

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF MUHLENBERG)	2022-00241
COUNTY WATER DISTRICT)	

ORDER

On August 2, 2022, Muhlenberg County Water District (Muhlenberg District) filed an application requesting 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 AND FINDINGS

Muhlenberg District purchases water from city of Central City (Central City) and Todd County Water District (Todd District). Central City notified Muhlenberg District 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 proposes to increase the water rates to its customers effective August 31, 2022, to reflect the increased cost of purchased water from Central City. There was no change in rates from Todd 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, Muhlenberg District reported a water loss of 20.3522 percent.² Muhlenberg District'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's unaccounted-for water loss is 18.8610 percent for the updated period.³ Reduction of Muhlenberg District's unaccounted-for water loss to 15 percent would result in an approximate \$67,831.21 decrease to purchased water expense.⁴ Potentially, Muhlenberg District is paying approximately \$0.1872 per 1,000 gallons sold for expenses

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

³ Total Purchases (application PWA Form 1 at 2)	460,380,900
Less Total Sales (application PWA Form 1 at 2)	362,406,200
Less Plant Use (% determined from 2021 Annual Report)	11,141,218
Water Loss – Gallons	86,833,482
Water Loss – Percent	18.8610%

⁴ Water loss above 15% is 0.03860; potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,757,285.22 times water loss above 15%) equals \$67,831.21.

associated with unaccounted-for water loss in excess of the 15 percent threshold.⁵ Muhlenberg District's total water loss expense equals \$331,441.57.⁶

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 to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Muhlenberg District 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 has not sought a general base rate adjustment since 2012.⁷ Muhlenberg District's only rate increases have occurred when a Muhlenberg supplier has increased its rates or as a result of financing a water improvement project. As a result, Muhlenberg District has avoided comprehensive review by the Commission of Muhlenberg District's financial records and operational structure for over ten 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.⁸ A key recommendation from that proceeding was that

⁵ Potential purchased water expense reduction divided by sales (\$67,831.21/ (362,406,200/1,000)) equals \$0.1872 per 1,000 gallons.

⁶ Total water cost at new wholesale rate of \$1,757,285.22 times 0.18861 (total water loss percentage) equals \$331,441.57.

⁷ Case No. 2012-00009, *Alternative Rate Adjustment Filing of Muhlenberg County Water District* (Ky. PSC Apr. 30, 2012), final Order.

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.

water districts 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 reports¹⁰ filed with the Commission, Muhlenberg District was profitable in four of the last five years, however, they did not fully fund depreciation reserves in any year.¹¹ Muhlenberg District's cash balance was \$2.3 million at the end of 2021.

Description / Year	Audited 2017	Audited 2018	Audited 2019	Audited 2020	Annual Report 2021
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$(120,303)	\$(81,389)	\$(174,176)	\$(97,283)	\$265,603
Add: Gain on Asset Sales (1)	(34,078)	(54,327)	(29,225)	(14,441)	(77,020)
Add: Excess of Pension / OPEB Expense Over Contributions	118,454	142,601	210,644	255,490	0
Adjusted Net Income / (Loss) before Contributions	\$(35,927)	\$6,885	\$7,243	\$143,766	\$188,583
Add: Depreciation Expense	547,318	535,198	505,323	501,421	476,000
Subtract: Principal Payments (2)	(395,000)	(345,000)	(345,000)	(290,000)	(295,000)
Cash Basis Income	\$116,391	\$197,083	\$167,566	\$355,187	\$369,583
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	749,241	830,091	1,035,413	1,128,432	1,553,061

⁹ See Case No. 2019-00041, Nov. 22, 2019 final Order.

¹⁰ *Audit Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2017; Audit Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2018; Audit Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2019; Audit Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2020; and Audit Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2021.*

¹¹ *Annual Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2017; Annual Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2018; Annual Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2019; Annual Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2020; and Annual Report of Muhlenberg District to the Public Service Commission for the Year Ended December 31, 2021.*

Restricted Funds - Sinking, Depreciation	909,638	895,120	881,443	784,629	769,812
Adjusted Cash Balances	<u>\$1,658,879</u>	<u>\$1,725,211</u>	<u>\$1,916,856</u>	<u>\$1,913,061</u>	<u>\$2,322,873</u>
Net Increase (Decrease) in Cash		<u>\$66,332</u>	<u>\$191,645</u>	<u>\$(3,795)</u>	<u>\$409,812</u>

Notes

- 1) Gains on asset dispositions are due to routine sales and replacement of District vehicles.
- 2) Principal payments decrease by \$175,000 in 2024 then decline to zero in 2028.

