

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC SOUTH HOPKINS WATER	)	
DISTRICT UNACCOUNTED-FOR WATER LOSS	)	CASE NO.
REDUCTION PLAN, SURCHARGE AND	)	2023-00018
MONITORING	)	

ORDER

By emergency motion filed on October 16, 2026, South Hopkins Water District (South Hopkins District) requested authorization to use water loss surcharge funds in the amount of \$209,836.33 to pay the past due balance it currently owes the city of Dawson Springs, Kentucky (Dawson Springs) for wholesale water service.¹ South Hopkins District requested a decision on its Motion by October 30, 2026, due to the imminent risk of region-wide service curtailment.

BACKGROUND

The Commission granted a water loss surcharge to South Hopkins District in Case No. 2022-00122, of \$3.50 per meter per month for 48 months, or until \$500,668 has been assessed, whichever occurs first.² On February 14, 2023, this case was initiated by Commission Order for the purpose of monitoring South Hopkins District's unaccounted-for water loss reduction plan surcharge.³ South Hopkins District was required to file a

¹ South Hopkins District's Emergency Motion to Use Surcharge Funds to Pay the City of Dawson Springs Kentucky for Wholesale Water Service (Motion) (filed Oct. 16, 2026).

² Case No. 2022-00122, *Electronic Application of South Hopkins Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 14, 2023) at 22, ordering paragraph 6.

³ Order (Ky. PSC Feb. 14, 2023).

qualified infrastructure improvement plan (QIIP) within 120 days of service of that Order, and to seek Commission approval before using any water loss surcharge funds.⁴

South Hopkins District has a history of excess unaccounted-for water loss above 15 percent as shown in the table below.⁵ As of September 2026, South Hopkins District reported its water loss at 24.91 percent and as of October 13, 2026, the water loss surcharge account had a balance of \$308,182.51.⁶

Year	Water Loss Percentage
2018	25.9425%
2019	36.1137%
2020	28.9934%
2021	37.3719%
2022	36.5382%
2023	26.6482%
2024	32.5562%
2025	42.8553%

On May 31, 2023, South Hopkins District filed an initial QIIP.⁷ By Order issued March 27, 2024, the Commission granted South Hopkins District approval to use water

⁴ Order (Ky. PSC. Feb. 14, 2023), ordering paragraphs 1 and 5.

⁵ See *Annual Report South Hopkins District to the Public Service Commission for the Year Ended December 31, 2018* at 59; *Annual Report South Hopkins District to the Public Service Commission for the Year Ended December 31, 2019* at 59; *Annual Report South Hopkins District to the Public Service Commission for the Year Ended December 31, 2020* at 59; *Annual Report South Hopkins District to the Public Service Commission for the Year Ended December 31, 2021* at 59; *Annual Report South Hopkins District to the Public Service Commission for the Year Ended December 31, 2022* at 59; *Annual Report South Hopkins District to the Public Service Commission for the Year Ended December 31, 2023* at 59; *Annual Report South Hopkins District to the Public Service Commission for the Year Ended December 31, 2024* at 59; *Annual Report South Hopkins District to the Public Service Commission for the Year Ended December 31, 2025* at 59.

⁶ Motion at 2, Attachment 1.

⁷ South Hopkins District's QIIP (filed Oct. 7, 2024).

loss surcharge funds to purchase two leak detectors.⁸ South Hopkins District filed an updated QIIP on October 7, 2024.⁹ As part of the updated QIIP, South Hopkins District proposed projects to identify and assist with unidentified water loss, including replacing older manual meters with radio read meters, installing more master meters, installing more or replacing existing shut-off valves, hiring part-time staff for leak detection, purchasing materials to have on hand for leak repairs, and continuing replacement of lines when leaks are found.¹⁰ By Order issued May 12, 2025, the Commission further granted South Hopkins District approval to purchase a portable flow meter.¹¹ By further Order issued September 4, 2025, the Commission granted approval for the use of surcharge funds to purchase 200 ultrasonic radio read meters, but denied South Hopkins District's request to purchase a thermal imaging drone and request to purchase an inventory of materials necessary to have on hand to repair and replace leaks on a regular basis.¹² The Commission found that such materials are normally accounted for within a water district's normal operating budget and are not the type of item intended to be funded by the water loss surcharge.¹³

Commission Staff held an Informal Conference on July 14, 2026, with South Hopkins District to discuss several things, including a letter from Dawson Springs that reported South Hopkins District had been in arrears for payments for wholesale water

⁸ Order (Ky. PSC Mar. 27, 2024).

⁹ South Hopkins District's Updated QIIP (filed Oct. 7, 2024).

¹⁰ South Hopkins District's Updated QIIP at 4.

¹¹ Order (Ky. PSC May 12, 2025).

