

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF SHARPSBURG)	2022-00273
WATER DISTRICT)	

ORDER

On August 16, 2022, Sharpsburg Water District (Sharpsburg District) 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 AND FINDINGS

Sharpsburg District purchases water from Bath County Water District (Bath District) and the city of Carlisle (Carlisle). Bath District notified Sharpsburg District that its wholesale rate would increase from \$3.88 per 1,000 gallons to \$3.89 per 1,000 gallons,

effective August 15, 2022.¹ Sharpsburg District proposes to increase the water rates to its customers effective August 15, 2022, to reflect the increased cost of purchased water from Bath District. Carlisle did not have a wholesale rate change.

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, Sharpsburg District reported a water loss of 23.06 percent.² Sharpsburg District's application provides updated purchase and sales information for August 2021 through July 2022. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2021 Annual Report, Sharpsburg District's unaccounted-for water loss is 19.29 percent for the updated period.³ Reduction of Sharpsburg District's unaccounted-for water loss to 15 percent would result in an approximate \$16,391.46 decrease to purchased water expense.⁴ Potentially, Sharpsburg District is paying approximately \$0.19 per 1,000 gallons sold for expenses associated with unaccounted-

¹ Case No. 2022-00239, *Electronic Purchased Water Adjustment Filing of Bath County Water District* (Ky. PSC Aug. 22, 2022).

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

³ Total Purchases (application PWA Form 1 at 2)	107,014,000
Less Total Sales (application PWA Form 1 at 2)	84,622,000
Less Plant Use (determined from 2021 Annual Report)	1,748,609
Water Loss – Gallons	20,643,391
Water Loss – Percent	19.2904%

⁴ Water loss above 15% is 4.2904%, potential purchased water expense reduction (Total water cost at new wholesale rate of \$382,049.80 times water loss above 15%) equals \$16,391.46.

for water loss in excess of the 15 percent threshold.⁵ The cost of Sharpsburg District's total water loss is \$73,697.41.⁶

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Sharpsburg District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Sharpsburg 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

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.⁷ 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.⁸

Sharpsburg District has not sought a general base rate adjustment since 2010.⁹ In Case No. 2021-00189,¹⁰ Sharpsburg District was ordered to file a rate application by

⁵ Potential purchased water expense reduction divided by sales (\$16,391.46/ (84,622,000/1,000)) equals \$0.19 per 1,000 gallons.

⁶ Total water cost at new wholesale rate of \$382,049.80 times 19.29% water loss equals \$73,697.41.

⁷ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

⁸ See Case No. 2019-00041, Nov. 22, 2019 final Order.

⁹ See Case No. 2010-00128, *Application of Sharpsburg Water District for an Adjustment of Water Rates* (Ky. PSC May 5, 2010).

¹⁰ See Case No. 2021-00189, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC May 27, 2021).

May 27, 2022. On May 5, 2022, Sharpsburg District filed a motion for extension of time to file for the rate adjustment.¹¹ On June 3, 2022,¹² the Commission denied the extension and ordered Sharpsburg District to file an application for a traditional adjustment in rates or an alternative rate adjustment as soon as possible. The Commission further stated in its order that failure to do so may result in the Commission assessing sanctions to Sharpsburg District. To date, Sharpsburg District has not filed an application for a rate adjustment.

As documented in annual and audit reports filed with the Commission, Sharpsburg District's financial performance reflects a continued decline, with net losses in each of the years 2017 through 2022 and negative cash basis income in two of the past five years.

