

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF NORTH SHELBY)	2022-00225
WATER COMPANY)	

ORDER

On July 19, 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. On July 26, 2022, the Commission notified North Shelby Water that its application was rejected for certain deficiencies. On July 26, 2022, North Shelby Water submitted further documentation to correct the filing deficiencies, and the application was deemed filed as of July 26, 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. 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 AND FINDINGS

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). Shelbyville notified North Shelby Water that Shelbyville's wholesale rate would increase from \$2.29 per 1,000 gallons to \$2.35 per 1,000 gallons, effective July 19, 2022.¹ North Shelby Water proposed to increase the water rates to its customers effective July 19, 2022, to reflect the increased cost of purchased water from Shelbyville. No rate changes were proposed by Louisville Water, Frankfort Plant Board, or West Shelby District.

Unaccounted-for Water Loss

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, North Shelby Water reported a water loss of 16.6842 percent.² North Shelby 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, North Shelby Water's unaccounted-for water loss is 15.2466 percent for the updated period.³ Reduction of

¹ TFS 2022-00294 (Ky. PSC June 9, 2022); the tariff was accepted for filing by the Commission by letter dated July 12, 2022, with an effective date of July 19, 2022.

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

³ Total Purchases (application PWA Form 1 at 2)

524,763,000

North Shelby Water’s unaccounted-for water loss to 15 percent would result in an approximate \$3,301.88 decrease to purchased water expense.⁴ Potentially, North Shelby Water is paying approximately \$0.0077 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁵ The cost of North Shelby Water’s total water loss is \$204,146.20.⁶

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, 2022.⁷

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

Less Total Sales (application PWA Form 1 at 2)	430,501,900
Less Plant Use (2.716% determined from 2021 Annual Report)	14,252,563
Water Loss – Gallons	80,008,537
Water Loss – Percent	15.2466%

⁴ Water loss above 15 percent is 0.2466 percent, potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,338,962.10 times water loss above 15 percent) equals \$3,301.88.

⁵ Potential purchased water expense reduction divided by sales (\$3,301.88/ (430,501,900/1,000)) equals \$0.0077 per 1,000 gallons.

⁶ Total water cost at new wholesale rate of \$1,338,962.10 times 15.2466 percent water loss equals \$204,146.20.

⁷ Case No. 2021-00249, *Electronic Purchased Water Adjustment Filing of North Shelby Water Company* (Ky. PSC July 19, 2021) (July 19, 2021 Final Order), ordering paragraph 5.

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, North Shelby Water has seen their depreciation reserve decrease and has been operating with a negative net income for two of the past five years¹⁰ and has decreased income from the previous year four of the past five years, which indicates that cash needs may have been supplemented by depreciation reserves. The Commission ordered North Shelby Water to file, 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, 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.¹¹ On July 14, 2022, North Shelby Water

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

⁹ Case No. 2019-00041, Nov. 22, 2019 Final Order.

¹⁰ *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).

¹¹ Case No, 2021-00249, July 19, 2021 Final Order.

tendered a request for an extension to file the ordered rate case in Case No. 2021-000149.¹² North Shelby Water's request is pending before the Commission in that case.

PWA Application

In its application, North Shelby Water proposed a purchased water adjustment factor of \$0.02 per 1,000 gallons. During the 12 months ended April 30, 2022, North Shelby Water purchased 128,570,000 gallons of water from Shelbyville, 329,576,000 gallons of water from Louisville Water, and 66,617,000 gallons of water from the Frankfort Plant Board. North Shelby Water made no water purchases from West Shelby District. During the same period, North Shelby Water sold 430,501,900 gallons of water. The increase in the cost of purchased water from Shelbyville is \$7,714.20, resulting in a purchased water adjustment factor of \$0.02 per 1,000 gallons. The purchased water adjustment factor of \$0.02 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 North Shelby Water on and after July 19, 2022. The rate 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.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.02 per 1,000 gallons is approved.
2. The rates proposed by North Shelby Water are approved.

¹² Case No, 2021-00249, Request for Extension to File ARF (filed July 14, 2022).

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 19, 2022.

4. Within 20 days of the date of service 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. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner

ENTERED
AUG 22 2022
rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00225 DATED AUG 22 2022

	Base Rate	New Rate	Change
<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

Increased water cost \$ 7,714.20

Increased water cost \$ 7,714.20

Divided by Gallons sold/1000 430,501,900

Purchased water adjustment factor \$ 0.0179 per 1,000 Gallons

or \$ 0.02 per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00225 DATED AUG 22 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

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