¹² Order (Ky. PSC Sept. 4, 2025).

¹³ Order (Ky. PSC Sept. 4, 2025).

since May 2025, which was hindering Dawson Springs from moving forward with its own needed projects.¹⁴ During the Informal Conference, South Hopkins District stated that it had obtained financing to pay over half of the amount due and owing Dawson Springs, and that it knew it needed to make arrangements to pay the remainder.¹⁵ South Hopkins District indicated Dawson Springs continued to provide water service despite the arrearage, and South Hopkins District stated it intended to continue to work with the city on the delinquency as well as continue to reduce its unaccounted-for water loss which was impacting its overall revenues.¹⁶

DISCUSSION AND FINDINGS

South Hopkins District does not produce any of its own water and currently purchases all its water from Dawson Springs.¹⁷ Approximately 85 to 90 percent of the water produced by Dawson Springs is sold to South Hopkins District.¹⁸ South Hopkins District stated that Dawson Springs has indicated that the financial hardship to the city caused by South Hopkins District's inability to pay its past due account is likely to result in the need to curtail service, as the city simply does not have the funds to purchase the chemicals needed to keep its water treatment plant in operation without the revenue from South Hopkins District.¹⁹

¹⁴ See Notice of Informal Conference (Ky. PSC June 26, 2026), Appendix.

¹⁵ PSC Letter Filing Informal Conference Memorandum and Attendance List into the Record (Ky. PSC July 21, 2026).

¹⁶ PSC Letter Filing Informal Conference Memorandum and Attendance List into the Record (Ky. PSC July 21, 2026).

¹⁷ Motion at 3.

¹⁸ Motion at 4.

¹⁹ Motion at 4.

South Hopkins District explained that Dawson Springs is in dire need of the revenue owed to it by South Hopkins District.²⁰ Dawson Springs received an invoice on October 22, 2026, in the amount of \$53,760.00 for emergency repairs to a pump station. Dawson Springs stated it historically would have had sufficient depreciation reserve funds or other reserves to pay this invoice; however, its reserves have been completely depleted due to covering all maintenance and operations costs of the water treatment plant without the revenue from South Hopkins District.²¹ Dawson Springs communicated that it is attempting to continue treating water without full payment by South Hopkins District, but the repairs to its water treatment plant and to a pump station are necessary and Dawson Springs does not have the funds to pay for these repairs.²²

Further, Dawson Springs indicated that it is in the process of replacing its sole remaining pump at its water intake structure at Lake Beshear, by having its current back-up pump rebuilt at the cost of \$7,412.²³ Dawson Springs communicated that once this pump is rebuilt, it will be unable to pay for the invoice unless South Hopkins District is able to pay the arrearage that it owes Dawson Springs.²⁴ Dawson Springs stated that, “[i]n the meantime, if the sole operating pump fails before the back-up pump is rebuilt,

²⁰ South Hopkins District's Response to Staff's Seventh Request (filed Oct. 23, 2026), Item 7.

²¹ South Hopkins District's Response to Staff's Seventh Request (filed Oct. 23, 2026), Item 7.

²² South Hopkins District's Response to Commission Staff's Seventh Request for Information (Staff's Seventh Request) (filed Oct. 23, 2026), Item 3.

²³ South Hopkins District's Response to Staff's Seventh Request, Item 7.

²⁴ South Hopkins District's Response to Staff's Seventh Request, Item 7.

Dawson Springs will not be able to produce any water at all” and that “[e]veryone will be without water.”²⁵

In support of its Motion, South Hopkins District stated it paid its September 29, 2026 invoice from Dawson Springs for water used from August 28, 2026, to September 24, 2026, in full.²⁶ However, as of October 16, 2026, South Hopkins District had a past due balance of \$209,836.33 for water it consumed prior to August 28, 2026.²⁷ South Hopkins District explained that it borrowed \$95,000 earlier this year to reduce its past due balance, which was applied to the total amount owed.²⁸ A past-due balance remained for many months subsequent to when it had been unable to pay its monthly wholesale water bill in full; therefore, the past-due balance continued to grow.²⁹ South Hopkins District stated it approached Rural Water Financing Agency (RWFA) and Fifth-Third Bank about obtaining a loan to pay its past-due wholesale water bill; however, neither entity would provide a loan to South Hopkins District.³⁰ South Hopkins District claimed it has no other source of funds besides its surcharge funds with which to pay its past-due balance with Dawson Springs.³¹

When South Hopkins District’s water loss surcharge was granted by the Commission in Case No. 2022-00122, requirements were set forth regarding the use of

²⁵ South Hopkins District’s Response to Staff’s Seventh Request, Item 7-7 (emphasis omitted).

²⁶ Motion at 2.

²⁷ Motion at 2.

²⁸ Motion at 2.

