

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF HENDERSON	)	2022-00013
COUNTY WATER DISTRICT	)	

ORDER

On January 11, 2022, Henderson County Water District (Henderson District) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 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 rates 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 no later than 30 days after the above documents are filed.

DISCUSSION

Unaccounted-for Water Loss

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 2020 Annual Report filed with the Commission, Henderson District

reported a water loss of 22.5565 percent.<sup>1</sup> Henderson District’s application provides updated purchase and sales information for a more current period than the 2020 Annual Report. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2020 Annual Report, Henderson District’s unaccounted-for water loss is 24.3797 percent<sup>2</sup> for the updated period.<sup>3</sup> Reduction of Henderson District’s unaccounted-for water loss to 15 percent would result in an approximate \$151,163.35 decrease to purchased water expense.<sup>4</sup> Potentially, Henderson District is paying approximately \$0.4396 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.<sup>5</sup> Henderson District’s annual expense due to 24.3797 percent water loss is \$392,903.53.<sup>6</sup>

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

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<sup>1</sup> *Annual Report of Henderson District to the Public Service Commission for the Year Ended December 31, 2020* at 57.

<sup>2</sup> Water Loss of 112,643,853 gallons divided by Total water purchased of 462,039,398 gallons equals 24.3797% of purchased water loss.

<sup>3</sup> Total Purchases (application PWA Form 1 at 2)	462,039,398
Less Total Sales (application PWA Form 1 at 2)	343,830,396
Less Plant Use (% determined from 2020 AR)	5,565,149
Water Loss – Gallons	112,643,853
Water Loss – Percent	24.3797%

<sup>4</sup> Water loss above 15% is 9.3797%, potential purchased water expensed reduction (Total water cost at new wholesale rate of \$1,611,601.16 times water loss above 15%) = \$151,163.35

<sup>5</sup> Potential purchased water expense reduction divided by sales (\$151,163.35/ (343,830,396/1,000)) equals \$0.4396 per 1,000 gallons.

<sup>6</sup> Total water cost at new wholesale rate of \$1,611,601.16 times 0.243797 (total water loss percentage).

to continue to take actions that will further reduce its unaccounted-for water loss. Failure by Henderson District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

### Financial Condition and Rates

The Commission's analysis of Henderson District's Audited Financial Statements for the calendar years 2017 through 2020 is contained in Appendix C attached hereto. The Commission's analysis of Henderson District Audited financial records shows that for the calendar years 2017 and 2019, Henderson District met the Debt Service Coverage (DSC) of its lenders, but in calendar years 2018 and 2020, the DSC fell below the lenders 1.2X DSC requirement. However, unlike Henderson District's lenders, the Commission includes noncash items such as depreciation expense in the DSC calculation supporting the revenue requirement of water districts and associations.<sup>7</sup> For the calendar years 2017 through 2020 Henderson District's DSC falls below the 1.2X threshold.

Pursuant to the results of the financial analysis performed in this proceeding, the Commission finds that Henderson District should be ordered to 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 within one year of the date of the issuance of this Order to ensure its revenue is sufficient to support adequate and reliable service. In the alternative, Henderson District may file a formal motion with a detailed

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<sup>7</sup> See Case No. 2019-00424, *Electronic Application of Grant County Sanitary Sewer District for an Alternate Rate Adjustment* (Ky. PSC May 6, 2020); See Case No. 2020-00020, *Alternative Rate Adjustment Filing of Knox County Utility Commission* (Ky. PSC July 22, 2020); and See Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

analysis of its rates and revenues and a statement of the reasons why a rate case is not necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Henderson District from this requirement.

### FINDINGS

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

1. Henderson District purchases water from Henderson Water Utility, North System (Henderson North) and Henderson Water Utility, South System (Henderson South).

2. Henderson Water Utility notified Henderson District that its wholesale rate would increase from \$3.0029 per 1,000 gallons to \$3.5029 per 1,000 gallons from Henderson North, and increase from \$2.6818 per 1,000 gallons to \$3.2549 from Henderson South effective November 24, 2021. Henderson District proposes to increase the water rates to its customers effective November 24, 2021, to reflect the increased cost of purchased water from Henderson Water Utility.

3. Henderson District proposed a purchased water adjustment factor of \$0.68 per 1,000 gallons in its application.

4. During the 12 months ended September 30, 2021, Henderson District purchased 434,310,370 gallons of water from Henderson North and 27,728,428 gallons of water from Henderson South. During the same period, Henderson District sold 343,830,396 gallons of water. The increase in the cost of purchased water is

\$233,046.65,<sup>8</sup> resulting in a purchased water adjustment factor of \$0.68 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.68 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 Henderson District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

6. Henderson District's proposed rates should be approved.

7. The rates set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by Henderson District on and after November 24, 2021, because the rates are supported by evidence of the increase in rates from Henderson District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.68 per 1,000 gallons is approved.

2. The rates proposed by Henderson District are approved.

3. The rates set forth in Appendix B to this Order are approved for water service rendered by Henderson District on and after November 24, 2021.

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<sup>8</sup> The application at PWA Form 1, Item 5, Increased Water Cost, erroneously listed the amount as \$231,699. However, Exhibit A of the application accurately shows the calculation of increased water cost as \$233,046.65.

