

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF UNION COUNTY)	2021-00180
WATER DISTRICT)	

ORDER

On April 23, 2021, Union County Water District (Union District) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure.¹ The filing was found to be deficient. On May 10, 2021, Union District filed information concerning these deficiencies and the application was deemed filed as of May 10, 2021.²

The Commission notes that in Union District's 2019 Annual Report a water loss of 13.7680 percent was reported.³ Union District's application provides updated purchases and sales information for a more current period than the 2019 Annual Report. Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes, a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2019 Annual Report,⁴ Union District's unaccounted-for water loss is

¹ KRS 278.015; 807 KAR 5:068.

² Union District's Purchased Water Adjustment Form 1 (filed May 10, 2021).

³ *Annual Report of Union County Water District to the Public Service Commission for the Year Ending December 31, 2019* at 57.

⁴ *Id.* at 57, line 22, divided by line 4 (15,707 divided by 385,118), equals 4.078%.

determined to be 17.35 percent for the updated period.⁵ Reduction of Union District's unaccounted-for water loss to 15 percent would result in an approximate \$21,288⁶ decrease to purchased water expense. Potentially, Union District is paying \$0.0762 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the allowable 15 percent⁷ threshold.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Union District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Union District to make significant progress toward reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

In a review of Commission records from 1986 to the present, the Commission notes that its records indicate Union District has not sought a general base rate adjustment since the initial construction and inception of rates in 1986. Union District has not sought a general adjustment in base rates by any mechanism other than through the Purchased Water Adjustment procedure. The practical result of this is that Union District has managed to avoid Commission review of its financial records and operational

⁵ Total Purchases (application PWA Form 1 pg. 2)	355,331,000
Less Total Sales (application PWA Form 1 pg. 2)	279,190,279
Less plant use (% determined from 2015 AR)	<u>14,489,583</u>
Water loss - gallons	61,631,138
Water loss - percent	17.3457%

⁶ Water loss above 15 percent 2.3457%
 Potential purchased water expense reduction (cost at new wholesale rate times water loss above 15 percent) = \$ 21,288.

⁷ Potential purchased water expense reduction divided by sales (\$21,288/(279,190,279/1,000) equals \$0.0762/1,000 gallons.

structure for more than 35 years.⁸ In Case No. 2019-00041 and the resulting investigative report, the Commission discusses the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.⁹ A key recommendation from that investigative report 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.¹⁰ In evaluating Union District's financial records and examining the finances outlined in the annual reports filed with the Commission, the Commission finds that Union District has been operating with a negative net income for five of the past five years, which indicates that cash needs may have been supplemented by depreciation reserves as shown below.¹¹

⁸ Union District's last application for a general adjustment of rates was filed in 1986, and the rates were adjusted in 1986. See Case No. 9540, *The Application of the Union County Water District of Union County Kentucky for a Certificate of Public Convenience and Necessity; Approval of a Proposed Plan of Financing and Proposed Water Rate Increase* (Ky. PSC Dec. 15, 1986).

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

¹⁰ *Id.*

¹¹ *Annual Report of Union County Water District to the Public Service Commission* (Annual Report of Union District) *for the Calendar Year Ended December 31, 2015* at 24 and 25; 2016 Annual Report of Union District at 19 and 20; 2017 Annual Report of Union District at 19 and 20; 2018 Annual Report of Union District at 20 and 21; and 2019 Annual Report of Union District at 20 and 21.

Union County Water District
 Analysis of Financial Statements
 2015-2019

Year	2015	2016	2017	2018	2019
Net Income	\$ (175,340)	\$(242,710)	\$ (253,829)	\$ (261,466)	\$ (235,517)
Add: Depreciation Expense	309,807	311,362	314,364	322,769	293,825
Cash Basis Income	\$ 134,467	\$ 68,652	\$ 60,535	\$ 61,303	\$ 58,308

Year	2015	2016	2017	2018	2019
Cash and Cash Equivalents	\$ 265,301	\$ 393,701	\$ 296,197	\$ 204,553	\$ 242,014
Depreciation Reserve					
Net Increase (Decrease) in Cash	64,920	7,998	(105,502)	88,902	(1,642)

Water Loss %	6.3963	6.5236	11.0811	8.2027	13.768
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The Commission’s review of Union District’s financial records indicates that Union District should file an application for a traditional adjustment in rates or an alternative rate adjustment within six months of the date of this Order to ensure its revenue is sufficient to support adequate and reliable service.

During the processing of this case, Commission Staff (Staff) was informed that the proposed rates were being charged to customers as of January 1, 2021. Staff advised Union District to stop charging the unauthorized rates immediately and to make a plan to refund the overcharged customers. Union District filed a request to the Commission on May 4, 2021,¹² requesting the Commission permit Union District the right to retain the overcharges due to their dire financial status. The Commission finds that a separate

¹² Affidavits from Union County Water District (filed May 4, 2021).

proceeding should be opened to address Union District's financial health and operational capabilities as they relate to the issuance of a refund of overcharged rates.