²⁹ Motion at 2.

³⁰ Motion at 2-3.

³¹ Motion at 5.

the surcharge funds, as well as in the opening Order issued February 14, 2025, which established this case to monitor the surcharge. The opening Order in this proceeding specifically limited the water loss surcharge funds to be used toward activities designed to reduce water loss and before using any such funds, South Hopkins District should include an explanation of how any proposed purchase, project, or service is related to the QIIP and shall receive Commission approval before expending any water loss surcharge funds.³² South Hopkins District acknowledged that the purpose of collecting the water loss reduction surcharge is to provide it with a source of funds to dedicate to water loss reduction activities, not to pay current obligations.³³ South Hopkins District stated it was hesitant to seek approval to use the surcharge funds to clear the past-due balance, however, after its unsuccessful attempts to borrow money for this purpose, and Dawson Springs' expression of its dire need, South Hopkins District concluded seeking authority to use surcharge funds was necessary and in the best interest of its customers, as it simply has no other means to pay this bill.³⁴

South Hopkins District stated it seeks a temporary and partial deviation from the Commission's Order in Case No. 2022-00122, regarding the limitation of use of surcharge funds, or a deviation from 807 KAR 5:066, Section 6(3), which, for ratemaking purposes, limits water loss to 15 percent.³⁵ South Hopkins District requested a deviation from the final Order in Case No. 2022-00122, in so far as ordering paragraph 6,³⁶ which limits the

³² Order (Ky. PSC Feb. 14, 2023) at 3, ordering paragraphs 7 and 8.

³³ Motion at 5-6.

³⁴ South Hopkins District's Response to Staff's Seventh Request, Item 7.

³⁵ South Hopkins District's Response to Staff's Seventh Request, Item 12.

³⁶ Case No. 2022-00122, final Order (Ky. PSC Feb. 14, 2023) at 2, ordering paragraph 6.

use of surcharge funds to activities designed to reduce water loss, is considered by the Commission to be a requirement regarding the use of surcharge funds.³⁷ South Hopkins District further stated it seeks a temporary and partial deviation from Commission regulation 807 KAR 5:066, Section 6(3), which, for ratemaking purposes, limits water loss to 15 percent.³⁸

South Hopkins District stated that, when the Commission established the surcharge, it based the amount of the surcharge on the amount disallowed for excessive water loss and permitted the collection of this revenue through the surcharge mechanism, but by Order, limited its use.³⁹ South Hopkins District argued that the Commission does not otherwise limit a utility's ability to use its revenue to pay its operating expenses and the district is seeking here to use a portion of this revenue that would otherwise not have been collected, to clear its past-due balance to its wholesale provider.⁴⁰ South Hopkins District argued that under these particular circumstances, this request can be characterized as a deviation from 807 KAR 5:066, Section 6, which is permitted by 807 KAR 5:066, Section 18.⁴¹ Whether a deviation from Commission Order or regulation, South Hopkins District stated a deviation is sought due to necessity because it has no other way to pay this bill and its access to wholesale water is in danger of being seriously curtailed if the past-due bill is not paid soon.⁴²

³⁷ South Hopkins District's Response to Staff's Seventh Request, Item 12.

³⁸ South Hopkins District's Response to Staff's Seventh Request, Item 12.

³⁹ South Hopkins District's Response to Staff's Seventh Request, Item 12.

⁴⁰ South Hopkins District's Response to Staff's Seventh Request Item 12.

⁴¹ South Hopkins District's Response to Staff's Seventh Request, Item 12.

⁴² South Hopkins District's Response to Staff's Seventh Request, Item 12.

South Hopkins District further stated it is seeking Commission review of its water loss reduction surcharge in Case No. 2026-00193, an application for a rate increase filed pursuant to 807 KAR 5:076, and has proposed to extend it for an additional 48 months because it realizes the importance of continuing its efforts to reduce its water loss.⁴³ However, South Hopkins District stated there is a very real possibility that Dawson Springs will be forced to curtail service to its retail customers and to South Hopkins District if Dawson Springs does not receive the revenue it is owed by South Hopkins District very soon.⁴⁴

In further support of its Motion, South Hopkins District stated it has seen recent improvement in its water loss, claiming its water loss is now below 30 percent,⁴⁵ compared to water loss that exceeded 40 percent in 2025 and rose to nearly 50 percent in early 2026.⁴⁶ South Hopkins District stated it has been combatting water loss by installing new customer meters purchased with grant funds and employed a third-party leak detection crew, which has resulted in locating some large leaks and fixing them this summer.⁴⁷ South Hopkins District further stated it discovered it can reduce the accrual of late fees to Dawson Springs by holding the revenue it receives in the last two weeks of the month and using those funds to pay the current bill in full, and it plans in the future to monitor its

⁴³ Case No. 2026-00193, *Electronic Application of South Hopkins District for a Rate Adjustment Pursuant to 807 KAR 5:076* (filed Aug. 18, 2026).

