

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF EAST CASEY	)	2021-00371
COUNTY WATER DISTRICT	)	

ORDER

On September 15, 2021, East Casey County Water District (East Casey District) applied for 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. The Commission shall approve the filing by order after the above documents are filed.

DISCUSSION

In its 2020 Annual Report filed with the Commission, East Casey District reported a water loss of 33.8206.<sup>1</sup> East Casey District's application provides updated purchase and sales information for a more current period than the 2020 Annual Report.

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<sup>1</sup> *Annual Report of East Casey County Water District to the Public Service Commission for the Year Ended December 31, 2020* at 58.

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. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2020 Annual Report.<sup>2</sup> East Casey District's unaccounted-for water loss is determined to be 25.6516 percent for the updated period.<sup>3</sup> Reduction of East Casey District's unaccounted-for water loss to 15 percent would result in an approximate \$99,588.13<sup>4</sup> decrease to purchased water expense. Potentially, East Casey District is paying approximately \$0.40 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the allowable 15 percent<sup>5</sup> threshold. East Casey District's annual expense due to the 25.6516 percent water loss is \$239,832.31.<sup>6</sup>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages East Casey District to pursue reasonable actions to reduce its unaccounted-

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<sup>2</sup> *Id.*, Water Statistics (Ref Page: 30), line 22 (16,800) divided by line 4 (373,586) equals 4.4970 percent.

<sup>3</sup> Total Purchases (application PWA Form 1 at 2)	356,165,882
Less Total Sales (application PWA Form 1 at 2)	248,786,900
Less plant use (% determined from 2020 Annual Report)	<u>16,016,780</u>
Water loss - gallons	91,362,202
Water loss - percent	25.6516

<sup>4</sup> Water loss above 15 percent is 10.6516 percent, potential purchased water expense reduction (Total water cost at new wholesale rate of \$934,960.43 times water loss above 15 percent) = \$99,588.13.

<sup>5</sup> Potential purchased water expense reduction divided by sales (\$99,588.13/248,786,000/1,000) equals \$0.40 per 1,000 gallons sold.

<sup>6</sup> Total water cost at new wholesale rate of \$934,960.43, times water loss of 25.6516% = \$239,832.31.

for water loss. Failure by East Casey District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Based on a review of the Commission's records from 1984 to the present, East Casey District has not sought a general base rate adjustment since 1984.<sup>7</sup> East Casey District has not sought a general adjustment in rates by any other means than through financing approval or in conjunction with an application for approval of federally funded construction projects under KRS 278.023. In accordance with the provisions of KRS 278.023, the Commission's review of such applications is a limited review of a utility's total financial stability and operational viability. As a result, East Casey District has avoided a comprehensive review by the Commission of East Casey District's financial records and operational structure for more than 37 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.<sup>8</sup> A key recommendation from that proceeding 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.<sup>9</sup>

As documented in annual and audit reports filed with the Commission, East Casey District's depreciation reserve has decreased, and East Casey District has operated with

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<sup>7</sup> See Case No. 19009245, *In the Matter of a Petition for Rates for the East Casey County Water District* (Ky. PSC July 18, 1985).

<sup>8</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019) (Final Order).

<sup>9</sup> *Id.*

a negative net income for the past five years.<sup>10</sup> This indicates that cash needs may have been supported by depreciation reserves, as shown in the below schedule, and by the redemption of Certificates of Deposit in the most recent three years.<sup>11</sup>

Year	2016	2017	2018	2019	2020
(Numbers derived from Annual Report)					
Net Income	\$ (234,278)	\$ (324,219)	\$ (404,449)	\$ (487,762)	\$ (329,280)
Add: Depreciation Expense	316,236	322,276	318,188	310,611	311,351
<b>Cash Basis Income</b>	<b>\$ 81,958</b>	<b>\$ (1,943)</b>	<b>\$ (86,261)</b>	<b>\$ (177,151)</b>	<b>\$ (17,929)</b>

Year	2016	2017	2018	2019	2020
(Numbers derived from Audit Report)					
Cash and Cash Equivalents	\$ 665,496	\$ 563,448	\$ 415,498	\$ 454,514	\$ 491,502
Depreciation Reserve	38,630	38,630	38,630	38,630	38,630
Net Increase (Decrease) in Cash	(97,282)	(102,048)	(147,950)	39,016	36,988

The lack of insight into East Casey District's financial records leads the Commission to conclude that East Casey District should file an application for a general base rate adjustment or an alternative rate adjustment within 6 months of the date of this Order to ensure that its revenue is sufficient to support adequate and reliable service.

