

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF CITY OF)	
MORGANFIELD REVISING ITS WHOLESALE)	CASE NO.
WATER SERVICE RATES TO UNION COUNTY)	2022-00429
WATER DISTRICT)	

ORDER

On December 19, 2022, the city of Morganfield (Morganfield) filed with the Commission a revised tariff sheet setting forth a proposed adjustment to its existing rates for wholesale water service to Union County Water District (Union District) effective January 1, 2023. The Commission suspended the proposed tariff revision on December 29, 2022, for five months, up to and including May 31, 2023. Morganfield responded to two requests for information from Commission Staff. There are no intervenors to this matter.

LEGAL STANDARD

Pursuant to KRS 278.200, the Commission has jurisdiction over Morganfield's rates for wholesale water service to Union District. The Supreme Court's decision in *Simpson County Water District v. City of Franklin* specifically stated that "where contracts have been executed between a utility and a city . . . KRS 278.200 is applicable and requires that by so contracting the City relinquishes the exemption and is rendered subject to the PSC rates and service regulation."¹ Following the Court's decision in

¹ *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460, 463 (Ky. 1994).

Simpson County, the Commission has allowed city-owned utilities to file rate adjustments by a tariff filing, and if a hearing is requested and the Commission suspends the proposed rate, the requirements and procedures set forth in KRS Chapter 278, and the Commission’s regulations, apply equally to filings by a city-owned utility or a jurisdictional utility.²

Morganfield’s wholesale water rate charged to Union District is subject to KRS 278.030, which provides that a utility may collect fair, just and reasonable rates. KRS 278.260 explains that the Commission may, on its own motion, investigate whether “any regulation, measurement, practice or act affecting or relating to the service of the utility or any service in connection therewith is unreasonable.”

Thus, in accordance with KRS 278.030, KRS 278.200, and KRS 278.260 the Commission must determine whether Morganfield’s proposed rate increase is fair, just and reasonable based upon the evidentiary record.

BACKGROUND

Morganfield’s current monthly wholesale water rate to Union District is \$2.6924 per 1,000 gallons.³ Morganfield’s proposal increases the wholesale water rate by \$0.7190 per 1,000 gallons, or approximately 26.70 percent, to \$3.4114 per 1,000 gallons. The table below is a comparison of Morganfield’s current and proposed volumetric wholesale rates for Union District.

² *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460, 463 (Ky. 1994); *City of Danville v. Public Service Comm’n, et al.*, Civil Action No. 15-CI-00989, *Opinion and Order* (Franklin Circuit Court Division II, June 14, 2016).

³ TFS 2022-00011, Increases wholesale water rate to Union County Water District (effective Jan. 1, 2022).

	Existing Rate	Proposed Rate	Increase	
			\$	%
Wholesale Rate per 1,000 Gallons	\$ 2.6924	\$ 3.4114	\$ 0.719	26.70 %

Morganfield is a city that owns water treatment and distribution facilities that are operated as a department of the city, pursuant to KRS 96.320. In addition to retail water service, Morganfield provides wholesale water service to Union District.⁴

Union District is a water district organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides water service to approximately 2,244 residential customers in Union County, Kentucky.⁵ Union District currently has a general rate case submitted.⁶ Morganfield responded to two rounds of requests for information from Commission Staff in which it provided a copy of the General Ledger that Morganfield relied upon to increase the wholesale rate to Union District.

DISCUSSION

Morganfield’s proposed rate increase is based upon the cost to produce water that was established by the contract between Morganfield and Union District dated December 19, 1986, and last updated January 5, 2003.⁷ The contract includes a formula to calculate the total production cost of water. Morganfield generally calculates the annual production cost in November of each year so the new wholesale rates can become

⁴ Morganfield’s Response to Commission Staff’s First Request for Information (Staff’s First Request) (filed Jan. 27, 2023), Item 1.

⁵ *Annual Report of Union County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

⁶ Case No. 2022-00160, *Electronic Application of Union County Water District for an Alternative Rate Adjustment*.

⁷ Municipal Water Contract between City of Morganfield, Kentucky, and Union County Water District.

effective January 1.⁸ The Commission reviewed Morganfield’s unaudited financial statements, for the fiscal year ended June 30, 2022, and entered the balances into the water contract formula and calculated a total production cost of \$.0034114 per gallon as shown below.

Water Production Contract Costs		Amount
Item #		Amount
1	Salaries & Labor	\$ 421,114
2	Telephone	3,640
3	Office Supplies & Expenses	
	Office and Postage	7,331
	Maintenance supplies	14,834
4	Insurance	22,114
5	Repairs & Maintenance	-
6	Sales Tax Paid	-
7	Equip repairs	41,426
8	Retirement/ Payroll tax	148,531
8	Health & Disability	179,465
9	Gas and oil	5,206
10	Electricity	148,991
11	Consultant Fees	
	Engineering/ Consulting	11,208
	Legal and accounting	4,124
12	Uniforms	6,191
13	Chemicals	177,235
14	Miscellaneous	
	Advertising	250
	Other	11,789
	Small capital items	3,280
	Total Operating Expenses	1,206,729
15	Amortization of Capital Improvements	-
16	Amortization of Debt Service	
	Cap Recovery	604,561
	Change in Interest rate factor	(14,636)
	Expenses Grand Total	1,796,654
17	Annual Water Production	
	Total Gallons	526,659,000
18	Total Production Cost per Gallon	<u>\$ 0.0034114</u>

Based upon the evidence of record, the Commission concludes that the amounts used by Morganfield to calculate its proposed wholesale rate are acceptable. As noted above, Morganfield’s proposed rate increase is calculated based upon the actual cost of

⁸ Morganfield’s Response to Commission Staff’s Second Request for Information,(filed Feb. 24, 2024), Item 1.

producing water, using a formula that was established in its contract with Union District. For this reason, the Commission finds that the rate increase proposed by Morganfield to Union District is reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The wholesale rate of \$3.4114 per 1,000 gallons proposed by Morganfield is granted.
2. This case is closed and removed from the Commission's docket.

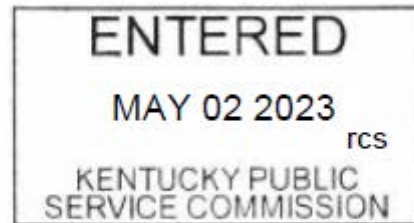
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PUBLIC SERVICE COMMISSION


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