

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF SIMPSON COUNTY)	2022-00390
WATER DISTRICT)	

ORDER

On November 18, 2022, Simpson County Water District (Simpson District) applied for approval to adjust its rates pursuant to the purchased water adjustment (PWA) 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 rates commensurate with the wholesale supplier. A water district is also authorized to pass through a decrease in a suppliers' wholesale rate through a PWA pursuant to 807 KAR 5:068, and a water district is required to decrease its rates commensurate with a decrease in a supplier's wholesale rate if the water district previously revised its rates pursuant to 807 KAR 5:068 to reflect a change in a supplier's wholesale rate.¹

When requesting a PWA based on a change in a suppliers' wholesale rate, a water district must file an application for a PWA, which must include, among other things, copy of the notice from the wholesale supplier showing the change in the wholesale rate and

¹ 807 KAR 5:068, Section 2(2).

a statement of the volume of purchased water used to calculate the rate adjustment.² The Commission shall approve or deny the application for a PWA by order within 30 days after the application is filed.³

DISCUSSION AND FINDINGS

Simpson District purchases water from White House Utility District (White House District). White House District notified Simpson District that its wholesale rate would decrease from \$2.8270 per 1,000 gallons to \$2.7120 per 1,000 gallons, effective January 1, 2023.⁴ Simpson District proposes to decrease the water rates to its customers effective January 1, 2023, to reflect the decreased cost of purchased water from White House District.

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, Simpson District reported a water loss of 16.8046 percent.⁵ Simpson District's application provides updated purchase and sales information for the period of October 2021 through

² See 807 KAR 5:068, Section 1(1) (defining what must be included in a purchase water adjustment application).

³ 807 KAR 5:068, Section 6; KRS 278.015.

⁴ Under Tennessee law, a utility district is a public corporation authorized to furnish certain utility services including water, wastewater, and natural gas. TCA § 7- 82-301. White House Utility District provides water and wastewater services to approximately 34,000 customers in Sumner, Robertson, and Davidson counties, Tennessee. Its principal offices are located in White House, Tennessee. It provides wholesale water service to Simpson District. Because the point of sale is in Tennessee and not Kentucky, the Commission does not regulate any aspect of the transaction.

⁵ *Annual Report of Simpson District to the Public Service Commission for the Year Ended December 31, 2021* (2021 Annual Report) at 57.

September 2022. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2021 Annual Report, Simpson District's unaccounted-for water loss is 15.3712 percent for the updated period.⁶ Reduction of Simpson District's unaccounted-for water loss to 15 percent would result in an approximate \$4,203.75 decrease to purchased water expense.⁷ Potentially, Simpson District is paying approximately \$0.012 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁸ The cost of Simpson District's total water loss is \$174,075.12.⁹

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

Financial Condition and Rates

Based on a review of Commission records, Simpson District has never sought a general base rate adjustment. Simpson District's only rate adjustments have occurred as a condition for federal financing of a construction project in accordance with KRS 278.023

⁶ Total Purchases (application PWA Form 1 at 2)	417,579,568
Less Total Sales (application PWA Form 1 at 2)	347,670,655
Less Plant Use (% determined from 2021 Annual Report)	5,722,093
Water Loss – Gallons	64,186,820
Water Loss – Percent	15.3712%

⁷ Water loss above 15% is 0.3712, potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,132,475.79 times water loss above 15%) equals \$4,203.75.

⁸ Potential purchased water expense reduction divided by sales (\$4,203.75/ (347,670,655/1,000)) equals \$0.012 per 1,000 gallons.

⁹ Total water cost at new wholesale rate of \$1,132,475.79 times 15.3712% water loss equals \$174,075.12.

or as a pass-through rate increase from a supplier in the form of a purchased water adjustment. 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. 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 adjust rates.¹⁰ 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.¹¹

Given that Simpson District has never sought a general base rate adjustment, the Commission still believes, as required by the March 24, 2021 Order in Case No. 2021-00014,¹² that Simpson District should file, on or before March 24, 2024, 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, 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 Simpson District from this requirement.

¹⁰ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

¹¹ See Case No. 2019-00041, Nov. 22, 2019 final Order.

¹² Case No. 2021-00014, *Electronic Application of the Simpson County Water District to Issue Securities in the Approximate Principal Amount of \$1,620,000 for the Purpose of Refunding and Reamortizing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Mar. 24, 2021).

Purchased Water Adjustment Factor

In its application, Simpson District proposed a purchased water adjustment factor of (\$0.13) per 1,000 gallons. During the 12 months ended September 2022, Simpson District purchased 417,579,568 gallons of water from White House District and sold 347,670,655 gallons of water to its customers. The decrease in the cost of purchased water from White House District is \$48,021.65, resulting in a purchased water adjustment factor of (\$0.13) per 1,000 gallons.

The purchased water adjustment factor of (\$0.13) 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 should be approved for water service rendered by Simpson District on and after January 1, 2023, because the rates are supported by evidence of the decrease in rates from Simpson District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with 807 KAR 5:068.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of (\$0.13) per 1,000 gallons is approved.
2. The rates proposed by Simpson District are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Simpson District on and after January 1, 2023.
4. Within 20 days of the date of service of this Order, Simpson 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 March 24, 2024, Simpson 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 Simpson District 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. 2022-00390 DATED DEC 16 2022

	Base Rate	New Rate	Change
<u>White House District</u>			
Purchases in Gallons	417,579,568	417,579,568	
Wholesale rate	<u>\$2.827/1,000</u>	<u>\$2.712/1,000</u>	
Sub-total	\$ 1,180,497.44	\$ 1,132,475.79	(\$ 48,021.65)

Decreased water cost	(\$ 48,021.65)
Divided by Gallon sold/1,000	<u>347,670,655</u>
Purchased water adjustment factor	(\$ 0.13812) per 1,000 gallons

or (\$ 0.13) per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00390 DATED DEC 16 2022

The following rates and charges are prescribed for the customers in the area served by Simpson 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	\$17.84 Minimum Bill
Next	8,000 Gallons	0.00645 Per Gallon
Next	190,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

3/4-Inch Meter

First	3,000 Gallons	\$24.85 Minimum Bill
Next	7,000 Gallons	0.00645 Per Gallon
Next	190,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

1-Inch Meter

First	5,000 Gallons	\$38.29 Minimum Bill
Next	5,000 Gallons	0.00645 Per Gallon
Next	190,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

1-1/2 Inch Meter

First	10,000 Gallons	\$77.12 Minimum Bill
Next	190,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

2-Inch Meter

First	16,000 Gallons	\$113.43 Minimum Bill
Next	184,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

3-Inch Meter

First	30,000 Gallons	\$223.99 Minimum Bill
Next	170,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

4-Inch Meter

First	50,000 Gallons	\$346.10 Minimum Bill
Next	150,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

6-Inch Meter

First	100,000 Gallons	\$650.31 Minimum Bill
Next	100,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

8-Inch Meter

First	160,000 Gallons	\$1,018.89 Minimum Bill
Next	40,000 Gallons	0.00578 Per Gallon
Next	400,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

10-Inch Meter

First	550,000 Gallons	\$3,158.80 Minimum Bill
Next	50,000 Gallons	0.00541 Per Gallon
Over	600,000 Gallons	0.00401 Per Gallon

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