Description / Year	Audited 2017	Audited 2018	Audited 2019	PSC Annual Report 2020	PSC Annual Report 2021
<i>Income</i>					
Net Income / (Loss) before Contributions	\$ (105,329)	\$ (61,982)	\$ (57,499)	\$ (56,948)	\$ (118,652)
Add: Depreciation Expense	133,872	133,871	133,814	133,791	133,792
Subtract: Principal Payments ()	(40,400)	(42,300)	(44,000)	(45,900)	(48,300)
Cash Basis Income	\$ (11,857)	\$ 29,589	\$ 32,315	\$ 30,943	\$ (33,160)
<i>Cash and Investments</i>					
Total Cash and Investments	\$ 439,522	\$ 455,896	\$ 487,036	\$ 504,370	\$ 404,130
Net Increase (Decrease) in Cash	\$ (4,736)	\$ 16,374	\$ 31,140	\$ 17,334	\$ (100,240)

¹¹ Case No. 2021-00189, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (filed May 5, 2022), motion for extension, Post Case Files.

¹² Case No. 2021-00189, *Electronic Purchased Water Adjustment Filing of Sharpsburg Water District* (Ky. PSC June 3, 2022).

Description / Year	Audited	Audited	Audited	PSC Annual Report	PSC Annual Report
	2017	2018	2019	2020	2021
<i>Selected Statistical Information</i>					
Customer Count	1,422	1,466	1,476	1,515	1,560
Gallons Sold	73,026	81,654	83,826	83,733	83,330
Water Loss Percentage	29.8666	17.8888	20.3487	19.4660	23.0600
System Use Percentage	6.2743	0.9885	1.6133	1.5600	1.6339

Due to Sharpsburg District’s continuing financial decline, the Commission finds that Sharpsburg District shall comply with the June 3, 2022 Order in Case No. 2021-00189. Sharpsburg District shall file an application as soon as possible 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, 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. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Sharpsburg District from this requirement.

Purchased Water Adjustment Factor

In its application, Sharpsburg District proposed a purchased water adjustment factor of \$0.01 per 1,000 gallons. During the 12 months ended July 31, 2022, Sharpsburg District purchased 87,768,000 gallons of water from Bath District and 19,246,000 gallons of water from Carlisle and sold 84,622,000 gallons of water to its customers. The increase in the cost of purchased water from Bath District is \$877.68, resulting in a purchased water adjustment factor of \$0.01 per 1,000 gallons. No rate changes occurred from Carlisle. The purchased water adjustment factor of \$0.01 per 1,000 gallons, as calculated in Appendix A and the rates as set forth in Appendix B to this Order are fair, just and reasonable and shall be approved for water service rendered by Sharpsburg District on

and after August 15, 2022, because the rates are supported by evidence of the increase in rates from Sharpsburg 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 \$0.01 per 1,000 gallons is approved.
2. The rates proposed by Sharpsburg District are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Sharpsburg District on and after August 15, 2022.
4. Within 20 days of the date of service of this Order, Sharpsburg District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. Sharpsburg 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 Sharpsburg 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. 2022-00273 DATED SEP 13 2022

	Base Rate	New Rate	Increase
<u>Bath District</u>			
Purchases	87,768,000	87,768,000	
Wholesale rate	<u>\$ 3.88/1000</u>	<u>\$ 3.89/1000</u>	
	\$340,539.84	\$341,417.52	\$ 877.68
Increased water cost			\$ 877.68
Increased water cost		\$ 877.68	
Divided by Gallons sold/1,000		<u>84,622,000</u>	
Purchased water adjustment factor		\$ 0.0104 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. 2022-00273 DATED SEP 13 2022

The following rates and charges are prescribed for the customers in the area served by Sharpsburg Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the 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	\$	26.92	Minimum Bill
Next	3,000	Gallons		0.00697	Per Gallon
Next	5,000	Gallons		0.00631	Per Gallon
Over	10,000	Gallons		0.00605	Per Gallon

1-Inch Meter

First	5,000	Gallons	\$	47.83	Minimum Bill
Next	5,000	Gallons		0.00631	Per Gallon
Over	10,000	Gallons		0.00605	Per Gallon

2-Inch Meter

First	16,000	Gallons	\$	115.68	Minimum Bill
Over	16,000	Gallons		0.00605	Per Gallon

Bulk Loading Station

			\$	0.00925	Per Gallon
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