District’s motion to assess a monthly water loss reduction surcharge of \$3.00 per active meter over 48 months filed on April 13, 2020, should be granted. Farmdale District should be permitted to assess a surcharge to fund its unaccounted-for water loss reduction efforts to comply with the Commission’s final Order in Case No. 2019-00041. Farmdale District should be restricted to expending any funds collected under the surcharge subject to authorization by the Commission. Farmdale District should file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, and provides a detailed spending plan for the proceeds of the requested surcharge.

---

<sup>15</sup> See *Supra*, fn. 9, Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities: An Investigative Report by the Kentucky Public Service Commission November 2019*, 24-25.

## SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes Farmdale District's pro forma income statement as follows:

	Test Year Operations	Pro Forma Adjustments	Adj. Ref.	Pro Forma Operations
Operating Revenues	\$ 1,220,035	\$ (32,244)		\$ 1,181,578
Operating Expenses	1,404,385	(251,333)		1,153,052
Net Operating Income	(184,350)	219,089		28,526
Other Income and Deductions	52,760	(53,673)		(913)
Net Income	\$ (131,590)	\$ 165,416		\$ 27,613

## REVENUE REQUIREMENT

In its report, Staff determined that Farmdale District's pro forma operations support an increase in revenues from water sales of \$175,299, or 15.45 percent, above normalized operating revenues from water sales as shown below:

Pro Forma Operating Expenses	\$ 1,153,052
Divide by: Operating Ratio	88%
Subtotal	1,310,287
Add: Average Annual Interest Expense	51,991
Total Revenue Requirement	1,362,278
Less: Interest Income	(5,371)
Other Operating Revenue	(47,196)
Nonutility Income	(30)
Net Income/(Loss) from Contract Work	_____
Revenue Required from Rates	1,309,681
Less: Normalized Revenues from Water Sales	(1,134,382)
Required Revenue Increase/(Decrease)	\$ 175,299
Percentage Increase	15.45%

## RATE DESIGN

Farmdale proposed to revise its rate design to establish for all customers in all meter sizes to the same gallon amounts. Staff reviewed the requested change and advised the Commission that the change was an appropriate to the rate design. The Commission believes Staff's analysis that this rate design change will provide the customers a more equitable manner of treatment for all customer classes and therefore should be approved.

## SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The water service rates proposed by Farmdale District should be denied.
3. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.
4. The use of a monthly surcharge assessed over 48 months is a reasonable means of funding Farmdale District's unaccounted for water loss reduction efforts.
5. Farmdale District should be authorized to assess a monthly surcharge of \$3.00 per customer for 48 months, or until \$380,000 has been assessed, whichever occurs first, to fund its unaccounted-for water loss reduction efforts as set forth in its April 13, 2020 motion, subject to the conditions set forth in finding paragraph 6.
6. The Commission should open a separate case to monitor the surcharge proceeds collection and expenses, with the following conditions.



a. Within 120 days of the date of this Order, Farmdale District should file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Farmdale District should deposit surcharge collections in a separate interest-bearing account.

c. Farmdale District should file monthly activity reports with the Commission that include a statement of monthly surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, and a description of the purpose; and invoices supporting each payment.

d. Farmdale District should file monthly water loss reports with the Commission.

e. Surcharge proceeds should not be used to reimburse Farmdale District for unaccounted-for water loss reduction expenses incurred prior to the date of this Order.

f. Farmdale District's surcharge and water loss detection and repair program is subject to annual Commission reviews that will examine the progress of the water loss detection and repair program and expenditures made with surcharge proceeds and consider adjustments to the program and the surcharge amount.

g. Farmdale District's failure to comply with any conditions attached to its assessment of the surcharge will result in termination of the surcharge and the refund

of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates originally proposed by Farmdale District are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by Farmdale District on and after the date of this Order.

