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## NEWS RELEASE

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### **PSC Grants Rate Adjustment to Hyden-Leslie County Water District**

Approves two-year phased in rates; establishes surcharge to address water loss problems; eliminates customer late penalties

**Frankfort, KY (Nov. 6, 2020)**—The Kentucky Public Service Commission (PSC) has approved an adjustment to the rates of Hyden-Leslie County Water District. Hyden-Leslie District was a party to the case the PSC initiated last year to investigate water utilities with persistent levels of high water loss. From that case (No. 2019-00041), Hyden-Leslie was ordered to evaluate its needs for more frequent base rate increases. The District's last application for a base rate increase was in 1978. On May 7, 2020, Hyden-Leslie filed an application to adjust its water rates in accordance with the PSC's requirement.

Given more than 40 years had passed since the District's last base rate adjustment, the revenue increase necessary to support viable utility operations in the provision of service to customers is significant. Hyden-Leslie had proposed a revenue increase of around 70 percent, with adjusted rates to be phased in over a two-year period. Based on the PSC's analysis in this and related proceedings, the approved revenue increase is 74.27 percent. The PSC agreed to a two-year phase in for rate adjustments. The phase-one rates will increase the monthly bill of a typical residential customer using 4,000 gallons of water by \$11.60, from \$31.48 to \$43.08, or approximately 36.8 percent. The phase-two rates will increase the monthly bill of a typical residential customer by an additional \$11.66, from \$43.08 to \$54.74, or approximately 27.1 percent.

Even with the adjusted rates, the District would have been unable to address its problems associated with high water loss, and as a result, the PSC has implemented a monthly surcharge, the proceeds of which must be directed solely toward addressing problems of high water loss. Other provisions in the Order are aimed at problems unfortunately not unique to Hyden-Leslie. The PSC's final Order in this case "marks another step in the evolution of Commission policy of being proactive to address the needs of struggling rural water utilities and their customers," said PSC Chairman Michael Schmitt.

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## PSC Grants Rate Adjustment to Hyden-Leslie County Water District

The monthly \$1.53 per meter surcharge will produce \$65,781 a year for total collections over a four-year period of \$263,124. As stated in the Order, “Using a surcharge to fund a water utility’s water loss reduction efforts allows the Commission to place strict controls governing the surcharge proceeds to ensure their effective use, public acceptance of the surcharge, and public confidence in the water district’s use of those funds.”

Hyden-Leslie District is required to deposit surcharge collections in a separate interest-bearing account. Any expenditure of the surcharge funding must be approved by the PSC. Additionally, the utility will be required to file a qualified infrastructure improvement plan, including a comprehensive unaccounted-for water loss reduction plan. The plan must establish priorities, a time schedule for eliminating each source of unaccounted-for water loss, and a detailed spending plan for the proceeds of the surcharge. In its 2019 water loss investigation, the PSC stressed the importance of infrastructure improvement plans to ensure water utilities can make strategic decisions necessary to fix persistent problems and maintain viability. The PSC will consider adjustments to Hyden-Leslie’s water loss reduction program and any necessary changes to the surcharge amount based on regular reviews.

Other actions the PSC took with regard to the water district include elimination of a ten percent late-payment fee and revisions to non-recurring charges to reflect actual costs of the service or activity. The PSC also advised that Hyden-Leslie could recover rate case expenses if properly documented. The District provided invoices subsequent to the hearing and was granted recovery through base rates.

Regarding late penalties, the PSC found no evidence that these fees have an impact on customer behavior. Much of this evidence was obtained through the PSC’s examination in Case No. 2020-00085 of the impact of the COVID-19 crisis on jurisdictional utilities. The PSC found Hyden-Leslie and similarly situated utilities have relied on these fees as a significant portion of utility income. However, the fees generally are not based on actual costs, they do not provide a predictable stream of utility income, and they disproportionately affect those customers who already struggle to pay for service. The PSC included the amount estimated to have been collected by Hyden-Leslie District in the test year from late penalties to the revenue requirement so that the utility can receive the income through its base rates.

Other actions in today’s Order include the following:

- The PSC found that Hyden-Leslie District has complied with the Case No. 2019-00041, Water Loss Investigation, and it should be dismissed from the case.
- Hyden-Leslie District is to file an alternative rate adjustment within three years.
- Hyden-Leslie District is authorized to enter into a loan agreement with the Kentucky Infrastructure Authority (KIA) to borrow no more than the total amount to pay off an assistance agreement with the terms identified in its application (Case No. 2019-00412).
- The PSC is opening a separate proceeding, Case No. 2020-00340, to monitor the surcharge proceeds collection and expenses, subject to conditions, including the filing of the qualified infrastructure improvement plan.

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Hyden-Leslie District provides water service to approximately 3,594 residential and commercial customers in Clay, Leslie, and Perry counties. Today's Order and other case records are available at [psc.ky.gov](http://psc.ky.gov). The case number is 2020-00141.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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