

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF SOUTH EASTERN)	2024-00005
WATER ASSOCIATION, INC.)	

ORDER

On January 18, 2024, South Eastern Water Association, Inc. (South Eastern Water) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 and 807 KAR 5:068.

LEGAL STANDARD

In accordance with KRS 278.012, when a wholesale supplier selling water to a water association increases its rates, the water association has the authority to increase its rate commensurate with the wholesale supplier. The water association must file, within the statutory and regulatory deadlines, 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

South Eastern Water purchases water from the city of Somerset (Somerset). Somerset notified South Eastern Water that its wholesale rate would increase from \$2.50

per 1,000 gallons to \$2.80 per 1,000 gallons, effective January 25, 2024.¹ South Eastern Water proposes to increase the water rates to its customers effective February 18, 2024, to reflect the increased cost of purchased water from Somerset.

Unaccounted-for Water Loss and System Use

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 2022 Annual Report filed with the Commission, South Eastern Water reported a water loss of 14.9329 percent² and water system usage of 24.11 percent.³ In South Eastern Water's most recent alternative rate adjustment,⁴ the Commission encouraged the utility "to pursue reasonable actions to reduce its system use".⁵ South Eastern Water's application provides updated purchase and sales information for the period of November 2022 through October 2023. Based upon the updated information in the application and the percentage of other water consumed by the utility according to its 2022 Annual Report, South Eastern Water's unaccounted-for water loss is 17.38 percent

¹ Case No. 2024-00007, *Electronic Tariff Filing of the City of Somerset Water Service to Increase the Wholesale Rate Charged to South Eastern Water Association and Western Pulaski County Water District* (Ky. PSC Jan. 24, 2024), Order. Somerset submitted the tariff on December 21, 2023, with an effective date of January 25, 2024.

² *Annual Report of South Eastern Water to the Public Service Commission for the Year Ended December 31, 2022* (2022 Annual Report) at 57.

³ 2022 Annual Report at 57; Total Other Water Used divided by Total Produced and Purchased (137,118 gallons / 568,738 gallons = 24.11%).

⁴ Case No. 2021-00126, *Electronic Application of South Eastern Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 17, 2021), final Order.

⁵ Case No. 2021-00126, Sept. 17, 2021 final Order at 4.

for the updated period.⁶ Reduction of South Eastern Water’s unaccounted-for water loss to 15 percent would result in an approximate \$34,728 decrease to purchased water expense.⁷ Potentially, South Eastern Water is paying approximately \$0.10 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁸ The cost of South Eastern Water’s total water loss is approximately \$253,602.⁹

At the time of South Eastern Water’s last rate case, the Commission noted that according to South Eastern Water’s 2019 Annual Report, Total Other Water Used was reported to be 160,984,000 gallons, or 27.61 percent of the water purchased by South Eastern Water.¹⁰ The Commission noted that this represented \$424,917 of purchased water expense that was not recovered through customer sales.¹¹ The Commission continues to be very concerned about the amount of water South Eastern Water uses in the operation of its system. Accordingly, the Commission finds that South Eastern Water should respond to the Request for Information, which is attached to this Order as Appendix C.

6 Total Purchases (application PWA Form 1 at 2)	583,664,780
Less Total Sales (application PWA Form 1 at 2)	341,529,193
Less Plant Use (% determined from 2022 Annual Report)	140,716,909
Water Loss – Gallons	101,418,678
Water Loss – Percent	17.38%

⁷ Water loss above 15% is 2.38%, potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,459,161.95 times water loss above 15%) equals \$34,728.05.

⁸ Potential purchased water expense reduction divided by sales (\$34,728.05/ (341,529,193/1,000)) equals \$0.10 per 1,000 gallons.

⁹ Total water cost at new wholesale rate of \$1,459,161.95 times 17.38% water loss equals \$253,602.35.

¹⁰ Case No. 2021-00126, Sept. 17, 2021 final Order at 4.

¹¹ Case No. 2021-00126, Sept. 17, 2021 final Order at 4.

Financial Condition and Rates

As previously stated, South Eastern Water most recent alternative rate adjustment is Case No. 2021-00126.¹² South Eastern Water's rates increased by 6.39 percent, or \$263,372. South Eastern Water has filed two Certificate of Public Convenience and Necessity (CPCN) cases since its rate case closed on September 17, 2021.¹³ On August 30, 2022, South Eastern Water received approval from the Commission to construct a customer service and operations facility,¹⁴ and the most recent case filed on October 31, 2023, by South Eastern Water occurred as a condition for federal financing of a construction project in accordance with KRS 278.023.¹⁵ 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.

