

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF SHARPSBURG)	2022-00069
WATER DISTRICT)	

ORDER

On March 10, 2022, Sharpsburg Water District (Sharpsburg 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. On March 11, 2022, the Commission notified Sharpsburg District that its application was rejected for certain deficiencies. On March 14, 2022, Sharpsburg District submitted further documentation to correct the filing deficiencies, and the application was accepted for filing as of March 14, 2022.

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 to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

DISCUSSION

Unaccounted-for Water

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, Sharpsburg District reported a water loss of 19.4660 percent.¹ Sharpsburg 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, Sharpsburg District's unaccounted-for water loss is 22.5450 percent for the updated period.² Reduction of Sharpsburg District's unaccounted-for water loss to 15 percent would result in an approximate \$28,376.54 decrease to purchased water expense.³ Potentially, Sharpsburg District is paying approximately \$0.34 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁴ Sharpsburg District's total water loss expense is \$84,791.13.⁵

¹ *Annual Report of Sharpsburg District to the Public Service Commission (Annual Report of Sharpsburg District) for the Year Ended December 31, 2020 at 57.*

² Total Purchases (application PWA Form 1 at 2)	109,972,000
Less Total Sales (application PWA Form 1 at 2)	83,463,300
Less Plant Use (% determined from 2020 Annual Report)	1,715,563
Water Loss – Gallons	24,793,137
Water Loss – Percent	22.5450%

³ Water loss above 15% is 7.5450%, potential purchased water expense reduction (Total water cost at new wholesale rate of \$376,097.28 times water loss above 15%) equals 28,376.54.

⁴ Potential purchased water expense reduction divided by sales (\$28,376.52/ (83,463,300/1,000)) equals \$0.34 per 1,000 gallons.

⁵ Total water cost at new wholesale rate of \$376,097.28 times 0.225450 (total water loss percentage) equals \$84,791.13.

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

Based on a review of Commission records, Sharpsburg District has not sought a general base rate adjustment since 2010. In Case No. 2021-00189, the Commission ordered Sharpsburg District to file an application for a traditional adjustment in rates or an alternative rate adjustment by May 27, 2022.⁶

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.⁷ 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.⁸

As documented in annual and audit reports filed with the Commission, Sharpsburg District reported a negative net income for the past six years,⁹ which indicates that cash

⁶ Case No. 2021-00189, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC May 27, 2021).

⁷ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

⁸ *Id.*

⁹ 2020 Annual Report of Sharpsburg District at 21, 2019 Annual Report of Sharpsburg District at 21, 2018 Annual Report of Sharpsburg District at 21, 2017 Annual Report of Sharpsburg at 20, 2016 Annual Report of Sharpsburg District at 20, 2015 Annual Report of Sharpsburg District at 25.

needs may have been supplemented by depreciation reserves as discussed in Case No. 2021-00189.¹⁰

Year	2015	2016	2017	2018	2019	2020
Net Income before Contributions	\$ (110,853)	\$ (51,466)	\$ (105,329)	\$ (61,982)	\$ (57,499)	\$ (56,948)
Add: Depreciation Expense	\$ 150,083	\$ 134,639	\$ 133,872	\$ 133,871	\$ 133,814	\$ 133,791
Cash Basis Income	\$ 39,230	\$ 83,173	\$ 28,543	\$ 71,889	\$ 76,315	\$ 76,843

Year	2015	2016	2017	2018	2019	2020
Cash and Cash Equivalents	400,557	444,258	439,524	455,899	487,036	\$ 504,370
Restricted Funds	\$ 181,912	\$ 188,012	\$ 197,419	\$ 211,973	\$ 217,520	\$ 224,170
Net Increase (Decrease) in Cash	\$ 9,332	\$ 43,701	\$ 38,967	\$ 16,375	\$ 31,137	\$ 17,334

Due to Sharpsburg’s continued net operating losses into the calendar year 2020 the Commission finds that Sharpsburg District shall comply with the May 27, 2021 Order in Case No. 2021-00189 by filing, on or before May 27, 2022, an application for a general base rate adjustment or an alternative rate adjustment to ensure that its revenue is sufficient to support adequate and reliable service, or, in the alternative, on or before May 27, 2022, Sharpsburg District may file a formal motion with a detailed 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 Sharpsburg District from this requirement.

