

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF GARRARD COUNTY)	2022-00078
WATER ASSOCIATION, INC.)	

ORDER

On March 11, 2022, Garrard County Water Association, Inc. (Garrard County Water) applied for approval to adjust its rates pursuant to the purchased water adjustment (PWA) procedure set forth in KRS 278.012 and 807 KAR 5:068. On March 28, 2022, Garrard County Water submitted a revised PWA form, which clarified the separate Kentucky River Authority (KRA) fee as one of its costs for purchased water charged by the city of Lancaster (Lancaster).

LEGAL STANDARD

In accordance with KRS 278.012, when a wholesale supplier selling water to a water association increases its rates, the water association has the authority to increase its rate commensurate with the wholesale supplier. The water association 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, Garrard County Water reported a water loss of 21.7757 percent.¹ Garrard County Water'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, Garrard County Water's unaccounted-for water loss is 28.2940 percent for the updated period.² Reduction of Garrard County Water's unaccounted-for water loss to 15 percent would result in an approximate \$149,470 decrease to purchased water expense.³ Potentially, Garrard County Water is paying approximately \$0.35 per 1,000 gallons sold for expenses

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

² Total Purchases (application PWA Form 1 at 2)	430,683,610
Less Total Sales (application PWA Form 1 at 2)	299,590,400
Less Plant Use (% determined from 2020 Annual Report)	9,235,579
Water Loss – Gallons	121,857,631
Water Loss – Percent	28.2940%

³ Water loss above 15 percent is 13.2940 percent, potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,124,339 times water loss above 15 percent) equals \$149,470.

associated with unaccounted-for water loss in excess of the 15 percent threshold.⁴ Garrard County Water's total water loss expense is \$318,120.41.⁵

On June 23, 2020, in Case No. 2020-00187, the Commission found that the utility should file an application for a rate adjustment by June 23, 2021.⁶ In Case No. 2021-00350, an investigation of Garrard County Water's financial and operational condition was initiated, due in part to Garrard County Water's failure to comply with the Commission's Order in Case No. 2020-00187.⁷ On January 21, 2022, Garrard County Water filed a motion for relief of the obligation to file an application for an adjustment of rates.⁸ On March 28, 2022, the Commission issued an Order in Case No. 2021-00350 finding that Garrard County Water had provided sufficient evidence that its finances and operations were stable and granted Garrard County Water's motion.⁹

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Garrard County Water to pursue reasonable actions to reduce its unaccounted-for water loss. Based on Commission records, Garrard County

⁴ Potential purchased water expense reduction divided by sales (\$149,470/ (299,590,400/1,000)) equals \$0.3471 per 1,000 gallons.

⁵ Total water cost at new wholesale rate of \$1,124,338.75 times 0.282940 (total water loss percentage) equals \$318,120.41.

⁶ Case No. 2020-00187, *Electronic Purchased Water Adjustment Filing of Garrard County Water Association, Inc.* (Ky. PSC June 23, 2020).

⁷ Case No. 2021-00350, *Electronic Alleged Failure of The Garrard County Water Association, Inc. and its Officers, Bill C. Doolin, Felix Reynolds, Jenny Lynn Whittaker, Robert W. Ballard, Gary W. Clark, Bill Oliver, and Sean Smith, to Comply with a Commission Order, KRS 278.990* (Ky. PSC Oct. 14, 2021).

⁸ *Id.* (filed Jan. 21, 2022).

⁹ *Id.* (Ky. PSC Mar. 28, 2022).

Water has reported an increasing percentage of water loss in the last few years as seen in the chart below.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Water Loss Percentage	16.2898% ¹⁰	18.7647% ¹¹	19.7927% ¹²	19.0504% ¹³	21.7757% ¹⁴

On March 28, 2022, the Commission ordered Garrard County Water to implement a water loss management and reduction plan and file documentation with the Commission within six months of the date of the final order in Case No. 2021-00350.¹⁵

Financial Condition and Rates

Based on a review of Commission records, Garrard County Water has not sought a traditional adjustment in rates either through a base rate adjustment or alternative rate filing dating as far back as 1984. Garrard County Water's last general base rate adjustment was in 2009.¹⁶ Garrard County Water's only other rate increases have occurred as a condition for federal financing of a construction project in accordance with

¹⁰ *Annual Report of Garrard County Water to the Public Service Commission for the Year Ended December 31, 2016* at 58.

¹¹ *Annual Report of Garrard County Water to the Public Service Commission for the Year Ended December 31, 2017* at 58.

¹² *Annual Report of Garrard County Water to the Public Service Commission for the Year Ended December 31, 2018* at 57.

¹³ *Annual Report of Garrard County Water to the Public Service Commission for the Year Ended December 31, 2019* at 57.

¹⁴ *Annual Report of Garrard County Water to the Public Service Commission for the Year Ended December 31, 2020* at 57.

¹⁵ Case No. 2021-00350, *Electronic Alleged Failure of the Garrard County Water Association, Inc. and its Officers, Bill C. Doolin, Felix Reynolds, Jenny Lynn Whittaker, Robert W. Ballard, Gary W. Clark, Bill Oliver, and Sean Smith, to Comply with a Commission Order*, KRS 278.990 (Ky. PSC Mar. 28, 2022).

¹⁶ Case No. 2009-00230, *Proposed Adjustment of the Wholesale Water Service Rates of the City of Lancaster* (Ky. PSC Nov. 30, 2009), final Order.