Based upon a review of the annual reports and audit reports filed with the Commission, South Eastern Water's net income has increased since its last alternative rate adjustment as shown below.

¹² Case No. 2021-00126, Sept. 17, 2021 final Order.

¹³ Case No. 2021-00222, *Electronic Application of South Eastern Water Association, Inc. for Commission Approval Pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Public Convenience and Necessity to Deploy an Advanced Metering Infrastructure (AMI) System* (Ky. PSC Aug. 12, 2021); Case No. 2022-00065, *Electronic Application of South Eastern Water Association, Inc. for Commission Approval Pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Public Convenience and Necessity to Construct a Customer Service and Operations Facility* (Ky. PSC Aug. 30, 2022); and Case No. 2023-00353, *Electronic Application of The South Eastern Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Nov. 30, 2023).

¹⁴ Case No. 2022-00065, *Electronic Application of South Eastern Water Association, Inc. for Commission Approval Pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Public Convenience and Necessity to Construct a Customer Service and Operations Facility* (Ky. PSC Aug. 20, 2022).

¹⁵ Case No. 2023-00353, *Electronic Application Of The South Eastern Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Nov. 30, 2023).

Description / Year	Audited 2018	Audited 2019	Audited 2020	Audited 2021	Audited 2022
Adjusted Net Income					
Net Income / (Loss) before Contributions	\$ (130,358)	\$ (24,614)	\$ 854,164	\$ 1,033,324	\$ 682,325
Adjusted Net Income / (Loss) before Contributions	\$ (130,358)	\$ (24,614)	\$ 854,164	\$ 1,033,324	\$ 682,325
Subtract: Principal Payments ()	(305,370)	(316,500)	(764,893)	(422,577)	(239,317)
Rate Based Income	\$ (435,728)	\$ (365,728)	\$ 89,271	\$ 610,747	\$ 443,008
Add: Depreciation Expense	980,038	986,238	1,006,192	1,130,581	1,138,309
Cash Basis Income	\$ 544,310	\$ 620,510	\$ 1,095,463	\$ 1,741,328	\$ 1,581,317
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 4,577,177	\$ 5,012,595	\$ 5,080,918	\$ 3,236,446	\$ 2,934,190
Restricted Funds (exclude construction funds from bond proceeds)	1,088,210	1,128,033	1,163,808	1,477,956	1,321,955
Adjusted Cash Balances	5,665,387	6,140,628	6,234,726	4,714,402	4,256,145
Net Increase (Decrease) in Cash		\$ 475,241	\$ 94,098	\$ (1,520,324)	\$ (458,257)
<i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	7,582	7,140	7,794	7,721	7,931
Gallons Purchased	604,455	583,095	527,654	524,138	568,738
Gallons Sold	305,233	312,531	317,641	331,236	346,691
Gallons Used for Internal Use	305,233	160,984	135,958	119,332	137,118
Water Loss Gallons	81,250	109,580	74,357	73,570	84,929
System Use Percentage	50.50%	27.61%	25.77%	22.77%	24.11%
Water Loss Percentage	13.44%	18.79%	14.09%	14.04%	14.93%
Per Cust Per Month Gallons	3,355	3,648	3,396	3,575	3,643
Revenue	\$ 4,065,548	\$ 4,099,805	\$ 4,156,230	\$ 4,382,177	\$ 4,613,098
Purchased Water Expense	1,508,658	1,452,694	1,313,081	1,373,820	1,443,078
Purchased Water Expense Over 15% Water Loss	0	55,098	0	0	0
Water Loss Expense Over 15% as Percentage of Total Revenue	0.00%	1.34%	0.00%	0.00%	0.00%

As the Commission noted in the final Order in Case No. 2023-00353¹⁶ the full impact of the rate increase approved in Case No. 2021-00126 is difficult to determine because of the lack of an audited financial statement for 2021. The Commission finds that to aid in its understanding of the effect of the rate adjustment on South Eastern Water's financial condition and to provide the Commission with insight into whether South Eastern Water's rates continue to be fair, just and reasonable, South Eastern Water should respond to the Request for Information attached to this Order as Appendix C.

