

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF MUHLENBERG)	2022-00231
COUNTY WATER DISTRICT NO. 3)	

ORDER

On August 2, 2022, Muhlenberg County Water District No. 3 (Muhlenberg District No. 3) tendered an application for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.015 and 807 KAR 5:068. On August 3, 2022, the Commission notified Muhlenberg District No. 3 that its application was rejected for certain deficiencies. On August 7, 2022, Muhlenberg District No. 3 submitted further documentation to correct the filing deficiencies, and the application was deemed filed as of August 7, 2022.

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 AND FINDINGS

Muhlenberg District No. 3 purchases water from the city of Central City (Central City). Central City notified Muhlenberg District No. 3 that its wholesale rate would increase from \$3.31 per 1,000 gallons to \$3.81 per 1,000 gallons, effective August 31, 2022.¹ Muhlenberg District No. 3 proposes to increase the water rates to its customers effective August 31, 2022, to reflect the increased cost of purchased water from Central City.

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 2021 Annual Report filed with the Commission, Muhlenberg District No. 3 reported a water loss of 18.2354 percent.² Muhlenberg District No. 3'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, Muhlenberg District No. 3's unaccounted-for water loss is 17.8430 percent for the updated period.³

¹ TFS 2022-00331 (Ky. PSC filed June 30, 2022); Central City submitted the tariff on June 30, 2022, and the tariff was accepted for filing by the Commission by letter dated August 23, 2022, with an effective date of August 31, 2022.

² *Annual Report of Muhlenberg District No. 3 to the Public Service Commission for the Year Ended December 31, 2021* at 58.

³ Total Purchases (application PWA Form 1 at 2)	139,751,800
Less Total Sales (application PWA Form 1 at 2)	112,810,700
Less Plant Use (% determined from 2021 Annual Report)	2,005,438
Water Loss – Gallons	24,935,662
Water Loss – Percent	17.8430%

Reduction of Muhlenberg District No. 3's unaccounted-for water loss to 15 percent would result in an approximate \$15,137.68 decrease to purchased water expense.⁴ Potentially, Muhlenberg District No. 3 is paying approximately \$0.1342 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁵ Muhlenberg District No. 3's total water loss expense equals \$95,005.83.⁶

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Muhlenberg District No. 3 to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Muhlenberg District No. 3 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, Muhlenberg District No. 3 most recent general base rate adjustment occurred in Case No. 2018-00346.⁷ Muhlenberg District No. 3's rates increased 26.1 percent, which generated an additional \$278,673 in annual revenue.

Based upon a review of the annual and audit reports filed with the Commission, Muhlenberg District No. 3 incurred net losses in 2017 through 2019, and net profits in

⁴ Water loss above 15% is 0.02843, potential purchased water expense reduction (Total water cost at new wholesale rate of \$532,454.36 times water loss above 15%) equals \$15,137.68.

⁵ Potential purchased water expense reduction divided by sales (\$15,137.68/ (112,810,700/1,000)) equals \$0.1342 per 1,000 gallons.

⁶ Total water cost at new wholesale rate of \$532,454.36 times 0.178430 (total water loss percentage) equals \$95,005.83.

⁷ Case No. 2018-00346, *Application of Muhlenberg County Water District #3 for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC Apr. 8, 2019), final Order April 8, 2019.

2020 and 2021. Muhlenberg District No. 3 has no debt and maintains a healthy cash position, indicating the utility is financially stable.

Purchase Water Rate Increase

In its application, Muhlenberg District No. 3 proposed a purchased water adjustment factor of \$0.62 per 1,000 gallons. During the 12 months ended May 31, 2022, Muhlenberg District No. 3 purchased 139,751,800 gallons of water from Central City, and sold 112,810,700 gallons of water to its customers. The increase in the cost of purchased water is \$69,876, resulting in a purchased water adjustment factor of \$0.62 per 1,000 gallons. In its application, Muhlenberg District No. 3 proposed to increase Wholesale Water rates by the purchased water adjustment factor of \$0.62 per 1,000 gallons, however, Muhlenberg District No. 3, currently has no approved Wholesale Water rate listed in its tariff on file with the Commission. Included as Appendix C to this Order, is a request for information, which will allow the Commission to determine whether Muhlenberg District No. 3 is in compliance with 807 KAR 5:068. It is settled law that a utility may not charge a rate that is not contained in its tariff.⁸ Muhlenberg District No. 3 should respond, by and through counsel, to the inquiries in Appendix C no later than September 30, 2022.