The lack of insight into Muhlenberg District’s financial records and the recurring underfunding of depreciation reserves leads the Commission to conclude that Muhlenberg District shall file an application for a general base rate adjustment or an alternative rate adjustment within one year of the entry date of this Order to ensure that its revenue is sufficient to support adequate and reliable service. In the alternative, on or before August 31, 2023, Muhlenberg District shall file a formal motion with detailed analysis of its rates and revenues, and a statement of the reasons why a rate case is not necessary. Any filing under KRS 278.023 or purchased water adjustments under KRS 278.015 does not relieve Muhlenberg District from this requirement.

Purchase Water Rate Increase

In its application, Muhlenberg District proposed a purchased water adjustment factor of \$0.64 per 1,000 gallons. During the 12 months ended May 31, 2022, Muhlenberg District purchased 458,811,000 gallons of water from Central City, 1,569,900 gallons of water from Todd District and sold 362,406,200 gallons of water to its customers. The increase in the cost of purchased water is \$229,405.50, resulting in a purchased water adjustment factor of \$0.64 per 1,000 gallons.

Based upon the case record, the Commission finds that the purchased water adjustment factor of \$0.64 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 District on and after August 31, 2022. The water adjustment factor is supported by evidence of the increase in rates from Muhlenberg District'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 \$0.64 per 1,000 gallons is approved.
2. The rates proposed by Muhlenberg District are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Muhlenberg District on and after August 31, 2022.
4. Within 20 days of the date of service of this Order, Muhlenberg District 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 August 31, 2023, Muhlenberg District 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 Muhlenberg District 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. 2022-00241 DATED AUG 30 2022

	Base Rate	New Rate	Increase
<u>Central City</u>			
Purchases in Gallons	458,811,000	458,811,000	
Wholesale rate	<u>\$ 3.31/1,000</u>	<u>\$ 3.81/1,000</u>	
	\$1,518,664.41	\$1,748,069.91	\$229,405.50
Increased water cost		\$229,405.50	
Increased water cost		\$229,405.50	
Divided by Gallons sold/1,000		<u>362,406,200</u>	
Purchased water adjustment factor		\$ 0.6330 per 1,000 Gallons	
		or \$ 0.64 per 1,000 Gallons	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00241 DATED AUG 30 2022

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District. 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	\$28.37	Minimum Bill
Next	8,000 Gallons	0.01037	Per Gallon
Next	10,000 Gallons	0.00971	Per Gallon
Next	30,000 Gallons	0.00906	Per Gallon
Over	50,000 Gallons	0.00840	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$59.48	Minimum Bill
Next	5,000 Gallons	0.01037	Per Gallon
Next	10,000 Gallons	0.00971	Per Gallon
Next	30,000 Gallons	0.00906	Per Gallon
Over	50,000 Gallons	0.00840	Per Gallon

1 1/2-Inch Meter

First	11,000 Gallons	\$121.01	Minimum Bill
Next	9,000 Gallons	0.00971	Per Gallon
Next	30,000 Gallons	0.00906	Per Gallon
Over	50,000 Gallons	0.00840	Per Gallon

2-Inch Meter

First	16,000 Gallons	\$169.54	Minimum Bill
Next	4,000 Gallons	0.00971	Per Gallon
Next	30,000 Gallons	0.00906	Per Gallon
Over	50,000 Gallons	0.00840	Per Gallon

3-Inch Meter

First	26,000 Gallons	\$262.69	Minimum Bill
Next	24,000 Gallons	0.00906	Per Gallon
Over	50,000 Gallons	0.00840	Per Gallon

4-Inch Meter

First	36,000 Gallons	\$353.27	Minimum Bill
Next	14,000 Gallons	0.00906	Per Gallon
Over	50,000 Gallons	0.00840	Per Gallon

Wholesale Rate

0.00591 Per Gallon

*Muhlenberg County Water District
301 Dean Road
P. O. Box 348
Greenville, KY 42345

*Craig Porter
Superintendent
Muhlenberg County Water District
301 Dean Road
P. O. Box 348
Greenville, KY 42345

*Jason Pennell
Kentucky Rural Water Association
Post Office Box 1424
1151 Old Porter Pike
Bowling Green, KENTUCKY 42102-1424