KRS 278.023 and purchased water adjustments. 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.

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.¹⁷ A key recommendation from that proceeding was that water associations should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹⁸

As mentioned above, the Commission issued an Order in Case No. 2021-00350 finding that Garrard County Water had provided sufficient evidence that its finances and operations were stable and granted Garrard County Water's motion for relief of the obligation to file an application for an adjustment of rates.¹⁹

FINDINGS

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

1. Garrard County Water purchases water from Lancaster, the city of Danville (Danville) and the city of Berea (Berea).

¹⁷ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

¹⁸ *Id.*

¹⁹ Case No. 2021-00350, *Electronic Alleged Failure of The Garrard County Water Association, Inc. and its Officers, Bill C. Doolin, Felix Reynolds, Jenny Lynn Whittaker, Robert W. Ballard, Gary W. Clark, Bill Oliver, and Sean Smith, to Comply with a Commission Order, KRS 278.990* (Ky. PSC Mar. 28, 2022).

2. Lancaster notified Garrard County Water that its wholesale rate would increase from \$2.25 per 1,000 gallons to \$2.49 per 1,000 gallons for the first 325,000,000 gallons and add a tier of \$1.40 per 1,000 gallons for all over 325,000,000 gallons, effective March 10, 2022. Lancaster also charges Garrard County Water \$0.28 per 1,000 gallons for the Kentucky River Authority (KRA) Withdrawal fee. Garrard County Water proposes to increase the water rates to its customers effective April 10, 2022, to reflect the increased cost of purchased water from Lancaster.

3. Garrard County Water proposed a purchased water adjustment factor of \$0.15 per 1,000 gallons in its application.

4. During the 12 months ended February 28, 2022, Garrard County Water purchased 366,929,790 gallons of water from Lancaster, 63,753,820 gallons of water from Danville and 0 gallons from Berea. During the same period, Garrard County Water sold 299,590,400 gallons of water. The increase in the cost of purchased water is \$42,359.68, resulting in a purchased water adjustment factor of \$0.15 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.15 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 Garrard County Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

6. Garrard County Water's proposed rates are approved.

7. The rates as set forth in Appendix B to this Order are fair, just and reasonable and are approved for water service rendered by Garrard County Water on and after April 10, 2022, because the rates are supported by evidence of the increase in

rates from Garrard County Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

8. Garrard County Water will investigate the causes of its unaccounted-for water loss and establish procedures to reduce its unaccounted-for water loss as ordered in the Commission's March 28, 2022, Order in Case No. 2021-00350.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.15 per 1,000 gallons is approved.

2. The rates proposed by Garrard County Water are approved.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Garrard County Water on and after April 10, 2022.

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

5. Garrard County Water shall implement a water loss management and reduction plan and file documentation with the Commission of the adopted plan within six months of the Commission's March 28, 2022, Order in Case No. 2021-00350.

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. 2022-00078 DATED APR 06 2022

	Base Rate	New Rate	Change
<u>Lancaster</u>			
Purchases in Gallons	366,929,790	325,000,000	
Wholesale rate	<u>\$ 2.25/1,000</u>	<u>\$ 2.49</u>	
	\$ 825,592.03	\$809,250.00	\$(16,342.03)
Purchases in Gallons over 350,000,000	Not Applicable	41,929,790	
Wholesale rate over 350,000,000		<u>\$ 1.40/1,000</u>	
		\$58,701.71	\$58,701.71
Purchases in Gallons	366,929,790		
Kentucky River Authority fee	<u>\$ 0.28/1,000</u>		
	\$102,740.34	No change	
<u>Danville</u>			
Purchases in Gallons	63,753,820		
Wholesale Rate	<u>\$ 2.41/1,000</u>		
	\$153,646.71	No change	
<u>Berea</u>			
Purchases in Gallons	0 gallons		
	<u>\$ 2.78/1,000</u>		
	<u>\$0.00</u>	No change	
Increased water cost		\$ 42,359.68	
Increased water cost		\$ 42,359.68	
Divided by Gallons		<u>299,590,400</u>	
sold/1,000			
Purchased water adjustment factor		\$ 0.1414 per 1,000 Gallons	
		or \$ 0.15 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00078 DATED APR 06 2022

The following rates and charges are prescribed for the customers in the area served by Garrard County Water Association, Inc. 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	1,000	Gallons	\$ 11.97	Minimum Bill
Next	1,000	Gallons	0.00658	Per Gallon
Next	1,000	Gallons	0.00537	Per Gallon
Next	2,000	Gallons	0.00515	Per Gallon
Over	5,000	Gallons	0.00482	Per Gallon

1-Inch Meter

First	5,000	Gallons	\$ 34.22	Minimum Bill
Over	5,000	Gallons	0.00482	Per Gallon

1 1/2-Inch Meter

First	10,000	Gallons	\$ 58.32	Minimum Bill
Over	10,000	Gallons	0.00482	Per Gallon

2-Inch Meter

First	25,000	Gallons	\$ 130.62	Minimum Bill
Over	25,000	Gallons	0.00482	Per Gallon

Bulk Sales			\$ 0.00585	Per Gallon
------------	--	--	------------	------------

*Garrard County Water Association, Inc.
315 Lexington Road
P. O. Box 670
Lancaster, KY 40444

*Sean Smith
Registered Agent
Garrard County Water Association, Inc.
315 Lexington Road
P. O. Box 670
Lancaster, KY 40444