Purchased Water Adjustment Factor

In its application, South Eastern Water proposed a purchased water adjustment factor of \$0.513 per 1,000 gallons. During the 12 months ended October 31, 2023, South

¹⁶ Case No. 2023-00353, Nov. 30, 2023 final Order at 4-5.

Eastern Water purchased 583,664,780 gallons of water from Somerset and sold 341,529,193 gallons of water to its customers. The increase in the cost of purchased water from Somerset is \$175,099.43, resulting in a purchased water adjustment factor of \$0.513 per 1,000 gallons.

The purchased water adjustment factor of \$0.513 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 South Eastern Water on and after February 18, 2024, because the rates are supported by evidence of the increase in rates from South Eastern Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.513 per 1,000 gallons is approved.
2. The rates proposed by South Eastern Water are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by South Eastern Water on and after February 18, 2024.
4. Within 20 days of the date of service of this Order, South Eastern Water 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 19, 2024, South Eastern Water shall respond, by and through counsel, to the inquiries in Appendix C.
6. This case shall remain open so that South Eastern Water may respond to the Commission's request for information in Appendix C.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ENTERED
FEB 15 2024 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00005 DATED FEB 15 2024

	Base Rate	New Rate	Change
<u>Somerset</u>			
Purchases in Gallons	583,664,780	583,664,780	
Rate per 1,000 Gallons	<u>\$2.50/1,000</u>	<u>\$2.80/1,000</u>	
Subtotal	\$1,459,161.95	\$1,634,261.38	\$175,099.43
Increased water cost			\$175,099.43
Increased water cost		\$175,099.43	
Divided by Gallons sold/1,000		<u>341,529,193</u>	
Purchased water adjustment factor		\$0.513	per 1,000 Gallons
		or \$ 0.000513	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00005 DATED FEB 15 2024

The following rates and charges are prescribed for the customers in the area served by South Eastern Water Association, Inc. 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	\$28.53	Minimum Bill
Over	2,000 Gallons	0.01244	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$65.86	Minimum Bill
Over	5,000 Gallons	0.01244	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$128.06	Minimum Bill
Over	10,000 Gallons	0.01244	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$252.50	Minimum Bill
Over	20,000 Gallons	0.01244	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$376.93	Minimum Bill
Over	30,000 Gallons	0.01244	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$625.79	Minimum Bill
Over	50,000 Gallons	0.01244	Per Gallon

6-Inch Meter

First	100,000 Gallons	\$1,247.94	Minimum Bill
Over	100,000 Gallons	0.01244	Per Gallon

Wholesale Rates

0.00444	Per Gallon
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APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00005 DATED FEB 15 2024

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO SOUTH EASTERN WATER ASSOCIATION, INC.

South Eastern Water Association, Inc. (South Eastern Water), pursuant to 807 KAR 5:001, shall file with the Commission an electronic version of the following information. The information requested is due on March 19, 2024. The Commission directs South Eastern Water to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

South Eastern Water shall make timely amendment to any prior response if South Eastern Water obtains information that indicates the response was incorrect or

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

incomplete when made or, though correct or complete when made, is now incorrect or incomplete in any material respect.

For any request to which South Eastern Water fails or refuses to furnish all or part of the requested information, South Eastern Water shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied and scanned material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, South Eastern Water shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the chart on page 5 above. Explain how South Eastern Water has utilized its cash basis income for the years 2020, 2021, and 2022, respectively, in the amounts of \$1,095,463, \$1,741,328 and \$1,581,317, respectively.

2. Explain how South Eastern anticipates using projected 2024 income, if any.

3. Refer to Case No. 2021-00126,² September 17, 2021 final Order at 3-4. Explain in detail the steps South Eastern Water has taken to reduce its system usage.

4. Provide any supporting documentation on how the steps that South Eastern Water has undertaken to reduce its system usage has resulted in water savings.

² Case No. 2021-00126, *Electronic Application of South Eastern Water Association, Inc. for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Sept. 17, 2021), final Order.

5. Explain whether South Eastern Water has undertaken a 2023 Audit. If not, explain why, and if so, provide the estimated completion date.

*Brenden R. Welch
P.E.
Kenvirons, Inc.
452 Versailles Road
Frankfort, KENTUCKY 40602

*Morris Vaughn
South Eastern Water Association, Inc.
147 East Somerset Church Road
Somerset, KY 42503

*South Eastern Water Association, Inc.
147 East Somerset Church Road
Somerset, KY 42503