

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF HARDIN COUNTY)	2022-00159
WATER DISTRICT NO. 2)	

ORDER

On June 6, 2022, Hardin County Water District No. 2 (Hardin District No. 2) 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.

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, Hardin District No. 2

reported a water loss of 13.7023 percent.¹ Hardin District No. 2'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, Hardin District No. 2's unaccounted-for water loss is 15.6683 percent for the updated period.² Reduction of Hardin District No. 2's unaccounted-for water loss to 15 percent would result in an approximate \$7,132.32 decrease to purchased water expense.³ The cost of Hardin District No. 2's total water loss is \$167,313.69.⁴

Financial Condition and Rates

Based on a review of Commission records, Hardin District No. 2 has not previously sought a general base rate adjustment. Hardin District No. 2's only rate increases have occurred as a result of purchased water adjustments or a condition for federal financing of a construction project in accordance with KRS 278.023. 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.

¹ *Annual Report of Hardin District No. 2 to the Public Service Commission (Annual Report) for the Year Ended December 31, 2020* at 57.

² Total Purchases (application PWA Form 1 at 2)	414,296,000
Plus Total Produced	2,587,780,506
Less Total Sales (application PWA Form 1 at 2)	2,367,769,670
Less Plant Use (0.05461 determined from 2020 Annual Report)	163,943,398
Water Loss – Gallons	470,363,438
Water Loss – Percent	15.6679%

³ Water loss above 15% is 0.6679%, potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,067,873.16 x water loss above 15%) = \$7,132.32.

⁴ Total water cost at new wholesale rate of \$1,067,873.16 x 15.6679% water loss = \$167,313.69.

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 districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁶

Based upon a review of Hardin District No. 2's annual reports and audited financial statements that were filed with the Commission, Hardin District No. 2's net income before contributions covered principal payments by 2.59, 1.54, and 1.47 times, respectively, in 2019 through 2021.⁷ Hardin District No. 2's financial condition is acceptable and does not warrant the utility filing a general rate adjustment at this time.

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Net Income Before Contributions	2,972,403	1,873,591	1,858,421
Principal Payments	1,149,352	1,212,971	1,261,785
Principal Coverage	2.59	1.54	1.47

FINDINGS

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

1. Hardin District No. 2 purchases water from Louisville Water Company (Louisville Water).

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

⁷ 2019 Annual Report, 2020 Annual Report, and 2021 Annual Report.

2. Louisville Water notified Hardin District No. 2 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 \$2,364.24 per month to \$951.53 per month effective July 1, 2022. Hardin District No. 2 proposes to increase the water rates to its customers effective July 1, 2022, to reflect the increased cost of purchased water from Louisville Water.

3. Hardin District No. 2 proposed a purchased water adjustment factor of \$0.01 per 1,000 gallons in its application.

4. During the 12 months ended March 31, 2022, Hardin District No. 2 purchased 414,296,000 gallons of water from Louisville Water and produced 2,587,780,506 gallons of water on its own. During the same period, Hardin District No. 2 sold 2,367,769,670 gallons of water. The increase in the cost of purchased water is \$20,334.12, resulting in a purchased water adjustment factor of \$0.01 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.01 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 Hardin District No. 2's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

6. Hardin District No. 2's proposed rates are approved.

7. The rates as set forth in Appendix B to this Order are fair, just and reasonable and is approved for water service rendered by Hardin District No. 2 on and after July 1, 2022, because the rates are supported by evidence of the increase in rates

from Hardin District No. 2's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.01 per 1,000 gallons is approved.
2. The rates proposed by Hardin District No. 2 are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Hardin District No. 2 on and after July 1, 2022.
4. Within 20 days of the date of entry of this Order, Hardin District No. 2 shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman

Commissioner

ENTERED
JUL 01 2022 bst
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00159 DATED JUL 01 2022

	Base Rate	New Rate	Change
<u>Louisville Water</u>			
Purchases in Gallons	414,296,000	414,296,000	
Rate per 1,000 Gallons	<u>\$ 2.46/1,000</u>	<u>\$ 2.55/1,000</u>	
Sub-total	\$1,019,168.16	\$1,056,454.80	\$37,286.64
Months	12	12	
Monthly Service Charge	<u>\$2,364.24</u>	<u>\$ 951.53</u>	
Sub-total	\$28,370.88	\$11,418.36	\$(16,952.52)
Total	\$1,047,539.04	\$1,067,873.16	\$20,334.12

Increased water cost \$ 20,334.12

Increased water cost \$ 20,334.12

Divided by Gallons sold/1,000 2,367,769,670

Purchased water adjustment factor \$ 0.00859 per 1,000 Gallons

or \$ 0.01 per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00159 DATED JUL 01 2022

The following rates and charges are prescribed for the customers in the area served by Hardin County Water District No. 2. 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	\$18.54	Minimum Bill
Next	498,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$34.05	Minimum Bill
Next	495,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$59.90	Minimum Bill
Next	490,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$111.60	Minimum Bill
Next	480,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$163.30	Minimum Bill
Next	470,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$266.70	Minimum Bill
Next	450,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

6-Inch Meter

First	100,000 Gallons	\$525.20	Minimum Bill
Next	400,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

8-Inch Meter

First	150,000 Gallons	\$783.70	Minimum Bill
Next	350,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

10-Inch Meter

First	250,000 Gallons	\$1,300.70	Minimum Bill
Next	250,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

12-Inch Meter

First	400,000 Gallons	\$2,076.20	Minimum Bill
Next	100,000 Gallons	0.00517	Per Gallon
Over	500,000 Gallons	0.00292	Per Gallon

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