

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|------------------------------------|---|------------|
| ELECTRONIC PURCHASED WATER |) | CASE NO. |
| ADJUSTMENT FILING OF HARDIN COUNTY |) | 2024-00319 |
| WATER DISTRICT NO. 1 |) | |

ORDER

On September 27, 2024, Hardin County Water District #1 (Hardin District #1) tendered an application requesting approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.015 and 807 KAR 5:068. On October 2, 2024, the Commission notified Hardin District #1 that its application was rejected for certain filing deficiencies. On October 3, 2024, Hardin District #1 submitted further documentation to correct the filing deficiencies, and the application was deemed filed as of October 3, 2024.

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, 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

Hardin District #1 purchases water from U.S. Treasury Garrison Resource Management (U.S. Treasury Garrison), Hardin County Water District #2 (Hardin District #2) and Louisville Water Company (Louisville Water). U.S. Treasury Garrison notified Hardin District #1 that its wholesale rate would increase from \$2.98 per 1,000 gallons to \$3.35 per 1,000 gallons, effective August 27, 2024.¹ Hardin District #2 notified Hardin District #1 that its wholesale rate would increase from \$2.20 per 1,000 gallons to \$2.89 per 1,000 gallons, effective July 29, 2024.² Louisville Water notified Hardin District #1 that its wholesale rate would increase from \$2.63 per 1,000 gallons to \$2.72 per 1,000 gallons, effective July 1, 2024.³ Hardin District #1 proposes to increase the water rates to its customers effective September 24, 2024, to reflect the increased cost of purchased water from U.S. Treasury Garrison, Hardin District #2, and Louisville Water.

Unaccounted-for Water Loss

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, Hardin District #1 reported a water loss of 3.7807 percent.⁴ In its 2022 Annual Report filed with the

¹ See Application, Exhibit_A1_Treasury_Wholesale_Water_Purchase_Agreement.pdf.

² Case No. 2023-00247, *Electronic Application of Hardin County Water District No. 2 for a General Adjustment of Rates* (Ky. PSC July 29, 2024), final Order.

³ TFS2024-00120 (Ky. PSC Mar. 27, 2024); Louisville Water submitted the tariff on March 27, 2024, and the tariff was accepted for filing by the Commission by letter dated June 20, 2024, with an effective date of July 1, 2024.

⁴ *Annual Report of Hardin District #1 to the Public Service Commission for the Year Ended December 31, 2021* at 57.

Commission, Hardin District #1 reported a water loss of 5.0326 percent.⁵ In its 2023 Annual Report filed with the Commission, Hardin District #1 reported a water loss of 2.8211 percent.⁶ Hardin District #1's three-year water loss average is 3.8781.⁷ The cost of Hardin District #1's total water loss using a three-year average is \$35,066.⁸

Financial Condition and Rates

Based upon a review of the annual and audit reports filed with the Commission, Hardin District #1's last rate adjustment arose due to an application for Certificate of Public Convenience and Necessity (CPCN) and federal financing approval addressed in Case No. 2022-00337,⁹ which increased rates 41.2 percent. Hardin District #1's last general rate case was filed in 2006; however, it adjusted rates in another federal finance case in 2017.¹⁰ Rate based income (adjusted net income minus principal payments) was

⁵ *Annual Report of Hardin District #1 to the Public Service Commission for the Year Ended December 31, 2022* at 57.

⁶ *Annual Report of Hardin District #1 to the Public Service Commission for the Year Ended December 31, 2023* at 57.

⁷ $(2021)3.7807\% + (2022)5.0326\% + (2023)2.8211\% = 11.6344 / 3 \text{ years} = 3.8781 \text{ percent.}$

⁸ Total water cost at new wholesale rate of \$904,207.17 times 3.8781% water loss equals \$35,066.06.

⁹ Case No. 2022-00337, *Electronic Application of Hardin County Water District #1 for a Certificate of Public Convenience and Necessity Authorizing the Construction of Additions and Improvements to its Water System, Approval of Revised Water Service Rates and Charges, and Authorizing the Issuance of Certain Securities Pursuant to the Provisions of KRS 278.023 and 807 KAR 5:069* (Ky. PSC Nov. 7, 2022), final Order.

¹⁰ Case No. 2017-00144, *Application of Hardin County Water District No. 1 for: (1) A Certificate of Public Convenience and Necessity Authorizing Construction of Additions and Improvements to its Water System; (2) Approval of Revised Water Service Rates and Charges; and (3) Authorizing the Issuance of Certain Securities Pursuant to the Provisions of KRS 278.023 and 807 KAR 5:069* (Ky. PSC Apr. 17, 2017), final Order.

positive in years 2019, 2021, 2022 and 2023 .¹¹ Cash basis income (rate based income plus depreciation expense) was positive in the five year period 2019 through 2023.

