

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF HENDERSON)	2023-00041
COUNTY WATER DISTRICT)	

ORDER

On February 4, 2023, Henderson County Water District (Henderson 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 rate 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

Henderson District purchases water from Henderson Water Utility, North System (Henderson North) and Henderson Water Utility, South System (Henderson South). Henderson Water Utility notified Henderson District that its wholesale rate would increase from \$3.2764 per 1,000 gallons to \$3.3035 per 1,000 gallons for Henderson North and decrease from \$3.6160 per 1,000 gallons to \$2.9548 per 1,000 gallons for Henderson South, effective March 1, 2023.⁴ Henderson District proposes to decrease the water rates to its customers effective March 31, 2023, to reflect the aggregate decreased cost of purchased water from Henderson Water Utility.

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, Henderson District reported a water loss of 21.7992 percent.⁵ Henderson District's application provides

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 Case No. 2023-00058, *Electronic Tariff Filing of Henderson Water Utility for Approval of a Shortened Notice Period Pursuant to KRS 278.180(1)* (Ky. PSC Feb. 20, 2023).

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

updated purchase and sales information for the period of January 2022 through December 2022. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2021 Annual Report, Henderson District's unaccounted-for water loss is 30.4473 percent for the updated period.⁶ Reduction of Henderson District's unaccounted-for water loss to 15 percent would result in an approximate \$254,448.94 decrease to purchased water expense.⁷ Potentially, Henderson District is paying approximately \$0.75 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁸ The cost of Henderson District's total water loss is \$501,529.92.⁹

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Henderson District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Henderson District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

⁶ Total Purchases (application PWA Form 1 at 2)	502,552,202
Less Total Sales (application PWA Form 1 at 2)	339,746,539
Less Plant Use (% determined from 2021 Annual Report)	9,861,011
Water Loss – Gallons	153,043,652
Water Loss – Percent	30.4473%

⁷ Water loss above 15% is .154473, potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,647,206.56 times water loss above 15%) equals \$254,448.94.

⁸ Potential purchased water expense reduction divided by sales (\$254,448.94/ (339,746,539/1,000)) equals \$0.7489 per 1,000 gallons.

⁹ Total water cost at new wholesale rate of \$1,647,206.56 times 0.304473% water loss equals \$501,529.92.

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.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

Henderson District has not sought a general base rate adjustment since 2013.¹² In Case No. 2022-00013, the Commission ordered Henderson District to file an application for a rate adjustment by February 10, 2023.¹³ On February 10, 2023, Henderson District filed a motion for extension of time to file for the rate adjustment.¹⁴

The Commission directs Henderson District to work diligently with its consultants to complete and file the application, and the Commission will determine if or what further actions need to be taken to account for Henderson District's significant oversight in not timely filing the rate adjustment application in compliance with the Commission Orders. The Commission puts Henderson District on notice that failure to timely file for a traditional adjustment in rates or an Alternative Rate Filing as soon as possible may result in sanctions to Henderson District and its officers, agents, and employees.

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. 2013-00154, *Application of Henderson County Water District for an Alternative Rate Filing Adjustment* (Ky. PSC Nov. 14, 2013).

¹³ Case No. 2022-00013, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (Ky. PSC Feb. 10, 2022), final Order.

¹⁴ Case No. 2022-00034, *Electronic Purchased Water Adjustment Filing of Henderson County Water District* (filed Feb. 10, 2023), motion for extension, Post Case Files.

Purchased Water Adjustment Factor

In its application, Henderson District proposed a purchased water adjustment factor of (\$0.04) per 1,000 gallons. During the 12 months ended December 31, 2022, Henderson District purchased 464,504,710 gallons of water from Henderson North, 38,146,492 gallons of water from Henderson South and sold 339,746,539 gallons of water to its customers. The increase in the cost of purchased water from Henderson North is \$12,588.08, and the decrease in the cost of purchased water from Henderson South is (\$25,222.26), totaling an aggregate decrease in purchased water of (\$12,634.38). The total decrease in purchased water resulting in a purchased water adjustment factor of (\$0.04) per 1,000 gallons.

The purchased water adjustment factor of (\$0.04) 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 Henderson District on and after March 31, 2023, because the rates are supported by evidence of the increase in rates from Henderson 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 (\$0.04) per 1,000 gallons is approved.
2. The rates proposed by Henderson District are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Henderson District on and after March 31, 2023.

4. Within 20 days of the date of service of this Order, Henderson District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

5. Henderson District shall file an application for a traditional adjustment in rates or an Alternative Rate Filing as soon as possible.

6. This case is closed and removed from the Commission's docket.

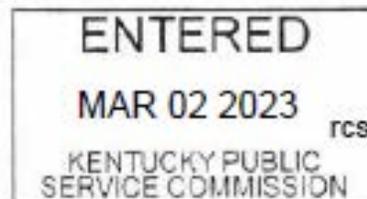
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PUBLIC SERVICE COMMISSION

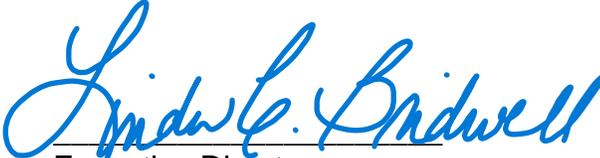

Chairman


Vice Chairman

Commissioner



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00041 DATED MAR 02 2023

	Base Rate	New Rate	Change
<u>Henderson North</u>			
Purchases in Gallons	464,504,710	464,504,710	
Wholesale rate	<u>\$3.2764/1,000</u>	<u>\$3.3035/1,000</u>	
Sub-total	\$ 1,521,903.23	\$ 1,534,491.31	\$ 12,588.08
<u>Henderson South</u>			
Purchases in Gallons	38,146,492	38,146,492	
Wholesale rate	<u>\$3.6160/1,000</u>	<u>\$2.9548/1,000</u>	
Sub-total	\$ 137,937.72	\$ 112,715.25	(\$ 25,222.46)
Total	\$ 1,659,840.95	\$ 1,647,206.56	

Decreased water cost	(\$ 12,634.38)
Divided by Gallon sold/1,000	<u>339,746,539</u>
Purchased water adjustment factor	(\$ 0.03719) per 1,000 gallons

or (\$ 0.04) per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00041 DATED MAR 02 2023

The following rates and charges are prescribed for the customers in the area served by Henderson 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	20.68	Minimum Bill
Next	8,000 Gallons	0.00765	Per Gallon
Next	20,000 Gallons	0.00712	Per Gallon
Over	30,000 Gallons	0.00659	Per Gallon

1-Inch Meter

First	5,000 Gallons	43.63	Minimum Bill
Next	5,000 Gallons	0.00765	Per Gallon
Next	20,000 Gallons	0.00712	Per Gallon
Over	30,000 Gallons	0.00659	Per Gallon

2-Inch Meter

First	16,000 Gallons	124.60	Minimum Bill
Next	14,000 Gallons	0.00712	Per Gallon
Over	30,000 Gallons	0.00659	Per Gallon

3-Inch Meter

First	30,000 Gallons	224.28	Minimum Bill
Over	30,000 Gallons	0.00659	Per Gallon

4-Inch Meter

First	50,000 Gallons	356.08	Minimum Bill
Over	50,000 Gallons	0.00659	Per Gallon

6-Inch Meter

First	100,000 Gallons	685.58	Minimum Bill
Over	100,000 Gallons	0.00659	Per Gallon

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