<sup>10</sup> *Annual Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* at 20; *Annual Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2017* at 20; *Annual Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 21; *Annual Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 21.

<sup>10</sup> *Audit Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2016* at 5 and 9; *Audit Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2017* at 5 and 9; *Audit Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 5 and 8; *Audit Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 5 and 8; *Audit Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* at 5 and 8.

<sup>11</sup> *Audit Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2018* at 5; *Audit Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 5; *Audit Report of East Casey County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2020* at 5.

## FINDINGS

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

1. East Casey District purchases water from the city of Campbellsville (Campbellsville), the city of Eubank (Eubank), the city of Liberty (Liberty), and the city of Russell Springs (Russell Springs).

2. Campbellsville notified East Casey District that the volumetric portion of its wholesale rate would increase from \$2.35 per 1,000 gallons to \$2.54 per 1,000 gallons, effective August 1, 2021. East Casey District proposes to increase the water rates to its customers effective October 15, 2021, to reflect the increased cost of purchased water from Campbellsville.

3. East Casey District proposed a purchased water adjustment factor of \$0.02 per 1,000 gallons in its application.

4. During the 12 months ended June 30, 2021, East Casey District purchased 23,764,700 gallons of water from Campbellsville, 1,520,600 gallons of water from Eubank, 275,467,930 gallons of water from Liberty, and 55,412,652 gallons of water from Russell Springs. During the same period, East Casey District sold 248,786,900 gallons of water. The increase in the cost of purchased water is \$4,515.29, resulting in a purchased water adjustment factor of \$0.02 per 1,000 gallons.

5. East Casey District's proposed purchased water adjustment factor of \$0.02 per 1,000 gallons should be approved.

6. The purchased water adjustment factor of \$0.02 per 1,000 gallons, as calculated in Appendix A to this Order, is fair, just and reasonable and should be approved

because the water adjustment factor is supported by evidence of the increase in rates from East Casey District's wholesale water supplier and the volume of purchased water used to calculate the rates.

7. East Casey District's proposed rates should be approved.

8. 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 East Casey District on and after October 15, 2021, because the rates are supported by evidence of the increase in rates from East Casey District's wholesale water supplier and the volume of purchased water used to calculate the rates. .

9. East Casey District should file an application for an adjustment in base rates within 6 months of the date of entry of this Order.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.02 per 1,000 gallons is approved.

2. The rates proposed by East Casey District are approved.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by East Casey District on and after October 15, 2021.

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

5. The Commission directs East Casey District to the Commission's July 22,

2021 Order in Case No. 2020-00085<sup>12</sup> regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

6. East Casey District shall file an application for an adjustment in base rates within 6 months of the date of entry of this Order.

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

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<sup>12</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19*. (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

By the Commission



ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00371 DATED OCT 15 2021

	Base Rate	New Rate	Increase
<u>Campbellsville</u>			
Purchases in Gallons	23,764,700	23,764,700	
Wholesale rate	<u>\$ 2.35/1,000</u>	<u>\$ 2.54/1,000</u>	
	\$55,847.05	\$60,362.34	\$4,515.29
<u>Eubank</u>			
Purchases in Gallons	1,520,600	1,520,600	
Wholesale rate	<u>\$ 4.62/1,000</u>	<u>NO CHANGE</u>	
	\$7,025.17		
<u>Liberty</u>			
Purchases in Gallons	275,467,930	275,467,930	
Wholesale rate	<u>\$ 2.55/1,000</u>	<u>NO CHANGE</u>	
	\$702,443.22		
<u>Russell Springs</u>			
Purchases in Gallons	55,412,652	55,412,652	
Wholesale rate	<u>\$2.98/1,000</u>	<u>NO CHANGE</u>	
	\$165,129.70		
TOTAL WATER COST	<u>\$930,445.14</u>	<u>\$934,960.43</u>	<u>\$4,515.29</u>
Increased water cost		\$4,515.29	
Increased water cost		\$4,515.29	
Divided by Gallons sold/1,000		<u>248,786,900</u>	
Purchased water adjustment factor		\$0.01815 per 1,000 Gallons	

or \$0.02 per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00371 DATED OCT 15 2021

The following rates and charges are prescribed for the customers in the area served by East Casey 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

First	2,000 Gallons	\$ 17.28 Minimum Bill
Next	3,000 Gallons	0.00744 per gallon
Next	5,000 Gallons	0.00714 per gallon
Next	5,000 Gallons	0.00684 per gallon
Next	5,000 Gallons	0.00654 per gallon
Over	20,000 Gallons	0.00594 per gallon

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