

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF JUDY WATER)	2022-00208
ASSOCIATION, INC.)	

ORDER

On July 6, 2022, Judy Water Association, Inc. (Judy Water) tendered an application requesting approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 and 807 KAR 5:068. On July 11, 2022, the Commission notified Judy Water that its application was rejected for certain deficiencies. On July 15, 2022, Judy Water submitted further documentation to correct the filing deficiencies, and the application was deemed filed as of July 15, 2022.

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 AND FINDINGS

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that Judy Water purchases water from the Mount Sterling Water &

Sewer System (Mt. Sterling) and Kentucky-American Water Company (Kentucky-American). The Commission finds that Mt. Sterling notified Judy Water that its wholesale rate would increase from \$3.17 per 1,000 gallons to \$3.40 per 1,000 gallons, effective August 1, 2022.¹ Judy Water proposed to increase the water rates to its customers effective August 1, 2022, to reflect the increased cost of purchased water from Mt. Sterling.

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 2021 Annual Report filed with the Commission, Judy Water reported a water loss of 17.5225 percent.² Judy Water's application provides updated purchase and sales information for a more current period than the 2021 Annual Report. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2021 Annual Report, Judy Water's unaccounted-for water loss is 19.1035 percent for the updated period.³ Reduction of Judy Water's unaccounted-for water loss to 15 percent would result in an approximate \$24,091.84 decrease to

¹ TFS 2022-00336 (Ky. PSC filed July 1, 2022); the tariff was accepted for filing by the Commission by letter dated July 26, 2022, with an effective date of August 1, 2022.

² *Annual Report of Judy Water to the Public Service Commission for the Year Ended December 31, 2021* (2021 Annual Report of Judy Water) at 57.

³ Total Purchases (application PWA Form 1 at 2)	161,629,300
Less Total Sales (application PWA Form 1 at 2)	130,752,500
Less Plant Use (no Plant Use reported)	zero
Water Loss – Gallons	30,876,800
Water Loss – Percent	19.1035%

purchased water expense.⁴ Potentially, Judy Water is paying approximately \$0.18 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁵ The cost of Judy Water's total water loss is \$112,157.54.⁶

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Judy Water to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Judy Water 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, Judy Water has not sought a general base rate adjustment since 2003.⁷ Judy Water's only rate increases have occurred as a condition for federal financing of a construction project in accordance with KRS 278.023 or through 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. As a result, Judy Water has avoided comprehensive review of Judy Water's financial records and operational structure for 19 years.

⁴ Water loss above 15% is 4.1035%, potential purchased water expense reduction (Total water cost at new wholesale rate of \$587,104.69 times water loss above 15%) equals \$24,091.84.

⁵ Potential purchased water expense reduction divided by sales (\$24,091.84/ (130,752,500/1,000)) equals \$0.18 per 1,000 gallons.

⁶ Total water cost at new wholesale rate of \$587,104.69 times 19.1035% water loss equals \$112,157.54.

⁷ Case No. 2003-00249, *Application for an Adjustment of Rates of Judy Water Association, Inc.* (Ky. PSC Sept. 9, 2003).

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.⁸ 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.⁹

As documented in annual and audit reports filed with the Commission, Judy Water's annual income statements from the last five years of 2017-2021 have reported negative net income.¹⁰ While cash balances have increased, Judy Water did not fully fund depreciation reserves in any of the past five years and Judy Water spent minimally for capital expenditures. During the same period of 2017 through 2021, water loss increased from 11.7625 percent to 17.5225 percent.¹¹ The lack of insight into Judy Water's financial records leads the Commission to conclude that Judy Water shall file an application for a general base rate adjustment or an alternative rate adjustment within 18 months of the date of this Order to ensure that its revenue is sufficient to support adequate and reliable service. On or before February 12, 2024, Judy Water shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application

⁸ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

⁹ See Case No. 2019-00041, (Ky. PSC Nov. 22, 2019), final Order.

¹⁰ *Annual Report of Judy Water to the Public Service Commission for the Year Ended December 31, 2017* (2017 Annual Report of Judy Water) at 20, (\$69,241); *Annual Report of Judy Water to the Public Service Commission for the Year Ended December 31, 2018* (2018 Annual Report of Judy Water) at 21, (\$116,505); *Annual Report of Judy Water to the Public Service Commission for the Year Ended December 31, 2019* (2019 Annual Report of Judy Water) at 21, (\$82,878); *Annual Report of Judy Water to the Public Service Commission for the Year Ended December 31, 2020* (2020 Annual Report of Judy Water) at 21, (\$104,364); and 2021 Annual Report of Judy Water at 21, (\$129,839).

¹¹ 2017 Annual Report of Judy Water at 56; 2018 Annual Report of Judy Water at 57; 2019 Annual Report of Judy Water at 57; 2020 Annual Report of Judy Water at 57; and 2021 Annual Report of Judy Water at 57.

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.

In its application, Judy Water proposed a purchased water adjustment factor of \$0.23 per 1,000 gallons in its application. During the 12 months ended June 30, 2022, Judy Water purchased 128,744,000 gallons of water from Mt. Sterling, 32,885,300 gallons of water from Kentucky-American, and sold 130,752,500 gallons of water to its customers. The increase in the cost of purchased water is \$29,611.12, resulting in a purchased water adjustment factor of \$0.23 per 1,000 gallons. The purchased water adjustment factor of \$0.23 per 1,000 gallons, as calculated in Appendix A and the rates set forth in Appendix B to this Order, are fair, just and reasonable and shall be approved for water service rendered by Judy Water on and after August 1, 2022. The water adjustment factor is supported by evidence of the increase in rates from Judy Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.23 per 1,000 gallons is approved.
2. The rates proposed by Judy Water are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Judy Water on and after August 1, 2022.

4. Within 20 days of the date of entry of this Order, Judy 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 February 12, 2024, Judy 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 Judy Water from this requirement.

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

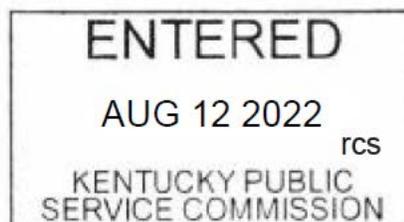
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PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00208 DATED AUG 12 2022

	Base Rate	New Rate	Increase
Mt. Sterling			
Purchases in Gallons	128,744,000	128,744,000	
Wholesale rate	<u>\$ 3.17/1,000</u>	<u>\$ 3.40/1,000</u>	
	\$408,118.48	\$437,729.60	\$29,611.12
Kentucky-American (first 2 million)	25,550,000	25,550,000	
Purchases in Gallons	<u>\$4.52/1000</u>	<u>\$4.52/1000</u>	
Wholesale rate	\$115,486.00	\$115,486.00	no change
Kentucky-American (over 2 million)	7,335,300	7,335,300	
Purchases in Gallons	<u>\$4.62/1000</u>	<u>\$4.62/1000</u>	
Wholesale rate	\$ 33,889.09	\$ 33,889.09	no change
Increased water cost		\$ 29,611.12	
Increased water cost		\$ 29,611.12	
Divided by Gallons sold/1,000		<u>130,752,500</u>	
Purchased water adjustment factor		\$ 0.2265 per 1,000 Gallons	
		or \$ 0.23 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00208 DATED AUG 12 2022

The following rates and charges are prescribed for the customers in the area served by Judy Water Association, Inc. 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

First	1,000	Gallons	\$13.51	Minimum Bill
Next	4,000	Gallons	0.00914	per gallon
Next	5,000	Gallons	0.00824	per gallon
Over	10,000	Gallons	0.00734	per gallon

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