

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF NORTH SHELBY)	2022-00154
WATER COMPANY)	

ORDER

On June 1, 2022, North Shelby Water Company (North Shelby Water) 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 278.012, 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. Within 20 days after any such increase in rates, the water association shall file its revised tariffs with the commission, 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 within 30 days 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, North Shelby Water reported a water loss of 5.9633 percent.¹ North Shelby 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, North Shelby Water’s unaccounted-for water loss is 14.0686 percent for the updated period.² The cost of North Shelby Water’s total water loss is \$188,373.22.³

Financial Condition and Rates

Based on a review of Commission records, North Shelby Water has not sought a general base rate adjustment since 2009. On July 19, 2021, in Case No. 2021-00249, the Commission ordered North Shelby Water to file an application for a traditional adjustment in rates or an alternative rate adjustment by July 19, 2022.⁴

North Shelby Water has only adjusted its rates pursuant to purchased water adjustments, financing approval, or in conjunction with an application for a Certificate of Public Convenience and Necessity since its last rate case. As a result, North Shelby

¹ *Annual Report of North Shelby Water to the Public Service Commission for the Year Ended December 31, 2020* at 57.

² Total Purchases (application PWA Form 1 at 2)	524,763,000
Less Total Sales (application PWA Form 1 at 2)	430,501,900
Less Plant Use (3.894% determined from 2020 Annual Report)	20,434,271
Water Loss – Gallons	73,826,829
Water Loss – Percent	14.0686%

³ Total water cost at new wholesale rate of \$1,338,962.10 times 14.0686 percent water loss equals \$188,373.22.

⁴ Case No. 2021-00249, *Electronic Purchased Water Adjustment Filing of North Shelby Water Company* (Ky. PSC July 19, 2021) (Final Order) at ordering paragraph 5.

Water has avoided comprehensive review by the Commission of North Shelby Water's financial records and operational structure for 11 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.⁵ 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.⁶

As documented in annual and audit reports filed with the Commission, North Shelby Water has seen their depreciation reserve decrease and has been operating with a negative net income for two of the past five years⁷ and has decreased income from the previous four of the past five years, which indicates that cash needs may have been supplemented by depreciation reserves. Given this information, the Commission finds that North Shelby Water is ordered to comply with the July 19, 2021 Order in Case No. 2021-00249 by filing, on or before July 19, 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 July 19, 2022,

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

⁶ Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019) (Final Order).

⁷ *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2016*, net income \$20,211; *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2017*, net income \$(34,523); *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2018*, net income \$62,445; *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2019* net income \$44,661; *Annual Report of North Shelby Water Company to the Public Service Commission for the Calendar Year Ended December 31, 2020*, net income \$(112,946).

North Shelby Water 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 North Shelby Water from this requirement.

FINDINGS

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

1. North Shelby Water purchases water from Louisville Water Company (Louisville Water), Shelbyville Municipal Water & Sewer Commission (Shelbyville), Frankfort Electric and Water Plant Board (Frankfort Plant Board), and West Shelby Water District (West Shelby District).

2. Louisville Water notified North Shelby Water that its wholesale volumetric rate would increase from \$2.46 per 1,000 gallons to \$2.55 per 1,000 gallons and its total monthly service charge will decrease from \$1,493.20 per month to \$600.96 per month effective July 1, 2022. Shelbyville notified North Shelby Water that its wholesale rate would increase from \$2.29 per 1,000 gallons to \$2.35 per 1,000 gallons, effective July 1, 2022. North Shelby Water proposes to increase the water rates to its customers effective July 1, 2022, to reflect the increased cost of purchased water from Louisville Water and Shelbyville.

3. North Shelby Water proposed a purchased water adjustment factor of \$0.07 per 1,000 gallons in its application.

4. During the 12 months ended April 30, 2022, North Shelby Water purchased 329,576,000 gallons of water from Louisville Water, 128,570,000 gallons of water from

Shelbyville, and 66,617,000 gallons of water from the Frankfort Plant Board. During the same period, North Shelby Water sold 430,501,900 gallons of water. The increase in the cost of purchased water is \$26,669.16, resulting in a purchased water adjustment factor of \$0.07 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.07 per 1,000 gallons, as calculated in Appendix A to this Order, is fair, just and reasonable and is approved because the water adjustment factor is supported by evidence of the increase in rates from North Shelby Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

6. North Shelby 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 North Shelby Water on and after July 1, 2022, because the rates are supported by evidence of the increase in rates from North Shelby Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

8. On or before July 19, 2022, North Shelby 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, 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 \$0.07 per 1,000 gallons is approved.

2. The rates proposed by North Shelby Water are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by North Shelby Water on and after July 1, 2022.
4. Within 20 days of the date of entry of this Order, North Shelby Water 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 July 19, 2022, North Shelby 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, 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 North Shelby Water 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. 2022-00154 DATED JUN 24 2022

	Base Rate	New Rate	Change
<u>Louisville Water</u>			
Purchases in Gallons	329,576,000	329,576,000	
Rate per 1,000 Gallons	<u>\$ 2.46/1000</u>	<u>\$ 2.55/1000</u>	
Sub-total	\$810,756.96	\$840,418.80	\$29,661.84
Months	12	12	
Monthly Service Charge	<u>\$1,493.20</u>	<u>\$ 600.96</u>	
Sub-total	\$17,918.40	\$ 7,211.52	\$(10,706.88)
<u>Shelbyville</u>			
Purchases in Gallons	128,570,000	128,570,000	
Wholesale rate	<u>\$2.29/1000</u>	<u>\$2.35/1000</u>	
Sub-total	\$ 294,425.30	\$302,139.50	\$ 7,714.20
<u>Frankfort Plant Board</u>			
Purchases in Gallons	66,617,000	66,617,000	
Rate per 1,000 Gallons	<u>\$2.84/1,000</u>	<u>\$2.84/1,000</u>	no change
Sub-total	\$189,192.28	\$189,192.28	
Total	\$1,312,292.94	\$1,338,962.10	\$26,669.16

Increased water cost \$ 26,669.16

Increased water cost \$ 26,669.16

Divided by Gallons sold/1,000 430,501,900

Purchased water adjustment factor \$ 0.0620 per 1,000 Gallons

or \$ 0.07 per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00154 DATED JUN 24 2022

The following rates and charges are prescribed for the customers in the area served by North Shelby Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under 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	\$23.02 Minimum Bill
Next	3,000 Gallons	.00781 per gallon
Next	5,000 Gallons	.00643 per gallon
Next	40,000 Gallons	.00574 per gallon
Over	50,000 Gallons	.00506 per gallon

1-Inch Meter

First	5,000 Gallons	\$46.45 Minimum Bill
Next	5,000 Gallons	.00643 per gallon
Next	40,000 Gallons	.00574 per gallon
Over	50,000 Gallons	.00506 per gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$78.60 Minimum Bill
Next	40,000 Gallons	.00574 per gallon
Over	50,000 Gallons	.00506 per gallon

2-Inch Meter

First	15,000 Gallons	\$107.30 Minimum Bill
Next	35,000 Gallons	.00574 per gallon
Over	50,000 Gallons	.00506 per gallon

3-Inch Meter

First	35,000 Gallons	\$222.10 Minimum Bill
Next	15,000 Gallons	.00574 per gallon
Over	50,000 Gallons	.00506 per gallon

*Lee Mudd, P.E.
Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KENTUCKY 40342

*North Shelby Water Company
4596 Bagdad Road
P. O. Box 97
Bagdad, KY 40003