

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF NORTH SHELBY)	2021-00249
WATER COMPANY)	

ORDER

On June 23, 2021, North Shelby Water Company (North Shelby Water) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure.¹

In a review of Commission records from 1985 to the present, the Commission notes that its records indicate North Shelby Water has not sought a general base rate adjustment since 2009. Since that matter, North Shelby Water has only adjusted its rates pursuant to purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity. The practical result of such policy is that North Shelby Water has managed to avoid Commission review of its financial records an operational structure for more than 11 years.² While North Shelby Water has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD), the Commission's review of records in a RD financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate

¹ KRS 278.015; 807 KAR 5:068.

² North Shelby Water's last application for a general adjustment of rates was filed in 2010 and the rates were adjusted in 2010. See Case No. 2009-00484, *Application of North Shelby Water Company For Approval of Increase In Rates For Water Service* (Ky. PSC Apr. 15, 2010).

adjustment case or an alternative rate adjustment. 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.³ 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.⁴ An examination of finances outlined in the annual and audit reports filed with the Commission finds that North Shelby Water has seen their depreciation reserve decrease and has been operating with a negative net income for two of the past five years and has decreased from the previous year four of the past five years, which indicates that cash needs may have been supplemented by depreciation reserves, as shown below.⁵

³ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019) final Order.

⁴ *Id.*

⁵ *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2016* at 25; *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2017* at 20; *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 21; *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 21; *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2020* at 21.

Year	2016	2017	2018	2019	2020
(Numbers Derived From Annual Report)					
Net Income	\$ 20,211	\$ (34,523)	\$ 62,445	\$ 44,661	\$ (112,946)
Add: Depreciation Expense	482,531	553,270	602,180	651,609	705,943
Cash Basis Income	\$ 502,742	\$ 518,747	\$ 664,625	\$ 696,270	\$ 592,997

Year	2016	2017	2018	2019	2020
(Numbers Derived From Audit Report)					
Cash and Cash Equivalents	\$ 2,966,656	\$ 3,046,031	\$ 4,454,089	\$ 4,135,257	\$ 3,931,310
Depreciation Reserve	420,790	449,203	478,299	281,760	324,660
Net Increase (Decrease) in Cash	687,240	79,375	1,408,058	(318,832)	(203,947) ⁶

The Commission's review of North Shelby Water's financial records indicates that North Shelby Water should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of this Order to ensure its revenue is sufficient to support adequate and reliable service.

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

1. North Shelby Water purchases water from the Louisville Water Company (Louisville Water), Shelbyville Municipal Water and Sewer Commission (Shelbyville), Frankfort Electric and Water Plant Board (Frankfort Plant Board), and West Shelby Water District (West Shelby District).
2. Louisville Water notified North Shelby Water that its wholesale volumetric water rate to North Shelby Water will increase from \$2.41 per 1,000 gallons to \$2.46 per

⁶ *Audit Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2016 at 5 and 10; Audit Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2017 at 5 and 10; Audit Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2018 at 5 and 10; Audit Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2019 at 5 and 9; Audit Report of North Shelby Water Company to the Public Service Commission Calendar Year Ended December 31, 2020 at 5 and 9.*

1,000 gallons and its total monthly service charge will increase from \$1,442.72 per month to \$1,493.20 per month effective July 1, 2021. Shelbyville notified North Shelby Water that its wholesale volumetric rate to North Shelby Water will increase from \$2.22 per 1,000 gallons to \$2.29 per 1,000 gallons effective June 1, 2021. North Shelby Water proposes to increase the water rates to its customers effective July 1, 2021, to reflect the increased cost of purchased water from Louisville Water and Shelbyville.

3. North Shelby Water proposed a purchased water adjustment factor of \$0.06 per 1,000 gallons in its application.

4. During the 12 months ended May 31, 2021, North Shelby Water purchased 308,423,000 gallons of water from Louisville Water, 123,817,000 gallons of water from Shelbyville, and 61,846,000 gallons from Frankfort Plant Board. During the same period, North Shelby Water sold 421,813,599 gallons of water. The increase in the cost of purchased water is \$24,694.10, resulting in a purchased water adjustment factor of \$0.06 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.06 per 1,000 gallons, as calculated in Appendix A to this Order, is fair, just and reasonable, and should be approved.

6. North Shelby Water's proposed rates should be approved.

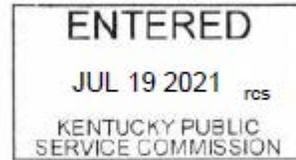
7. The rates as set forth in Appendix B to this Order, are fair, just and reasonable, and should be approved for water service rendered by North Shelby Water on and after July 1, 2021.

8. North Shelby Water 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 \$0.06 per 1,000 gallons is approved.
2. The rates proposed by North Shelby Water are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by North Shelby Water on and after July 1, 2021.
4. Within 20 days of the date of entry of this Order, North Shelby Water shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. North Shelby Water shall file an application for an adjustment in base rates within one year of the date of entry of this Order.
6. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00249 DATED JUL 19 2021

	New Rate	Base Rate	Increase
Louisville Water			
Purchases in Gallons	308,423,000	308,423,000	
Rate per 1,000 Gallons	<u>\$ 2.46/1,000</u>	<u>\$ 2.41/1,000</u>	
Subtotal	\$758,720.58	\$743,299.43	\$15,421.15
Months	12	12	
Monthly Service Charge	<u>\$1,493.20</u>	<u>\$ 1,442.72</u>	
Subtotal	\$ 17,918.40	\$ 17,312.64	\$605.76
Shelbyville Municipal			
Purchases in Gallons	123,817,000	23,817,000	
Wholesale Rate	<u>\$2.29/1,000</u>	<u>\$2.22/1,000</u>	
	\$ 283,540.93	\$ 274,873.74	\$8,667.19
Frankfort Plant Board			
Purchases in Gallons	61,846,000	61,846,000	
Wholesale Rate	<u>\$2.84/1,000</u>	<u>NO CHANGE</u>	
	\$175,642.64	\$175,642.64	
Total	\$1,235,822.55	\$1,211,128.45	\$24,694.10

Increased water cost \$ 24,694.10

Increased water cost \$ 24,694.10

Divided by Gallons sold/1000 421,813,599

Purchased water adjustment factor \$ 0.0585 per 1,000 Gallons

or \$ 0.06 per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00249 DATED JUL 19 2021

The following rates and charges are prescribed for the customers in the area served by North Shelby Water Company. 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 3/4-Inch Meter

First	2,000 Gallons	\$22.88 Minimum Bill
Next	3,000 Gallons	0.00774 per gallon
Next	5,000 Gallons	0.00636 per gallon
Next	40,000 Gallons	0.00567 per gallon
Over	50,000 Gallons	0.00499 per gallon

1-Inch Meter

First	5,000 Gallons	\$ 46.10 Minimum Bill
Next	5,000 Gallons	0.00636 per gallon
Next	40,000 Gallons	0.00567 per gallon
Over	50,000 Gallons	0.00499 per gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$ 77.90 Minimum Bill
Next	40,000 Gallons	0.00567 per gallon
Over	50,000 Gallons	0.00499 per gallon

2-Inch Meter

First	15,000 Gallons	\$ 106.25 Minimum Bill
Next	35,000 Gallons	0.00567 per gallon
Over	50,000 Gallons	0.00499 per gallon

3-Inch Meter

First	35,000 Gallons	\$ 219.65 Minimum Bill
Next	15,000 Gallons	0.00567 per gallon
Over	50,000 Gallons	0.00499 per gallon

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