

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF EAST LOGAN WATER)	2024-00400
DISTRICT)	

ORDER

On December 27, 2024, East Logan Water District, Inc. (East Logan District) 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 January 9, 2025, the Commission notified East Logan District that its application was rejected for certain filing deficiencies. On January 11, 2025, East Logan District submitted further correspondence to explain the application. Upon further review of the initial filing, the application as submitted was deemed filed as of December 27, 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

East Logan District purchases water from Logan-Todd Regional Water Commission (Logan-Todd Regional). Logan-Todd Regional notified East Logan District that its wholesale rate would increase from \$3.33 per 1,000 gallons to \$3.36 per 1,000 gallons, effective January 1, 2025. East Logan District proposes to increase the water rates to its customers effective January 1, 2025, to reflect the increased cost of purchased water from Logan-Todd Regional.

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, East Logan District reported a water loss of 26.0989 percent.¹ In its 2022 Annual Report filed with the Commission, East Logan District reported a water loss of 23.9213 percent.² In its 2023 Annual Report filed with the Commission, East Logan District reported a water loss of 25.6679 percent.³ East Logan District's three-year water loss average is 25.2294.⁴ The

¹ *Annual Report of East Logan District to the Public Service Commission for the Year Ended December 31, 2021* (2021 Annual Report) at 57.

² *Annual Report of East Logan District to the Public Service Commission for the Year Ended December 31, 2022* (2022 Annual Report) at 57.

³ *Annual Report of East Logan District to the Public Service Commission for the Year Ended December 31, 2023* (2023 Annual Report) at 57.

⁴ $26.0989\% + 23.9213\% + 25.6679\% = 75.6881 / 3 \text{ years} = 25.2294 \text{ percent.}$

approximate cost of East Logan District's total water loss using a three-year average is \$268,685.⁵

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold.⁶ As ordered in Case No. 2021-00063, East Logan District currently provides the Commission with quarterly reports concerning its water loss, the accompanying surcharge, and the status of capital improvements intended to address excess water loss.⁷

Financial Condition and Rates

Based on a review of Commission records, East Logan District has not sought a general base rate adjustment or an alternative rate adjustment since 2003.⁸ East Logan District's only rate increases have occurred as a condition for federal financing of a construction project in accordance with KRS 278.023 or in review of the nonrecurring charges.⁹ 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 Logan District has avoided comprehensive review by the Commission of its financial records and operational structure for more than 20 years.

⁵ Total water cost at new wholesale rate of \$1,064.968.80 times 25.2294% water loss equals \$268,685.

⁶ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

⁷ Case No. 2021-00063, *Electronic Investigation into East Logan Water District, Inc. Water Loss* (Ky. PSC Nov. 30, 2021), Order.

⁸ Case No. 2003-00062, *Application of the East Logan Water District for Approval of a Proposed Increase in Rates for Water Service* (Ky. PSC May 2, 2003), final Order.

⁹ Case No. 2008-00201, *The Application of East Logan Water District for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023* (Ky. PSC June 27, 2008), and Case No. 2007-00046, *Application of East Logan Water District to Increase Certain Non-Recurring Charges* (Ky. PSC Mar. 13, 2007).

In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities 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

As documented in annual and audit reports filed with the Commission, East Logan District reflected positive Rate-Based Income (adjusted net income minus principal payments). However, East Logan District's average water loss of 26.04 percent and the associated cost of covering excess water losses averaging 5.35 percent of revenues are significant factors that affect its financial stability. Additionally, East Logan District's most recent rate review occurred many years ago, and the Commission notes that a current rate review would reduce the 2023 revenue amount by approximately \$112,000 due to excess water loss. Potential adjustments to depreciation are uncertain. This issue, combined with the long gap since a full rate review and the ongoing requirement for quarterly reports as outlined in Case No. 2021-00063,¹² leads the Commission to conclude that East Logan District should file an application for a general base rate adjustment or an alternative rate adjustment by August 30, 2025, based on the 2024 test year 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 explaining the reasons why no modifications are necessary.

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 See Case No. 2021-00063, Nov. 20, 2021 Order.

Purchased Water Adjustment Factor

In its application, East Logan District proposed a purchased water adjustment factor of \$0.05 per 1,000 gallons. During the 12 months ended October 31, 2024, East Logan District purchased 316,955,000 gallons of water from Logan-Todd Regional and sold 234,031,900 gallons of water to its customers. The increase in the cost of purchased water from Logan-Todd Regional is \$9,508.65, resulting in a purchased water adjustment factor of \$0.05 per 1,000 gallons. East Logan District provided schedules for Current and Proposed Rates,¹³ in which there were several errors. The current rate for a 3-Inch Meter, First 30,000 gallons was listed as \$221.06 Minimum Bill instead of the correct amount of \$221.05 Minimum Bill. The proposed rate for Leak Adjustment was listed as \$3.36 per 1,000 gallons which, based upon the proper method of calculating the rate, is incorrect.¹⁴ The minimum gallons and the volumetric gallons for the 8-Inch Meter were incorrectly listed as “First 160,000 Gallons” and “Over 160,000 Gallons” rather than the correct amount of 150,000 Gallons, for each tier.¹⁵ East Logan subsequently submitted a revised schedule of Current and Proposed Rates,¹⁶ which also contained errors. The errors in the revised schedule included not addressing the incorrect rate for the 3-Inch Meter in the initial notice, and the Proposed Rate for a 3-Inch Meter, First 30,000 gallons, Minimum Bill is listed incorrectly as \$222.56, instead of the

¹³ Application, Exhibit C.

