

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF EAST LAUREL	)	2023-00077
WATER DISTRICT	)	

ORDER

On March 6, 2023, East Laurel Water District (East Laurel 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

East Laurel District purchases water from Wood Creek Water District (Wood Creek District). Wood Creek District notified East Laurel District that its wholesale rate would increase from \$3.42 per 1,000 gallons to \$3.53 per 1,000 gallons, effective January 30,

2023.<sup>1</sup> East Laurel District proposes to increase the water rates to its customers effective March 1, 2023, to reflect the increased cost of purchased water from Wood Creek 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, East Laurel District reported a water loss of 13.6159 percent.<sup>2</sup> East Laurel District's application provides updated purchase and sales information for the period of February 2022 through January 2023. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2021 Annual Report, East Laurel District's unaccounted-for water loss is 16.105 percent for the updated period.<sup>3</sup> The percentage of plant use reported in the 2021 Annual Report for East Laurel District is abnormally high at 26.40 percent.<sup>4</sup> Reduction of East Laurel District's unaccounted-for water loss to 15 percent would result in an approximate \$19,838.24 decrease to purchased water

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<sup>1</sup> Case No. 2022-00145 *Electronic Application of Wood Creek Water District for a General Adjustment of Rates* (Ky. PSC Jan. 30, 2023), final Order.

<sup>2</sup> *Annual Report of East Laurel District to the Public Service Commission for the Year Ended December 31, 2021* (2021 Annual Report) at 57.

<sup>3</sup> Total Purchases (application PWA Form 1 at 2)	508,588,118
Less Total Sales (application PWA Form 1 at 2)	292,412,897
Less Plant Use (% determined from 2021 Annual Report)	134,267,772
Water Loss – Gallons	81,907,449
Water Loss – Percent	16.1049%

<sup>4</sup> 2021 Annual Report at 57. (Total Other Water Used, 133,960, divided by Total Water Purchased, 507,422 equals 26.40%).

expense.<sup>5</sup> Potentially, East Laurel District is paying approximately \$0.0678 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.<sup>6</sup> The cost of East Laurel District's total water loss is \$289,135.64.<sup>7</sup>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages East Laurel District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by East Laurel 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, East Laurel District has not sought a general base rate adjustment since 2006.<sup>8</sup> East Laurel District's only rate increases have occurred as a condition for federal financing of a construction project in accordance with KRS 278.023, or as a pass-through of supplier rate increases. 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. As a result, East Laurel District has avoided comprehensive review by the Commission of East Laurel District's financial records and operational structure for 17 years.

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<sup>5</sup> Water loss above 15% is 1.105%, potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,795,316 times water loss above 15%) equals \$19,838.24.

<sup>6</sup> Potential purchased water expense reduction divided by sales (\$19,838.24/ (292,412,897/1,000)) equals \$0.0678 per 1,000 gallons.

<sup>7</sup> Total water cost at new wholesale rate of \$1,795,316 times 16.105% water loss equals \$289,135.64.

<sup>8</sup> Case No. 2005-00476, *The Application of the East Laurel Water District for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC May 15, 2006), final Order.

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.<sup>9</sup> 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.<sup>10</sup>

As documented in annual reports and audited financial statements filed with the Commission, East Laurel District operated at a net income loss in 2020 and 2021 and did not fully fund depreciation in 2019, 2020, or 2021. In addition, East Laurel District reflects decreases in cash for the years of 2019 through 2021.