4. The Commission shall open a separate proceeding, Case No. 2020-00217,<sup>16</sup> to monitor the surcharge proceeds collection and expenses, subject to the following conditions:

a. Within 120 days of the date of this Order, Farmdale District shall file with the Commission a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss and provides a detailed spending plan for the proceeds of a surcharge.

b. Farmdale District shall deposit surcharge collections in a separate interest-bearing account.

c. On the fifteenth day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Farmdale District shall file with the Commission a monthly activity report that includes a statement of monthly surcharge

---

<sup>16</sup> Case No. 2020-00217, *Electronic Farmdale Water District's Unaccounted-for Water Loss Reduction Plan, Surcharge and Monitoring* (Ky. PSC July 7, 2020).

billings and collections; a monthly surcharge bank statement; a list of each payment from the account, its payee, and a description of the purpose; and invoices supporting each payment.

d. On the fifteenth day of each month for 48 months from the date of this Order or until all surcharge proceeds are expended, Farmdale District shall file a monthly water loss report with the Commission.<sup>17</sup>

e. Farmdale District shall not use any surcharge proceeds for reimbursement of unaccounted-for water loss reduction expenses without prior Commission authorization.

f. Farmdale District shall consider all surcharge collections as contributions and shall account for them in the manner that the Uniform System of Accounts for Class A and B Water Districts and Associations prescribes.

g. Farmdale District shall debit monthly billings for the surcharge to customers' accounts receivable and credit the contribution account.

h. When Farmdale District collects the surcharge from the customers, it shall debit special funds and credit the customer account.

i. One year after the date of entry of this Order and annually thereafter, Farmdale District shall file in Case No. 2020-00217 a schedule of the estimated and actual progress of the water loss detection and repair program, and estimated and actual expenditures made with surcharge proceeds, for the purpose of evaluating whether adjustments to the program or to the surcharge amount are required.

---

<sup>17</sup> The report format is found at <https://psc.ky.gov/Home/UtilForms> under "Water Use & Loss Calculations (Excel format)."

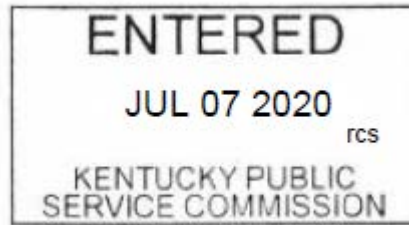
j. Farmdale District's failure to comply with the conditions set forth in ordering paragraph 4 shall result in termination of the surcharge and the refund of collected surcharge proceeds disbursed on expenses or projects outside the scope of expenses and projects approved by the Commission.

5. Within 20 days of the date of entry of this Order, Farmdale District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

6. This case is closed and removed from the Commission's docket.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

By the Commission



ATTEST:

A handwritten signature in blue ink, consisting of stylized initials and a surname, written over a horizontal line.

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2020-00021 DATED JUL 07 2020

The following rates and charges are prescribed for the customers in the area served by Farmdale County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 gallons	\$19.69	Minimum bill
Next	8,000 gallons	7.34	per 1,000 gallons
Next	140,000 gallons	6.54	per 1,000 gallons
Over	150,000 gallons	5.81	per 1,000 gallons

1-Inch Meter

First	5,000 gallons	\$41.71	Minimum bill
Next	5,000 gallons	7.34	per 1,000 gallons
Next	140,000 gallons	6.54	per 1,000 gallons
Over	150,000 gallons	5.81	per 1,000 gallons

4-Inch Meter

First	50,000 gallons	\$340.01	Minimum bill
Next	50,000 gallons	7.34	per 1,000 gallons
Next	50,000 gallons	6.54	per 1,000 gallons
Over	150,000 gallons	5.81	per 1,000 gallons

Monthly Water Loss Reduction Surcharge	\$3.00	per Customer
--	--------	--------------

\*Honorable Damon R Talley  
Attorney at Law  
Stoll Keenon Ogden PLLC  
P.O. Box 150  
Hodgenville, KENTUCKY 42748

\*Farmdale Water District  
100 Highwood Drive, Route 8  
Frankfort, KY 40601

\*Jan Sanders  
Secretary  
Farmdale Water District  
100 Highwood Drive, Route 8  
Frankfort, KY 40601

\*Katelyn L. Brown  
Attorney  
STOLL KEENON OGDEN PLLC  
300 West Vine Street  
Suite 2100  
Lexington, KENTUCKY 40507-1801