¹⁴ \$3.33 per 1,000 gallons (current rate) plus \$0.05 per 1,000 gallons (PWA factor) equals \$3.38 per 1,000 gallons.

¹⁵ Application, Exhibit C.

¹⁶ Response to Notice of Filing Deficiency and Motion to Substitute a Revised Schedule of Current and Proposed Rates, (filed Jan. 11, 2025), Revised Exhibit C.

correct rate of \$222.55.¹⁷ The error for the 8-Inch Meter was also not corrected in the revised schedule.¹⁸

Pursuant to the errors detailed above, rates proposed by East Logan District should be denied. The purchased water adjustment factor of \$0.05 per 1,000 gallons, as calculated in Appendix A to this Order, 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 East Logan District on and after January 1, 2025, because the rates are supported by evidence of the increase in rates from East Logan 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 August 30, 2025, East Logan District should 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.

IT IS THEREFORE ORDERED that:

1. The rates proposed by East Logan District are denied.
2. The purchased water adjustment factor of \$0.05 per 1,000 gallons, as calculated in Appendix A to this Order, is approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by East Logan District on and after January 1, 2025.

¹⁷ \$221.05 for 30,000 gallons plus (\$0.05 per 1,000 gallons x 30)\$1.50 equals \$222.55.

¹⁸ Response to Notice of Filing Deficiency and Motion to Substitute a Revised Schedule of Current and Proposed Rates, (filed Jan. 11, 2025), Revised Exhibit C.

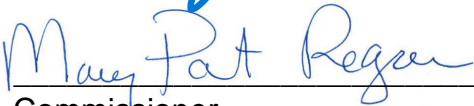
4. Within 20 days of the date of service of this Order, East Logan District shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

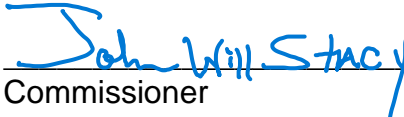
5. On or before August 30, 2025, East Logan District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, file a formal motion with a detailed analysis of its 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 East Logan District from this requirement.

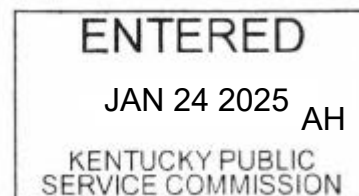
6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner



ATTEST:


Executive Director 

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00400 DATED JAN 24 2025

	Base Rate	New Rate	Change
<u>Logan Todd Regional Water Commission</u>			
Purchases in Gallons	316,955,000	316,955,000	
Rate per 1,000 Gallons	<u>\$3.33/1,000</u>	<u>\$3.36/1,000</u>	
Subtotal	\$1,055,460.15	\$1,064,968.80	\$9,508.65
Total	\$1,055,460.15	\$1,064,968.80	
Increased water cost			\$9,508.65
Increased water cost		\$9,508.65	
Divided by Gallons sold/1,000		<u>234,031,900</u>	
Purchased water adjustment factor		\$0.05	per 1,000 Gallons
		or \$ 0.00005	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00400 DATED JAN 24 2025

The following rates and charges are prescribed for the customers in the area served by East Logan Water District, 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-Inch Meter

First	2,000 Gallons	\$21.77	Minimum Bill
Next	2,000 Gallons	0.01033	Per Gallon
Next	2,000 Gallons	0.00990	Per Gallon
Next	4,000 Gallons	0.00868	Per Gallon
Over	10,000 Gallons	0.00628	Per Gallon

1-Inch Meter

First	4,000 Gallons	\$42.43	Minimum Bill
Next	2,000 Gallons	0.00990	Per Gallon
Next	4,000 Gallons	0.00868	Per Gallon
Over	10,000 Gallons	0.00628	Per Gallon

1 1/2-Inch Meter

First	6,000 Gallons	\$62.23	Minimum Bill
Next	4,000 Gallons	0.00868	Per Gallon
Over	10,000 Gallons	0.00628	Per Gallon

2-Inch Meter

First	10,000 Gallons	\$96.95	Minimum Bill
Over	10,000 Gallons	0.00628	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$222.55	Minimum Bill
Over	30,000 Gallons	0.00628	Per Gallon

4-Inch Meter

First	50,000 Gallons	\$348.15	Minimum Bill
Over	50,000 Gallons	0.00628	Per Gallon

6-Inch Meter

First	100,000 Gallons	\$662.15	Minimum Bill
Over	100,000 Gallons	0.00628	Per Gallon

8-Inch Meter

First	150,000 Gallons	\$976.15	Minimum Bill
Over	150,000 Gallons	0.00628	Per Gallon

Leak Adjustment

0.00338	Per Gallon
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