FINDINGS

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

¹⁰ Case No. 2021-00189, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC May 27, 2021) at 3–4.

1. Sharpsburg District purchases water from Bath County Water District (Bath District) and the city of Carlisle (Carlisle).

2. Bath District notified Sharpsburg District that its wholesale rate would increase from \$3.82 per 1,000 gallons to \$3.88 per 1,000 gallons, effective February 15, 2022. Sharpsburg District proposes to increase the water rates to its customers effective February 15, 2022, to reflect the increased cost of purchased water from Bath District.

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

4. During the 12 months ended February 28, 2022, Sharpsburg District purchased 88,361,000 gallons of water from Bath District and 21,611,000 gallons of water from Carlisle. During the same period, Sharpsburg District sold 83,463,300 gallons of water. The increase in the cost of purchased water is \$5,301.66, 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 shall be approved, because the water adjustment factor is supported by evidence of the increase in rates from Sharpsburg District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

6. Sharpsburg District's proposed rates are approved.

7. The rates as set forth in Appendix B to this Order are fair, just and reasonable and shall be approved for water service rendered by Sharpsburg District on and after February 15, 2022, because the rates are supported by evidence of the increase

in rates from Sharpsburg District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

8. On or before May 27, 2022, Sharpsburg 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 explaining the reasons why no modifications are necessary.

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 Sharpsburg District are approved.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Sharpsburg District on and after February 15, 2022.

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

5. On or before May 27, 2022, Sharpsburg 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 explaining the reasons why no modifications are necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Sharpsburg District from this requirement.

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

PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00069 DATED APR 07 2022

	Base Rate	New Rate	Increase
<u>Bath County District</u>			
Purchases	88,361,000	88,361,000	
Wholesale rate	<u>\$ 3.82/1,000</u>	<u>\$ 3.88/1,000</u>	
	\$337,539.02	\$342,840.68	\$ 5,301.66
 <u>Carlisle</u>			
Purchases	21,351,200	21,351,200	
Wholesale rate ¹	<u>NO CHANGE</u>	<u>NO CHANGE</u>	
	\$33,256.60	\$33,256.60	NO CHANGE
 Increased water cost			
			\$ 5,301.66
 Increased water cost			
Divided by Gallons sold/1,000		\$ 5,301.66	
Purchased water adjustment factor		<u>83,463,300</u>	
		\$ 0.0635 per 1,000 Gallons	
		or \$ 0.06 per 1,000 Gallons	

¹ First 1,000 gallons	\$11.21	12,000	\$134.52
Next 4,000 gallons	3.82	48,000	183.36
Next 5,000 gallons	2.95	60,000	177.00
Next 5,000 gallons	2.05	60,000	123.00
Next 10,000 gallons	1.90	120,000	228.00
Next 25,000 gallons	1.58	300,000	474.00
All over 50,000 gallons	1.52	21,011,000	<u>31,936.72</u>
TOTAL			\$33,256.60

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00069 DATED APR 07 2022

The following rates and charges are prescribed for the customers in the area served by Sharpsburg 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	\$	26.62	Minimum Bill
Next	3,000	Gallons		0.00682	Per Gallon
Next	5,000	Gallons		0.00616	Per Gallon
Over	10,000	Gallons		0.00590	Per Gallon

1-Inch Meter

First	5,000	Gallons	\$	47.08	Minimum Bill
Next	5,000	Gallons		0.00616	Per Gallon
Over	10,000	Gallons		0.00590	Per Gallon

2-Inch Meter

First	16,000	Gallons	\$	113.28	Minimum Bill
Over	16,000	Gallons		0.00590	Per Gallon

Bulk Loading Station

\$	0.00900	Per Gallon
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