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

5. Henderson 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 and a statement explaining the reasons why no modifications are necessary, within one year of the date of the issuance of this Order. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Henderson District from this requirement.

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

By the Commission

ENTERED  
FEB 10 2022 rCS  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2022-00013

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00013 DATED FEB 10 2022

	New Rate	Base Rate	Increase
Henderson North			
Purchases in Gallons	434,310,970	434,310,970	
Wholesale rate	<u>\$3.5029/1,000</u>	<u>\$3.0029/1,000</u>	
	\$1,521,347.89	\$1,304,192.41	\$217,155.48
 Henderson South			
Purchases in Gallons	27,728,428	27,728,428	
Wholesale rate	<u>\$3.2549/1,000</u>	<u>\$2.6818/1,000</u>	
	\$90,253.26	\$74,362.10	\$15,891.16
 Total			
	\$1,611,601.15	\$1,378,554.51	
 Increased water cost		\$ 233,046.64	
 Increased water cost		\$ 233,046.64	
Divided by Gallons sold/1,000		<u>343,830,396</u>	
Purchased water adjustment factor		\$ 0.6778 per 1,000 Gallons	
		or \$ 0.68 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00013 DATED FEB 10 2022

The following rates and charges are prescribed for the customers in the area served by Henderson 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 3/4-Inch Meter

First	2,000 Gallons	\$21.28 Minimum Bill
Next	8,000 Gallons	0.00795 per gallon
Next	20,000 Gallons	0.00742 per gallon
Over	30,000 Gallons	0.00689 per gallon

1-Inch Meter

First	5,000 Gallons	\$45.13 Minimum Bill
Next	5,000 Gallons	0.00795 per gallon
Next	20,000 Gallons	0.00742 per gallon
Over	30,000 Gallons	0.00689 per gallon

2-Inch Meter

First	16,000 Gallons	\$129.40 Minimum Bill
Next	14,000 Gallons	0.00742 per gallon
Over	30,000 Gallons	0.00689 per gallon

3-Inch Meter

First	30,000 Gallons	\$233.28 Minimum Bill
Over	30,000 Gallons	0.00689 per gallon

4-Inch Meter

First	50,000 Gallons	\$371.08 Minimum Bill
Over	50,000 Gallons	0.00689 per gallon

6-Inch Meter

First	100,000 Gallons	\$715.58 Minimum Bill
Over	100,000 Gallons	0.00689 per gallon

Volunteer Fire Department (Flat Rate) \$21.28 per month

## APPENDIX C

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00013 DATED FEB 10 2022

#### Commission Analysis of Henderson District's Audited Financial Information

Annual Reports	2017	2018	2019	2020
Net Income	\$ 395,976	\$ (41,293)	\$ 78,214	\$ 16,443
Less: Annual Principal Payment	(321,559)	(321,559)	(321,559)	(321,559)
Add: Depreciation Expense	406,830	414,176	430,888	417,101
Working Capital	<u>\$ 481,247</u>	<u>\$ 51,324</u>	<u>\$ 187,543</u>	<u>\$ 111,985</u>
Audited Financial Statements	2017	2018	2019	2020
Cash and Cash Equivalents	\$ 1,449,816	\$ 1,151,730	\$ 1,211,539	\$ 1,252,605
Restricted Cash	\$ 505,265	\$ 533,184	\$ 562,591	\$ 580,722
Net Increase (Decrease) in Cash	\$ 231,761	\$ (298,086)	\$ 59,809	\$ 41,066
	2017	2018	2019	2020
Customer Count	6,410	6,407	6,417	6,452
Water Loss Percentage	9.07%	27.52%	26.31%	22.57%
System Use Percentage	1.24%	0.87%	1.31%	0.17%
Revenue Requirement - Commission				
	2017	2018	2019	2020
Operating Revenue	\$ 3,029,665	\$ 3,189,446	\$ 3,192,996	\$ 3,097,390
Less: Operating Expenses	(2,481,368)	(3,119,141)	(3,027,866)	(2,967,097)
Add: Non Operating Income	24,160	35,226	50,125	24,259
Net Available for Debt Service - Commission	572,457	105,531	215,255	154,552
Annual Debt Service	<u>493,654</u>	<u>506,036</u>	<u>514,109</u>	<u>524,328</u>
Debt Service Coverage - Commission	<u>1.16</u>	<u>0.21</u>	<u>0.42</u>	<u>0.29</u>
Revenue Requirement - Lenders				
	2017	2018	2019	2020
Net Available for Debt Service - Commission	572,457	105,531	215,255	154,552
Add: Depreciation	406,830	414,176	430,888	417,101
Net Available for Debt Service - Lenders	979,287	519,707	646,143	571,653
Annual Debt Service	<u>493,654</u>	<u>506,036</u>	<u>514,109</u>	<u>524,328</u>
Debt Service Coverage - Lenders	<u>1.98</u>	<u>1.03</u>	<u>1.26</u>	<u>1.09</u>
Annual Debt Service				
	2017	2018	2019	2020
Interest Expense Annual Report	\$ 172,095	\$ 142,438	\$ 137,937	\$ 131,567
Principal - Financial Audits	321,559	363,598	376,172	392,761
Annual Debt Service	<u>\$ 493,654</u>	<u>\$ 506,036</u>	<u>\$ 514,109</u>	<u>\$ 524,328</u>

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