Based upon the case record, and being otherwise sufficiently advised, the Commission finds that the purchased water adjustment factor of \$0.62 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 Muhlenberg

⁸ See KRS 278.160. See also *Cincinnati Bell Telephone Co. v. Kentucky Public Service Com'n*, 223 S.W.3d 829, 837 (Ky. App. 2007).

District No. 3 on and after August 31, 2022. The water adjustment factor is supported by evidence of the increase in rates from Muhlenberg District No. 3's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015. Further, the Commission finds that additional information is needed to determine whether Muhlenberg District No. 3 is in compliance with 807 KAR 5:068 and KRS 278.160. On or before September 30, 2022, Muhlenberg District No. 3, by and through counsel, shall file its response to the request for information attached to this Order as Appendix C.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.62 per 1,000 gallons is approved.
2. The rates proposed by Muhlenberg District No. 3 are denied.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Muhlenberg District No. 3 on and after August 31, 2022.
4. Within 20 days of the date of entry of this Order, Muhlenberg District No. 3 shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. Muhlenberg District No. 3 shall respond, by and through counsel, to the inquiries in Appendix C no later than September 30, 2022.
6. This case shall remain open to determine whether the rates charged by Muhlenberg District No. 3 are in compliance with 807 KAR 5:068 and KRS 278.160.

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. 2022-00231 DATED SEP 02 2022

	Base Rate	New Rate	Increase
<u>Central City</u>			
Purchases in Gallons	139,751,800	139,751,800	
Wholesale rate	<u>\$ 3.31/1,000</u>	<u>\$ 3.81/1,000</u>	
	\$ 462,578.46	\$ 532,454.36	\$ 69,875.90
Increased water cost		\$ 69,875.90	
Increased water cost		\$ 69,875.90	
Divided by Gallons sold/1,000		<u>112,810,700</u>	
Purchased water adjustment factor		\$ 0.6194 per 1,000 Gallons	
		or \$ 0.62 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00231 DATED SEP 02 2022

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District No. 3. 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	2,000 Gallons	\$25.39	Minimum Bill
Next	8,000 Gallons	0.00838	Per Gallon
Next	10,000 Gallons	0.00801	Per Gallon
Next	30,000 Gallons	0.00754	Per Gallon
Over	50,000 Gallons	0.00719	Per Gallon

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00231 DATED SEP 02 2022

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO MUHLENBERG COUNTY WATER DISTRICT NO. 3

Muhlenberg County Water District No. 3 (Muhlenberg District No. 3), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested is due on September 30, 2022. The Commission directs Muhlenberg District No. 3 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Muhlenberg District No. 3 shall make timely amendment to any prior response if Muhlenberg District No. 3 obtains information that indicates the response was incorrect

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

when made or, though correct when made, is now incorrect in any material respect. For any request to which Muhlenberg District No. 3 fails or refuses to furnish all or part of the requested information, Muhlenberg District No. 3 shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Muhlenberg District No. 3 shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Application, Exhibit C. Explain whether Muhlenberg District No. 3 is charging any of its customers a wholesale rate. If so, provide the wholesale rate, the amount of water sold, and the total revenue received for the annually past five years and monthly for 2022.

2. Refer to the current tariff on file with the Commission, Original Sheet No. 4. Explain whether Item G, Wholesale Water Rate is a cancelled rate. If it is not a cancelled rate, explain the difference between the wholesale amount listed in the current tariff and the current wholesale amount listed in Exhibit C of the application.

7. Refer to Application, Exhibit C. Explain when the current wholesale rate was approved and when it went into effect. If not approved, explain how long the wholesale rate has been charged to customers.

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