

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF REID VILLAGE)	2022-00240
WATER DISTRICT)	

ORDER

On July 28, 2022, Reid Village Water District (Reid Village District) filed an application requesting 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 AND FINDINGS

Reid Village District purchases water from Mount Sterling Water and Sewer (Mount Sterling). Mount Sterling notified Reid Village District that its wholesale rate would increase from \$3.17 per 1,000 gallons to \$3.40 per 1,000 gallons, effective August 1,

2022.¹ Reid Village District proposes to increase the water rates to its customers effective August 1, 2022, to reflect the increased cost of purchased water from Mount Sterling.

Unaccounted-for Water Loss

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 2021 Annual Report filed with the Commission, Reid Village District reported a water loss of 12.1706 percent.² Reid Village District's application provides updated purchase and sales information for a more current period than the 2021 Annual Report. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2021 Annual Report, Reid Village District's unaccounted-for water loss is 15.5136 percent for the updated period.³ Reduction of Reid Village District's unaccounted-for water loss to 15 percent would result in an approximate \$1,162.54 decrease to purchased water expense.⁴ Potentially, Reid Village District is paying approximately \$0.0220 per 1,000 gallons sold for expenses associated with

¹ TFS 2022-00336 (Ky. PSC filed July 1, 2022); Mount Sterling submitted the tariff on July 1, 2022, and the tariff was accepted for filing by the Commission by letter dated July 26, 2022, with an effective date of August 1, 2022.

² *Annual Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2021* at 57.

³ Total Purchases (application PWA Form 1 at 2)	66,573,806
Less Total Sales (application PWA Form 1 at 2)	52,788,140
Less Plant Use (no Plant Use reported)	3,457,644
Water Loss – Gallons	10,328,022
Water Loss – Percent	15.5136%

⁴ Water loss above 15% is 0.005136, potential purchased water expense reduction (Total water cost at new wholesale rate of \$226,350.94 times water loss above 15%) equals \$1,162.54.

unaccounted-for water loss in excess of the 15 percent threshold.⁵ Reid Village District's total water loss expense equals \$35,115.18.⁶

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Reid Village District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Reid Village District to make significant 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, Reid Village District has not sought a general base rate adjustment since 2014.⁷ Reid Village District's only rate increases have occurred when a Reid Village supplier has increased its rates. As a result, Reid Village District has avoided comprehensive review by the Commission of Reid Village District's financial records and operational structure for over seven years.

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.⁸ A key recommendation from that proceeding was that

⁵ Potential purchased water expense reduction divided by sales ($\$1,162.54 / (52,788,140/1,000)$) equals \$0.0220 per 1,000 gallons.

⁶ Total water cost at new wholesale rate of \$226,350.94 times 0.155136 (total water loss percentage) equals \$35,115.18.

⁷ Case No. 2014-00379, *Alternative Rate Filing of Reid Village Water District* (Ky. PSC Mar. 30, 2015), final Order.

⁸ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁹

As documented in annual and audit reports filed with the Commission, Reid Village District's depreciation reserves were underfunded for three¹⁰ of the past five years from 2017 through 2021. Reid Village District's capital expenditures¹¹ were minimal for the same five-year period.

The lack of insight into Reid Village District's financial records and the recurring underfunding of depreciation reserves leads the Commission to conclude that Reid Village District shall file an application for a general base rate adjustment or an alternative rate adjustment within two years of the entry date of this Order to ensure that its revenue is sufficient to support adequate and reliable service. In the alternative, on or before August 26, 2024, Reid Village District shall file a formal motion with detailed analysis of its rates and revenues, and a statement of the reasons why a rate case is not necessary. Any filing under KRS 278.023 or purchased water adjustments under KRS 278.015 does not relieve Reid Village District from this requirement.

Purchase Water Rate Increase

⁹ See Case No. 2019-00041, final Order.

¹⁰ See *Audit Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2017*, See *Audit Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2018*, and See *Audit Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2021*.

¹¹ *Audit Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2017* at 10, *Audit Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2018* at 10, *Audit Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2019* at 10, *Audit Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2020* at 8, *Audit Report of Reid Village District to the Public Service Commission for the Year Ended December 31, 2021* at 8.

In its application, Reid Village District proposed a purchased water adjustment factor of \$0.29 per 1,000 gallons. During the 12 months ended June 30, 2022, Reid Village District purchased 66,573,806 gallons of water from Mount Sterling and sold 52,788,140 gallons of water to its customers. The increase in the cost of purchased water is \$15,311.98, resulting in a purchased water adjustment factor of \$0.29 per 1,000 gallons.

Based upon the case record, the Commission finds that the purchased water adjustment factor of \$0.29 per 1,000 gallons, as calculated in Appendix A and the rates set forth in Appendix B to this Order, are fair, just and reasonable and shall be approved for water service rendered by Reid Village District on and after August 1, 2022. The water adjustment factor is supported by evidence of the increase in rates from Reid Village District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

IT IS THEREFORE ORDERED that:

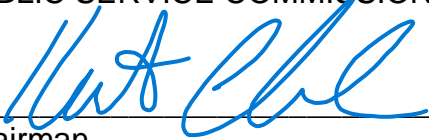
1. The purchased water adjustment factor of \$0.29 per 1,000 gallons is approved.
2. The rates proposed by Reid Village District are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Reid Village District on and after August 1, 2022.
4. Within 20 days of the date of service of this Order, Reid Village District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

5. On or before August 26, 2024, Reid Village 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 explaining the reasons why no modifications are necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Reid Village District from this requirement.

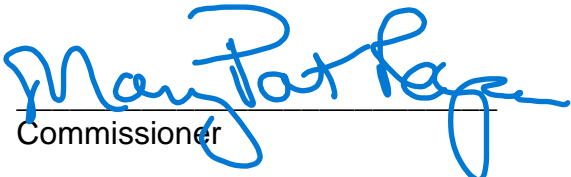
6. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner

ENTERED
AUG 23 2022
rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00240 DATED AUG 23 2022

	Base Rate	New Rate	Increase
<u>Mount Sterling</u>			
Purchases in Gallons	66,573,806	66,573,806	
Wholesale rate	<u>\$ 3.17/1,000</u>	<u>\$ 3.40/1,000</u>	
	\$211,038.97	\$226,350.94	\$15,311.97
Increased water cost		\$15,311.97	
Increased water cost		\$15,311.97	
Divided by Gallons sold/1,000		<u>52,788,140</u>	
Purchased water adjustment factor		\$ 0.2901 per 1,000 Gallons	
		or \$ 0.29 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00240 DATED AUG 23 2022

The following rates and charges are prescribed for the customers in the area served by Reid Village 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

First	2,000	Gallons	\$26.53	Minimum Bill
Next	1,000	Gallons	0.00907	per gallon
Next	2,000	Gallons	0.00848	per gallon
Next	5,000	Gallons	0.00787	per gallon
Over	10,000	Gallons	0.00725	per gallon

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