

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH LOGAN	)	
WATER ASSOCIATION, INC. FOR A	)	
CERTIFICATE OF PUBLIC CONVENIENCE AND	)	CASE NO.
NECESSITY TO CONSTRUCT, FINANCE, AND	)	2022-00103
INCREASE RATES PURSUANT TO THE	)	
PROVISIONS KRS 278.023	)	

ORDER

On March 30, 2022, South Logan Water Association (South Logan Water) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a water system improvements project. The Commission is required, pursuant to KRS 278.023, to accept agreements between water utilities and the United States Department of Agriculture, Rural Development (USDA/RD), regarding construction projects, and to issue the necessary orders to implement the terms of such agreements no later than 30 days after filing the application with the Commission.

To comply with the requirements of KRS 278.023, the Commission issued its Order on April 29, 2022, granting South Logan Water a CPCN to construct its proposed project, authorizing Levee Road Water to obtain the \$798,000 USDA/RD loan, and approving the increase in base rates. The case remained open in order for Commission Staff to issue further Requests for Information, for South Logan Water to submit its responses to the Commission Staff's Second Request for Information, to allow the Commission ample time to review South Logan Water's responses and evaluate South Logan Water's financial information.

The Commission notes that at the time of its April 29, 2022 Order, South Logan Water’s most recent annual report stated a water loss of 23.7 percent.<sup>1</sup> The Commission also notes that since the filing of that order, South Logan Water has filed its 2021 Annual Report which states a total water loss of 14.67 percent.<sup>2</sup> South Logan Water’s total cost of water loss is \$76,466 annually at the current 14.67 percent rate.<sup>3</sup> 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 total water produced and purchased, excluding water consumed by a utility in its own operations.

South Logan Water’s last general rate case was in 2002.<sup>4</sup> Since 2002, the only cases involving base rate increases filed by South Logan Water have been purchased water adjustments. The Commission’s review of records in a financing/rate case, filed pursuant to KRS 278.023, is limited and very different from the comprehensive review of a utility’s total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. The Commission recently noted

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<sup>1</sup> *Annual Report of South Logan Water District to the Public Service Commission (Annual Report) for the Calendar Year Ended December 31, 2020 at 57.*

<sup>2</sup> 2021 Annual Report at 57.

<sup>3</sup>

	Purchased Water	Purchased Power
Total	\$ 503,386	\$ 17,858
Multiply By: Water Loss	<u>14.67%</u>	<u>14.67%</u>
Cost of Water Loss	<u>73,847</u>	<u>2,620</u>
Total		<u><u>76,466</u></u>

<sup>4</sup> Case No. 2002-00481, *The Application of the South Logan Water Association for Approval of a Proposed Increase in Rates for Water Service, Approval to Borrow Funds, and to Increase Non-Recurring Charges* (Ky. PSC Oct. 9, 2003).

that some utilities file applications to increase rates pursuant to KRS 278.023 to intentionally avoid a review of its financial records.<sup>5</sup>

An examination of projections provided by South Logan Water are shown below,<sup>6</sup> and indicate that the South Logan Water fails to routinely fully fund its depreciation, despite operating on a positive cash income. The Commission is concerned that the additional impact of the construction project financing approved in the April 29, 2022 Order will only serve to reduce the utilities' ability to fully fund its depreciation account.

Year	2017	2018	2019	2020	2021
Net Income Before Contributions	\$ 28,505	\$ 53,351	\$ 79,303	\$ 79,567	\$ 6,283
Less: Principal Payments	(55,745)	(57,984)	(60,316)	(62,749)	(65,283)
Add: Depreciation Expense	164,624	159,836	149,771	158,163	161,434
Cash Basis Income	137,384	155,203	168,758	174,981	102,434

  

Year	2017	2018	2019	2020	2021
Cash and Cash Equivalents	\$267,442	\$374,149	\$496,008	\$530,363	\$581,775
Restricted Cash	501,338	443,382	468,393	508,594	530,817
Net Increase (Decrease) in Cash	-	48,751	146,870	74,556	73,635

  

Year	2017	2018	2019	2020	2021
Customer Count	1,702	1,723	1,735	1,763	1,782
Water Loss Percentage	16.58%	13.78%	18.90%	23.70%	14.67%
System Use Percentage	0.92%	1.49%	0.88%	0.49%	1.64%

A key general recommendation that resulted from the investigation of Commission Case No. 2019-00041 was that water utilities should monitor the sufficiency of their base

<sup>5</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

<sup>6</sup> South Logan Water's Response to Commission Staff's First Request for Information (filed May 12, 2022), Item 2.

rates closely and, in general, apply for general rate adjustments on a more frequent basis.<sup>7</sup> The Commission is able to review rate sufficiency during a base rate case, and review financial policies that affect debt service and funding for infrastructure maintenance. The Commission can recommend better business practices to help fortify a water utility's finances like reviewing the depreciation schedule to ensure that a utility is maintaining its funds for infrastructure repair and not using operational funds. The Commission can also provide guidance on other factors that affect the financial and operational health of the utility.<sup>8</sup>

Pursuant to the Commission's recommendation in Case No. 2019-00041 and the results of the financial analysis performed in this proceeding, the Commission finds that South Logan Water 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 within two years of the date of the issuance of this Order to ensure its revenue is sufficient to support adequate and reliable service. In the alternative to filing 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, South Logan Water may file a formal motion with detailed analysis of its rates and revenues, and a statement of the reasons why a rate case is not necessary. Any filing under KRS 278.023 or purchased water adjustments under KRS 278.015 does not relieve South Logan Water from this requirement.

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<sup>7</sup> Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019).

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

IT IS THEREFORE ORDERED that:

1. South Logan Water shall file either 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 two years of the date of the issuance of this Order, or shall file a formal motion with detailed analysis of its rates and revenues, and a statement of the reasons why a rate case is not necessary within one year of the issuance of this Order.

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

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PUBLIC SERVICE COMMISSION

  
Chairman

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Vice Chairman

  
Commissioner



ATTEST:

  
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