Description / Year	2017	2018	2019	2020	2021
<i>Adjusted Net Income</i>					
<b>Adjusted Net Income / (Loss) before Contributions</b>	<b>\$ 167,085</b>	<b>\$ 130,546</b>	<b>\$ 38,988</b>	<b>\$ (136,478)</b>	<b>\$ (120,062)</b>
Add: Depreciation Expense	234,963	238,011	240,016	233,492	235,444
Subtract: Principal Payments ( )	(123,000)	(93,500)	(94,000)	(100,000)	(100,500)
<b>Cash Basis Income</b>	<b>\$ 279,048</b>	<b>\$ 275,057</b>	<b>\$ 185,004</b>	<b>\$ (2,986)</b>	<b>\$ 14,882</b>
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 427,700	\$ 438,549	\$ 388,211	\$ 160,571	\$ 137,439
Restricted Funds (exclude construction funds from bond proceeds)	128,340	132,806	143,704	150,346	156,621
Adjusted Cash Balances	\$ 556,040	\$ 571,355	\$ 531,915	\$ 310,917	\$ 294,060
Net Increase (Decrease) in Cash		\$ 15,315	\$ (39,440)	\$ (220,998)	\$ (16,857)
Revenue from Water Sales	\$ 2,749,559	\$ 2,779,405	\$ 2,827,754	\$ 2,830,947	\$ 2,908,784
Purchased Water Expense	1,533,720	1,534,986	1,595,658	1,655,824	1,735,385
Purchased Water Expense Over 15% Water Loss	0	233,542	0	0	0
Water Loss Expense Over 15% as Percentage of Total Revenue	0.00%	8.40%	0.00%	0.00%	0.00%

The lack of insight into East Laurel District's financial records leads the Commission to conclude that East Laurel District should file an application for a general base rate adjustment or an alternative rate adjustment by September 1, 2024, to ensure that its revenue is sufficient to support adequate and reliable service.

<sup>9</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

<sup>10</sup> See Case No. 2019-00041, Nov. 22, 2019 final Order.

### Purchased Water Adjustment Factor

In its application, East Laurel District proposed a purchased water adjustment factor of \$0.20 per 1,000 gallons. During the 12 months ended January 31, 2023, East Laurel District purchased 508,588,118 gallons of water from Wood Creek District and sold 292,412,897 gallons of water to its customers. The increase in the cost of purchased water from Wood Creek District is \$55,944.70, resulting in a purchased water adjustment factor of \$0.20 per 1,000 gallons.

The purchased water adjustment factor of \$0.20 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 East Laurel District on and after March 1, 2023, because the rates are supported by evidence of the increase in rates from East Laurel District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

On or before September 1, 2024, East Laurel District should file an application for a general rate adjustment pursuant to 807 KAR 5:001E, 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.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.20 per 1,000 gallons is approved.
2. The rates proposed by East Laurel District are approved.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by East Laurel District on and after March 1, 2023.

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

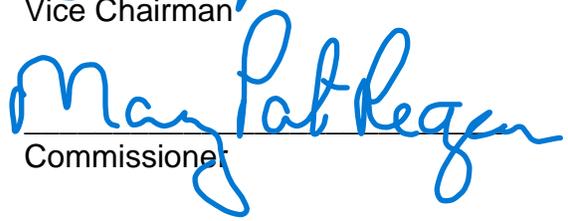
5. On or before September 1, 2024, East Laurel District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001E, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, file a formal motion with a detailed analysis 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 East Laurel 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. 2023-00077 DATED APR 05 2023

	Base Rate	New Rate	Change
<u>Wood Creek District</u>			
Purchases in Gallons	508,588,118	508,588,118	
Wholesale rate per gallon	<u>\$ 0.00342</u>	<u>\$0.00353</u>	
Sub-total	\$ 1,739,371.36	\$1,795,316.06	
Total	\$ 1,739,371.36	\$1,795,316.06	\$ 55,944.70

Increased water cost	\$ 55,944.70
Divided by Gallon sold/1,000	<u>292,412,897</u>
Purchased water adjustment factor	\$ 0.1913 per 1,000 gallons
	\$0.0001913 per gallon

or \$ 0.20 per 1,000 gallons  
\$0.00020 per gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2023-00077 DATED APR 05 2023

The following rates and charges are prescribed for the customers in the area served by East Laurel 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	\$21.61	Minimum Bill
Next	2,000 Gallons	0.00857	Per Gallon
Next	2,000 Gallons	0.00833	Per Gallon
Next	4,000 Gallons	0.00755	Per Gallon
Over	10,000 Gallons	0.00690	Per Gallon

1-Inch Meter

First	6,000 Gallons	\$55.41	Minimum Bill
Next	4,000 Gallons	0.00755	Per Gallon
Over	10,000 Gallons	0.00690	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$154.61	Minimum Bill
Over	20,000 Gallons	0.00690	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$223.61	Minimum Bill
Over	30,000 Gallons	0.00690	Per Gallon

Wholesale Rate

All Water purchased		0.00507	Per Gallon
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