

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF MCKINNEY WATER)	2022-00048
DISTRICT)	

ORDER

On February 15, 2022, McKinney Water District (McKinney District) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.015 and 807 KAR 5:068.

LEGAL STANDARD

In accordance with KRS 278.015, when a wholesale supplier selling water to a water district increases its rates, the water district has the authority to increase its rate commensurate with the wholesale supplier. The water district must file a copy of the notice from the wholesale supplier showing the increase in the wholesale rate, and a statement of the volume of purchased water used to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

DISCUSSION

Unaccounted-for Water

Commission regulation 807 KAR 5:066, Section 6(3) states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. In its 2020 Annual Report filed with the Commission, McKinney District

reported a water loss of 32.3532 percent.¹ McKinney District’s application provides updated purchase and sales information for a more current period than the 2020 Annual Report. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2020 Annual Report, McKinney District’s unaccounted-for water loss is 25.9526 percent for the updated period.² Reduction of McKinney District’s unaccounted-for water loss to 15 percent would result in an approximate \$54,337.37 decrease to purchased water expense.³ Potentially, McKinney District is paying approximately \$0.5515 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁴ McKinney District’s total water loss expense equals \$128,754.46.⁵

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages McKinney District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by McKinney District to make significant

¹ *Annual Report of McKinney District to the Public Service Commission for the Year Ended December 31, 2020* at 57.

² Total Purchases (application PWA Form 1 at 2)	135,876,500
Less Total Sales (application PWA Form 1 at 2)	98,531,400
Less Plant Use (% determined from 2020 Annual Report)	2,081,628
Water Loss – Gallons	35,263,472
Water Loss – Percent	25.9526%

³ Water loss above 15 percent is 10.9526%, potential purchased water expensed reduction (Total water cost at new wholesale rate of \$496,113.90 times water loss above 15%) = \$54,337.37

⁴ Potential purchased water expense reduction divided by sales (\$54,337.37/ (98,531,400/1,000)) equals \$0.5515 per 1,000 gallons.

⁵ Total water cost at new wholesale rate of \$496,113.90 times 0.259526 (total water loss percentage) equals \$128,754.46.

progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Financial Condition and Rates

Based on a review of Commission records, McKinney District’s most recent base rate adjustment occurred in its alternative rate filing in 2015.⁶ In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.⁷ A key recommendation from that proceeding was that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁸

As documented in annual and audit reports filed with the Commission, McKinney District’s net income before any capital contributions was negative for the calendar years 2018 through 2020.

Year	2016	2017	2018	2019	2020
Net Income before Contributions	\$ (8,158)	\$ 16,589	\$ (10,141)	\$ (27,494)	\$ (64,834)
Add: Depreciation Expense	87,975	86,547	87,639	92,570	92,879
Cash Basis Income	\$ 79,817	\$ 103,136	\$ 77,498	\$ 65,076	\$ 28,045

The Commission notes that McKinney District maintains a large cash and cash equivalent balance, and appears to be fully funding depreciation, but there is a concern that McKinney District’s cash flow indicates present rates may not be sufficient. The

⁶ See Case No. 2015-00331, *Alternative Rate Adjustment of McKinney Water District* (Ky. PSC Mar. 3, 2016).

⁷ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

⁸ *Id.*

combination of a consistent negative net income and the lack of insight into McKinney District's financial records leads the Commission to conclude that McKinney District should file an application for a general base rate adjustment or an alternative rate adjustment within one year of the date of this Order to ensure that its revenue is sufficient to support adequate and reliable service. In the alternative, McKinney District may file a formal motion with a detailed analysis of its rates and revenues and a statement of the reasons why a rate case is not necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve McKinney District from this requirement.

FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that:

1. McKinney District purchases water from the city of Stanford (Stanford) and the city of Eubank (Eubank).
2. Stanford notified McKinney District that its wholesale rate would increase from \$2.99 per 1,000 gallons to \$3.53 per 1,000 gallons, effective March 2, 2022. McKinney District proposes to increase the water rates to its customers effective March 2, 2022, to reflect the increased cost of purchased water from Stanford.
3. McKinney District proposed a purchased water adjustment factor of \$0.59 per 1,000 gallons in its application.
4. During the 12 months ended December 31, 2021, McKinney District purchased 107,480,200 gallons of water from Stanford and 28,396,300 gallons of water from Eubank. During the same period, McKinney District sold 98,531,400 gallons of

water. The increase in the cost of purchased water is \$58,039.31, resulting in a purchased water adjustment factor of \$0.59 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.59 per 1,000 gallons, as calculated in Appendix A to this Order, is fair, just and reasonable and should be approved, because the water adjustment factor is supported by evidence of the increase in rates from McKinney District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

6. McKinney District's proposed rates are approved.

7. The rates as set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by McKinney District on and after March 2, 2022, because the rates are supported by evidence of the increase in rates from McKinney District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

8. McKinney District should file an application for an adjustment in base rates within one year of the date of entry of this Order.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.59 per 1,000 gallons is approved.

2. The rates proposed by McKinney District are approved.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by McKinney District on and after March 2, 2022.

4. Within 20 days of the date of entry of this Order, McKinney District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

5. McKinney District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues and a statement explaining the reasons why no modifications are necessary, within one year of the date of issuance of this Order. Any filing for a rate adjustment filed under KRS 278.023 does not relieve McKinney District from this requirement.

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

By the Commission

ENTERED
MAR 16 2022 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2022-00048

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00048 DATED MAR 16 2022

	Base Rate	New Rate	
<u>Stanford</u>			
Purchases in Gallons	107,480,200	107,480,200	
Wholesale rate	<u>\$2.99/1,000</u>	<u>\$3.53/1,000</u>	
	\$ 321,365.80	\$379,405.11	\$ 58,039.31
 <u>Eubank</u>			
Purchases in Gallons	28,396,300	28,396,300	
Wholesale rate	<u>\$4.11/1,000</u>	<u>\$4.11/1,000</u>	
	\$116,708.79	\$116,708.79	
Increased water cost		\$58,039.31	
Increased water cost		\$58,039.31	
Divided by Gallons sold/1,000		<u>98,531,400</u>	
Purchased water adjustment factor		\$ 0.5890 per 1,000 Gallons	
		or \$ 0.59 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00048 DATED MAR 16 2022

The following rates and charges are prescribed for the customers in the area served by McKinney Water District. 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 Water Rates

5/8- x 3/4-Inch Meter

First	1,000 Gallons	\$	15.01 Minimum Bill
Next	2,000 Gallons		0.00948 Per Gallon
Next	7,000 Gallons		0.00807 Per Gallon
Over	10,000 Gallons		0.00739 Per Gallon

1-Inch Meter

First	5,000 Gallons	\$	50.11 Minimum Bill
Next	5,000 Gallons		0.00807 Per Gallon
Over	10,000 Gallons		0.00739 Per Gallon

2-Inch Meter

First	20,000 Gallons	\$	164.36 Minimum Bill
Over	20,000 Gallons		0.00739 Per Gallon

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