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

1. Union District purchases water from city of Morganfield (Morganfield).
2. Morganfield notified Union District that its wholesale rate would increase from \$2.5242 per 1,000 gallons to \$2.5542 per 1,000 gallons, effective December 3, 2020. Union District proposes to increase the water rates to its customers effective January 1, 2021, to reflect the increased cost of purchased water from Morganfield. The proposed effective date should be denied.
3. Union District proposed a purchased water adjustment factor of \$0.04 per 1,000 gallons in its application.
4. During the 12 months ended March 31, 2021, Union District purchased 355,331,000 gallons of water from Morganfield. During the same period, Union District sold 279,190,279 gallons of water.¹³ The increase in the cost of purchased water is \$10,659.94, resulting in a purchased water adjustment factor of \$0.04 per 1,000 gallons.
5. The purchased water adjustment factor of \$0.04 per 1,000 gallons, as calculated in Appendix A to this Order, is fair, just and reasonable and should be approved.
6. Union District's proposed rates are approved.

¹³ Union District's Purchased Water Adjustment Form 1 (filed May 10, 2021).

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 Union District on and after the date of this Order.

8. Union District should file an application for a traditional adjustment in rates or an alternative rate adjustment within six months of the date of this Order.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.04 per 1,000 gallons is approved.

2. The rates proposed by Union District are approved.

3. The proposed effective date of January 1, 2021, is denied.

4. The rates as set forth in Appendix B to this Order are approved for water service rendered by Union District on and after the date of this Order.

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

6. Union District shall file an application for a traditional adjustment in rates or an alternative rate adjustment within six months of the date of this Order.

7. Case No. 2021-00211¹⁴ has been established to address Union District's financial and operational capabilities as they relate to the refund of overcharged rates.

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

¹⁴ Case No. 2021-00211, *Electronic Investigation into the Financial and Operational Condition of the Union County Water District* (Ky. PSC June 7, 2021), initiating Order.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00180 DATED JUN 07 2021

	Base Rate	New Rate
<u>Morganfield</u>		
Purchases in Gallons	355,331,000	355,331,000
Wholesale rate	<u>\$2.5242</u>	<u>\$2.5542</u>
	\$896,926.51	\$907,586.44
Increased water cost		\$10,659.94
Increased water cost		\$10,659.94
Divided by Gallons sold/1,000		<u>279,190,279</u>
Purchased water adjustment factor		\$0.038 per 1,000 Gallons
		or \$0.04 per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00180 DATED JUN 07 2021

The following rates and charges are prescribed for the customers in the area served by Union 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 -Inch Meter

First 2,000 Gallons	\$ 13.41 Minimum Bill
Next 3,000 Gallons	0.00670 Per Gallon
Next 5,000 Gallons	0.00630 Per Gallon
Next 15,000 Gallons	0.00595 Per Gallon
Next 25,000 Gallons	0.00565 Per Gallon
Next 50,000 Gallons	0.00525 Per Gallon
Next 100,000 Gallons	0.00485 Per Gallon
Next 100,000 Gallons	0.00445 Per Gallon
Over 300,000 Gallons	0.00405 Per Gallon

3/4-Inch Meter

First 5,000 Gallons	\$ 33.50 Minimum Bill
Next 5,000 Gallons	0.00630 Per Gallon
Next 15,000 Gallons	0.00595 Per Gallon
Next 25,000 Gallons	0.00565 Per Gallon
Next 50,000 Gallons	0.00525 Per Gallon
Next 100,000 Gallons	0.00485 Per Gallon
Next 100,000 Gallons	0.00445 Per Gallon
Over 300,000 Gallons	0.00405 Per Gallon

1-Inch Meter

First 10,000 Gallons	\$ 65.00 Minimum Bill
Next 15,000 Gallons	0.00595 Per Gallon
Next 25,000 Gallons	0.00565 Per Gallon
Next 50,000 Gallons	0.00525 Per Gallon
Next 100,000 Gallons	0.00485 Per Gallon
Next 100,000 Gallons	0.00445 Per Gallon
Over 300,000 Gallons	0.00405 Per Gallon

1 1/2 Inch Meter

First 25,000 Gallons	\$ 154.25 Minimum Bill
Next 25,000 Gallons	0.00565 Per Gallon
Next 50,000 Gallons	0.00525 Per Gallon
Next 100,000 Gallons	0.00485 Per Gallon
Next 100,000 Gallons	0.00445 Per Gallon
Over 300,000 Gallons	0.00405 Per Gallon

2-Inch Meter

First 50,000 Gallons	\$ 295.50 Minimum Bill
Next 50,000 Gallons	0.00525 Per Gallon
Next 100,000 Gallons	0.00485 Per Gallon
Next 100,000 Gallons	0.00445 Per Gallon
Over 300,000 Gallons	0.00405 Per Gallon

2 1/2-Inch Meter

First 75,000 Gallons	\$ 426.74 Minimum Bill
Next 25,000 Gallons	0.00525 Per Gallon
Next 100,000 Gallons	0.00485 Per Gallon
Next 100,000 Gallons	0.00445 Per Gallon
Over 300,000 Gallons	0.00405 Per Gallon

3-Inch Meter

First 100,000 Gallons	\$ 557.99 Minimum Bill
Next 100,000 Gallons	0.00485 Per Gallon
Next 100,000 Gallons	0.00445 Per Gallon
Over 300,000 Gallons	0.00405 Per Gallon

4-Inch Meter

First 200,000 Gallons	\$ 1042.98 Minimum Bill
Next 100,000 Gallons	0.00485 Per Gallon
Over 300,000 Gallons	0.00405 Per Gallon

6-Inch Meter

First 300,000 Gallons	\$ 1,487.97 Minimum Bill
Over 300,000 Gallons	0.00405 Per Gallon

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