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.¹² 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.¹³ Accordingly, the Commission recommends Hardin District #1 monitor its operating performance annually to determine whether a rate adjustment application should be submitted. Future rate cases should be filed at least every three to five years to ensure that the Commission has appropriate oversight of a utility's rate analysis.

Purchased Water Adjustment Factor

In its application, Hardin District #1 proposed a purchased water adjustment factor of \$0.05 per 1,000 gallons. During the 12 months ended August 31, 2024, Hardin District #1 produced 1,044,893,000 gallons of water and purchased 1,480,000 gallons of water from U.S. Treasury Garrison, 57,125,000 gallons of water from Hardin District #2, and 269,911,000 gallons of water from Louisville Water. Hardin District #1 sold 1,284,884,900 gallons of water to its customers. The increase in the cost of purchased

¹¹ *Audit Report of Hardin County Water District #1 to the Public Service Commission for Year Ended December 31, 2019; Audit Report of Hardin County Water District #1 to the Public Service Commission for Year Ended December 31, 2020; Audit Report of Hardin County Water District #1 to the Public Service Commission for Year Ended December 31, 2021; Audit Report of Hardin County Water District #1 to the Public Service Commission for Year Ended December 31, 2022; and Audit Report of Hardin County Water District #1 to the Public Service Commission for Year Ended December 31, 2023.*

¹² See Case No. 2019-00041, Nov. 22, 2019 final Order.

¹³ See Case No. 2019-00041, Nov. 22, 2019 final Order.


water from U.S. Treasury Garrison, Hardin District #2, and Louisville Water is \$64,259.14, resulting in a purchased water adjustment factor of \$0.05 per 1,000 gallons.

The purchased water adjustment factor of \$0.05 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 should be approved for water service rendered by Hardin District #1 on and after September 24, 2024, because the rates are supported by evidence of the increase in rates from Hardin District #1's wholesale water suppliers and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

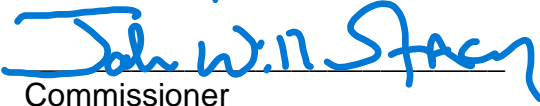
IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.05 per 1,000 gallons is approved.
2. The rates proposed by Hardin District #1 are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Hardin District #1 on and after September 24, 2024.
4. Within 20 days of the date of service of this Order, Hardin District #1 shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ENTERED
NOV 01 2024
KENTUCKY PUBLIC SERVICE COMMISSION ^{rCS}

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00319 DATED NOV 01 2024

| | Base Rate | New Rate | Change |
|--|-----------------------|----------------------|-------------------|
| <u>U.S. Treasury Garrison Resource</u> | | | |
| Purchases in Gallons | 1,480,000 | 1,480,000 | |
| Rate per 1,000 Gallons | <u>\$2.9777/1,000</u> | <u>\$3.35/1,000</u> | |
| Subtotal | \$4,407.10 | \$4,958.00 | \$550.90 |
| <u>Hardin District #2</u> | | | |
| Purchases in Gallons | 57,125,000 | 57,125,000 | |
| Rate per 1,000 Gallons | <u>\$2.20/1,000</u> | <u>\$2.89/1,000</u> | |
| Subtotal | \$125,675.00 | \$165,091.25 | \$39,416.25 |
| <u>Louisville Water</u> | | | |
| Purchases in Gallons | 269,911,000 | 269,911,000 | |
| Rate per 1,000 Gallons | <u>\$2.63/1,000</u> | <u>\$2.72/1,000</u> | |
| Subtotal | \$709,865.93 | \$734,157.92 | \$24,291.99 |
| Total | \$839,948.03 | \$904,207.17 | \$64,259.14 |
| Increased water cost | | \$64,259.14 | |
| Divided by Gallons sold/1,000 | | <u>1,284,884,900</u> | |
| Purchased water adjustment factor | | \$0.0500 | per 1,000 Gallons |
| | | or \$ 0.00005 | per Gallon |

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00319 DATED NOV 01 2024

The following rates and charges are prescribed for the customers in the area served by Hardin County Water District #1. 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.

All Meters

| | | | |
|----------------|----------------|---------|------------|
| First | 15,000 Gallons | 0.00757 | Per Gallon |
| Over | 15,000 Gallons | 0.00546 | Per Gallon |
| Wholesale rate | | 0.00340 | Per Gallon |

*Justin Metz
Interim General Manager
Hardin County Water District #1
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Radcliff, KY 40160

*Richard Shufelt
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