

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTH	)	
MERCER WATER DISTRICT FOR A	)	
CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY TO CONSTRUCT A SYSTEM	)	CASE NO.
IMPROVEMENTS PROJECT AND AN ORDER	)	2021-00317
APPROVING A CHANGE IN RATES AND	)	
AUTHORIZING THE ISSUANCE OF	)	
SECURITIES PURSUANT TO KRS 278.023	)	

ORDER

On August 11, 2021, North Mercer Water District (North Mercer District) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct water system improvements project, approval of the proposed plan of financing the project, and approval of the proposed rates in its application.<sup>1</sup> On September 15, 2021, the Commission entered an Order authorizing the proposed construction, financing, and rates, and issued a request for information containing questions regarding the financial health of North Mercer District. North Mercer District filed its response to the request for information on September 27, 2021.

BACKGROUND

North Mercer District, a water district organized under KRS Chapter 74, provides retail water service to approximately 4,606 water customers<sup>2</sup> in Anderson, Boyle, Mercer,

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<sup>1</sup> Application at 3.

<sup>2</sup> *Annual Report of North Mercer Water District to the Public Service Commission for the Year Ended December 31, 2020* at 49.

and Washington counties, Kentucky.<sup>3</sup> The Commission’s Division of Inspections last inspected North Mercer District on November 12, 2020. Commission Staff noted one deficiency in a letter that it furnished to North Mercer District on November 30, 2020. North Mercer District responded to the deficiency wherein North Mercer District stated that its board of commissioners is aware of the increasing water loss over the past three years and began taking steps to correct the water loss issue in late 2018. North Mercer District continued stating that upon review of data on water loss and areas of breakage, the water district determined it would need to replace approximately 22 miles of aged water mains as well as the remaining asbestos cement pipe. The letter also notified the Commission that North Mercer District had applied for a grant to help with infrastructure project costs and had been approved for a loan with the USDA/RD for infrastructure improvements.

The Commission notes that North Mercer District reported a water loss of 18.81 percent in its 2020 Annual Report.<sup>4</sup> 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 the total water produced and purchased, excluding water used by a utility in its own operations. At the proposed rates, reduction of North Mercer District’s unaccounted-for water loss to 15 percent would result in an approximate \$37,590 decrease to its cost of water annually.<sup>5</sup> The Commission also notes that at the proposed

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<sup>3</sup> *Id.* at 12.

<sup>4</sup> *Id.* at 57.

<sup>5</sup>

2020 Water Loss	18.81%
Less: 15% Allowable Water Loss	<u>-15.00%</u>
Water Loss in Excess of 15%	<u>3.81%</u>

rates, North Mercer District's total cost of water loss is \$185,581 annually at the current 18.81 percent rate.<sup>6</sup>

The Commission notes that North Mercer District has not sought a general adjustment in base rates since 2016.<sup>7</sup> An examination of finances outlined in the annual and audit reports filed with the Commission as well as North Mercer District's responses to Commission Staff's Request for Information finds that, while the utility has a positive operating income in the last two years, the total principal and interest payments made by North Mercer District deplete a large share of the district's cash basis income, suggesting that North Mercer District is not fully funding its depreciation, as shown below.<sup>8</sup>

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	Purchased Water	Purchased Power	Total
	\$		
2020 Reported Expenses	958,329	\$ 28,279	\$ 986,608
Multiplied by: Water Loss in Excess	-3.81%	-3.81%	-3.81%
	\$		
Excess Purchased Water and Pumping Cost	(36,512)	\$ (1,077)	\$ (37,590)

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	Purchased Water	Purchased Power	Total
	\$		
2020 Reported Expenses	958,329	\$ 28,279	\$ 986,608
Multiplied by: Water Loss in Excess	-18.81%	-18.81%	-18.81%
	\$		
Excess Purchased Water and Pumping Cost	(180,262)	\$ (5,319)	\$ (185,581)

<sup>7</sup> Case No. 2016-00325, *Electronic Application of North Mercer Water District for Rate Adjustment Made Pursuant to 807 KAR 5:076* (Ky. PSC May 19, 2017).

<sup>8</sup> *Annual Report of North Mercer County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2015* at 29; *Annual Report of North Mercer County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* at 24; *Annual Report of North Mercer County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2017* at 24; *Annual Report of North Mercer County Water District to the Public Service*

Year	2015	2016	2017	2018	2019
Operating Income	\$ 69,687	\$ (126,464)	\$ (1,745)	\$ 14,256	\$ 83,634
Add: Depreciation Expense	(455,478)	(462,661)	(469,367)	(466,329)	(471,406)
Cash Basis Income	\$ 525,165	\$ 336,197	\$ 467,622	\$ 480,585	\$ 555,040
Principal Debt Payments	\$ 213,000	\$ 248,500	\$ 224,500	\$ 2,089,000	\$ 223,000
Interest Debt Payments	\$ 222,524	\$ 231,145	\$ 215,855	\$ 285,632	\$ 266,506
Year	2015	2016	2017	2018	2019
Cash and Cash Equivalents	\$ 405,456	\$ 351,219	\$ 357,010	\$ 297,164	\$ 401,407
Restricted Cash	524,221	420,800	487,107	602,184	731,723
Sum: End-of-Year Balance	929,677	772,019	844,117	899,348	1,133,130
Net Increase (Decrease) in Cash	(25,845)	(157,658)	72,098	55,231	233,782
Unaccounted For Water Loss Customers	8.85 4,518	12.73 4,580	13.16 4,947	21.62 5,032	15.41 4,898

Further, upon merely annualizing the year-to-date financial information provided by North Mercer District, a rate increase of 26.42 percent would be supported, as shown below.<sup>9</sup>

	Annualized 2021
Operating Expenses	\$ 2,524,886
Add: Average Annual Debt Service Coverage	479,765
Additional Working Capital	95,953
Overall Revenue Requirement	3,100,604
Less: Other Operating Revenue	(77,237)
Revenue Requirement - Water Rates	3,023,367
Less: Normalized Revenue from Service	(2,391,558)
Required Revenue Increase	631,809
Percentage Increase	26.42%

*Commission for the Calendar Year Ended December 31, 2018 at 25; Annual Report of North Mercer County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2019 at 25.*

<sup>9</sup> North Mercer District's Response to Commission Staff's First Request for Information, Item 2-4

IT IS THEREFORE ORDERED that:

1. North Mercer District shall file for an adjustment in base rates or file for an alternative rate filing within one year of the date of filing of this Order to ensure that its rates are sufficient or, in the alternative, file a formal motion with a detailed analysis of its rates, and state the reasons why no rate modifications are necessary.

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

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

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By the Commission

ENTERED  
OCT 06 2021 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2021-00317

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