⁴⁴ Motion at 6.

⁴⁵ Motion at 5, Attachment 6. South Hopkins District's reference to water loss below 30 percent is only reflected in the August 2026 and September 2026 water loss reports.

⁴⁶ Motion at 5.

⁴⁷ Motion at 5.

cash flow to ensure that no additional late fees are incurred by using this method.⁴⁸ Additionally, South Hopkins District plans to continue to address and reduce water loss, which will lower the wholesale bill.⁴⁹ Additionally, South Hopkins District stated it will increase its efforts to replace its aging customer meters and will replace as many meters each month as the existing workload and weather conditions permit.⁵⁰

The Commission finds that a deviation from the requirements for the use of surcharge funds, contained in its February 14, 2023 Order in Case No. 2022-00122 and the opening Order in this proceeding, should be granted under this very distinct set of emergent circumstances. Thus, the Commission finds that South Hopkins District should be granted approval to use water loss surcharge funds in the amount of \$209,836.33 for the past-due balance owed to Dawson Springs. The Commission declines to grant any deviation from 807 KAR 5:066, Section 6(3), as this is a case established solely for monitoring the water loss surcharge, and does not cover any ratemaking implications regarding the level of water loss, which was previously considered the alternative rate proceeding in Case No. 2022-00122.

The Commission strongly cautions that it does not grant this deviation or approval of this use of water loss surcharge funds lightly and is deeply concerned with South Hopkins District's financial condition that has led to its inability to pay operating expenses. Absent the potential curtailment or loss of wholesale water service to South Hopkins District and to the customers of Dawson Springs, given Dawson Springs' potential

⁴⁸ South Hopkins District's Response to Staff's Seventh Request, Items 5, 9

⁴⁹ South Hopkins District's Response to Staff's Seventh Request, Item 9.

⁵⁰ South Hopkins District's Response to Staff's Seventh Request, Item 9.

imminent cessation of operations, which may occur unless South Hopkins District is allowed to use its water loss surcharge funds to pay its arrearage, the Commission would not grant such a deviation from the intended purpose and requirements for use of the water loss surcharge. The Commission notes that its decision to grant the deviation and approve the use of surcharge funds without establishing a broader investigation of South Hopkins District's financial condition and operations is based, in part, on the fact that South Hopkins District has a pending rate proceeding, Case No. 2026-00193, in which the Commission is investigating the financial condition and rate sufficiency of South Hopkins District, and expects to look for and consider potential long-term solutions and options with respect to South Hopkins District. The Commission's review of South Hopkins District's water loss surcharge in Case No. 2026-00193 should include consideration of whether South Hopkins District's water loss surcharge should be continued, whether it should be replenished, and whether an investigation is necessary.

The Commission would also strongly note that the emergency situation is directly tied to the necessity of payment to Dawson Springs, so it has funds to complete projects necessary to continue to provide water service. Further, the Commission is encouraged by the most recent two months of water loss reports for South Hopkins District indicating a water loss percentage below 30 percent, following the identification and repair of two major leaks, but it has no way of predicting whether South Hopkins District's water loss will remain below this level.⁵¹ The Commission will continue to closely monitor South Hopkins District's water loss reduction efforts to ensure they are consistent with the purpose and requirements of its water loss surcharge. The Commission would caution

⁵¹ South Hopkins District's Response to Staff's Seventh Request (filed Oct. 23, 2026), Item 4.

that further requests to utilize the water loss surcharge for purposes outside of these requirements will not be looked upon favorably and encourages South Hopkins District to continue to seek financial solutions that will ensure such an emergency situation does not reoccur.

IT IS THEREFORE ORDERED that:

1. South Hopkins District is granted a deviation from the requirements for the use of surcharge funds in the Commission's February 14, 2023 Order in Case No. 2022-00122, and the opening Order issued February 14, 2023, in this proceeding for the purpose of granting the October 16, 2026 motion only.

2. South Hopkins District is granted approval to use up to \$209,836.33 of water loss surcharge funds to pay its past-due balance to Dawson Springs.

3. South Hopkins District shall file proof of its payment for the past-due balance to Dawson Springs.

4. South Hopkins District shall continue to comply with all requirements of the Commission's February 14, 2023 Order in this proceeding.

Entered on this 30th day of October, 2026.

PUBLIC SERVICE COMMISSION



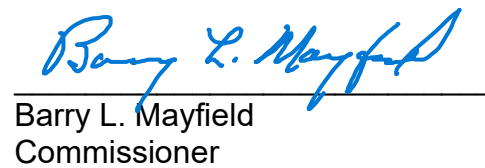
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