

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF MONTGOMERY)	2022-00242
COUNTY WATER DISTRICT NO. 1)	

ORDER

On August 1, 2022, Montgomery County Water District No. 1 (Montgomery 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

Montgomery District purchases water from Mount Sterling Water and Sewer (Mount Sterling). Mount Sterling notified Montgomery 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 Montgomery 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

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, Montgomery District reported a water loss of 16.3033 percent.² Montgomery 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, Montgomery District's unaccounted-for water loss is 19.8698 percent for the updated period.³ Reduction of Montgomery District's unaccounted-for water loss to 15 percent would result in an approximate \$6,744.26 decrease to purchased water expense.⁴ Potentially, Montgomery District is paying approximately \$0.21 per 1,000 gallons sold for expenses associated

¹ TFS 2022-00336 (Ky. PSC filed July 1, 2022); 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 Montgomery District to the Public Service Commission for the Year Ended December 31, 2021 (2021 Annual Report) at 57.

³ Total Purchases (application PWA Form 1 at 2)	40,732,823
Less Total Sales (application PWA Form 1 at 2)	32,639,310
Less Plant Use (determined from 2021 Annual Report)	zero
Water Loss – Gallons	8,093,513
Water Loss – Percent	19.8698%

⁴ Water loss above 15% is 4.8698%; potential purchased water expense reduction (Total water cost at new wholesale rate of \$138,491.60 times water loss above 15%) equals \$6,744.26.

with unaccounted-for water loss in excess of the 15 percent threshold.⁵ The cost of Montgomery District's total water loss is \$27,518.⁶

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Montgomery District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Montgomery District to make significant progress toward 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, Montgomery District has not sought a general base rate adjustment since 2009.⁷ Montgomery District's only rate increases have occurred from purchased water adjustments. As a result, Montgomery District has avoided comprehensive review by the Commission of Montgomery District's financial records and operational structure for 13 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 ($\$6,744.26 / (32,639,310/1,000)$) equals \$0.21 per 1,000 gallons.

⁶ Total water cost at new wholesale rate of \$138,491.60 times 19.8698% water loss equals \$27,518.

⁷ Case No. 2009-00343, *Application of Montgomery County Water District No. 1 for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC May 7, 2010), final Order (May 7, 2010 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 (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, Montgomery District reported negative net income each year from 2017 through 2021 and the cash basis income was negative in 2018 and 2021. Montgomery District's water loss was below 15 percent from 2017 to 2019 then jumped to 23.5545 percent in 2020. Water loss decreased between 2020 and 2021 to 16.3033 percent.

Description / Year	Audited 2017	Audited 2018	Audited 2019	Audited 2020	PSC Annual Report 2021
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ (30,292)	\$ (48,692)	\$ (50,514)	\$ (42,432)	\$ (55,867)
Add: Tap Fees	0	0	750	4,750	0
Adjusted Net Income / (Loss) before Contributions	\$ (30,292)	\$ (48,692)	\$ (49,764)	\$ (37,682)	\$ (55,867)
Add: Depreciation Expense	54,198	51,761	51,880	52,050	53,168
Subtract: Principal Payments ()	(19,000)	(20,000)	0	0	0
Cash Basis Income	\$ 4,904	\$ (16,931)	\$ 2,116	\$ 14,368	\$ (2,699)
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 116,690	\$ 107,446	\$ 106,953	\$ 113,818	\$ 111,383
Restricted Funds - Sinking, Depreciation	107,741	0	0	0	0
Adjusted Cash Balances	\$ 224,431	\$ 107,446	\$ 106,953	\$ 113,818	\$ 111,383
Net Increase (Decrease) in Cash		\$ (116,985)	\$ (493)	\$ 6,865	\$ (2,436)
<i>Selected Statistical Information</i>					
Customer Count	691	688	702	702	714
Gallons Sold	34,170	33,380	34,230	33,042	34,242
Water Loss Percentage	12.3151	12.7366	14.0196	23.5545	16.3033
System Use Percentage	10.0311	11.2217	14.4937	3.8576	none reported

The lack of insight into Montgomery District's financial records leads the Commission to conclude that Montgomery 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

⁹ See Case No. 2019-00041, Nov. 22, 2019 Final Order.

modifications are necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Montgomery District from this requirement.

Purchase Water Rate Increase

In its application, Montgomery District proposed a purchased water adjustment factor of \$0.29 per 1,000 gallons. During the 12 months ended June 30, 2022, Montgomery District purchased 40,732,823 gallons of water from Mount Sterling and sold 32,639,310 gallons of water to its customers. The increase in the cost of purchased water from Mount Sterling is \$9,368.55, 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 as set forth in Appendix B to this Order are fair, just and reasonable and are approved for water service rendered by Montgomery District on and after August 1, 2022. The rate adjustment factor is supported by evidence of the increase in rates from Montgomery District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015. On or before August 30, 2023, Montgomery 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.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.29 per 1,000 gallons is approved.

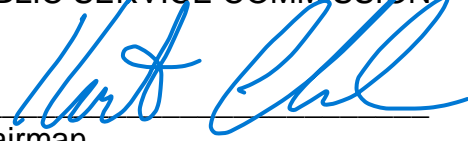
2. The rates proposed by Montgomery District are approved. The rates as set forth in Appendix B to this Order are approved for water service rendered by Montgomery District on and after August 1, 2022.

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

4. On or before August 30, 2023, Montgomery 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 Montgomery District from this requirement.

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

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00242 DATED AUG 30 2022

	Base Rate	New Rate	Increase
<u>Mount Sterling Water</u>			
Purchases in Gallons	40,732,823	40,732,823	
	<u>\$ 3.17/1000</u>	<u>\$ 3.40/1000</u>	
	\$129,123.05	\$138,491.60	\$9,368.55

Increased water cost \$9,368.55

Increased water cost	\$9,368.55
Divided by Gallons sold/1,000	<u>32,639,310</u>
Purchased water adjustment factor	\$ 0.2870 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. 2022-00242 DATED AUG 30 2022

Monthly Water Rates

First	2,000	Gallons	\$24.21	Minimum Bill
Next	3,000	Gallons	0.00796	Per Gallon
Next	5,000	Gallons	0.00724	Per Gallon
Over	10,000	Gallons	0.00652	Per Gallon
Wholesale Customers			0.00377	Per Gallon

*Montgomery County Water District #1
4412 Camargo Road
Mt. Sterling, KY 40353

*Sandra Morton
Montgomery County Water District #1
4412 Camargo Road
Mt. Sterling, KY 40353