

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| ELECTRONIC APPLICATION OF GALLATIN |) | |
| COUNTY WATER DISTRICT TO ISSUE |) | |
| SECURITIES IN THE APPROXIMATE |) | |
| PRINCIPAL AMOUNT OF \$1,633,000 FOR THE |) | CASE NO. |
| PURPOSE OF REFUNDING CERTAIN |) | 2019-00460 |
| OUTSTANDING OBLIGATIONS OF THE |) | |
| DISTRICT PURSUANT TO THE PROVISIONS |) | |
| OF KRS 278.300 AND 807 KAR 5:001 |) | |

ORDER

On January 2, 2020, Gallatin County Water District (Gallatin District) filed an application seeking Commission authority to refinance certain debt of up to \$1,633,000 via an Assistance Agreement with the Kentucky Rural Water Finance Corporation. On February 28, 2020, the Commission entered an Order authorizing Gallatin District's request and ordered Gallatin District to file for an adjustment in base rates or file for an alternative rate filing within six months of the final Order. On August 14, 2020, Gallatin District filed a letter and rate study report performed by Kentucky Rural Water Association.¹ In the letter, Vic Satchwell, chairman of Gallatin District, stated that the February 28, 2020 Order required the utility to file a base rate case; however, Mr. Satchwell noted that the analysis from the rate study report indicated that a rate adjustment "does not appear to be necessary or appropriate."

Gallatin District is represented by counsel in this case and should have filed a formal motion for leave to deviate from the February 28, 2020 Order. Going forward, a

¹ Gallatin Rate Study Report with Supplement (filed Aug. 14, 2020).

request to deviate from an Order expressed in a letter to the Executive Director will not be considered by the Commission as a formal motion to deviate from the requirements of a Commission Order. The Commission, however, acknowledges the administrative efficiency of proceeding with this matter to provide procedural guidance. The Commission's goal is to assist Gallatin District, and other water utilities, to create better business practices and policies. The water utilities that present sustained, high unaccounted-for water loss amounts, or that have not undergone a review of their finances for rate sufficiency within a base rate adjustment case for an extended period are vulnerable to poor financial decisions such as using their depreciation funds to operate from or failing to maintain their systems properly. Gallatin District was able to present a reasonable report to the Commission to show that its rates are sufficient at this time. That report was credible and well supported by its financial records.

The Commission ordered Gallatin District to file for an adjustment in base rates or an alternative rate filing because of the findings in the February 28, 2020 Order which stated that Gallatin District had not sought a base rate increase since 2011, and its unaccounted-for water loss consistently exceeded the 15 percent unaccounted-for water loss threshold disallowed for ratemaking purposes pursuant to 807 KAR 5:066, Section 6(3). The Order also noted audit report inconsistencies concerning several years where year-to-year operating expense totals were not consistent as well as a failure to address restated totals in some year's reports. While the rate study report filed by Gallatin District on August 14, 2020, shows that the district has sufficient revenues from rates, it fails to address the issue of water loss or audit report inconsistencies addressed in the February 28, 2020 Order. Therefore, the Commission finds the rate study report filed by

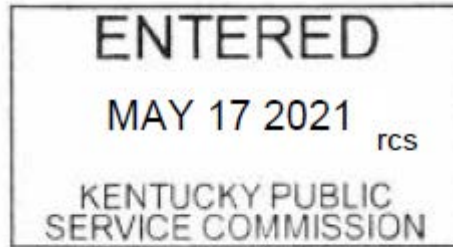
Gallatin District is not sufficient in this case to comply with the Commission's February 28, 2020 Order.

After consideration of the evidence of record and being sufficiently advised, the Commission finds that Gallatin District has failed to address its water loss and audit report inconsistencies and should file an adjustment in base rates or an alternative rate filing within six months of the filing of this Order.

IT IS THEREFORE ORDERED that:

1. Gallatin District shall file an adjustment in base rates or an alternative rate filing prior within six months of the filing of this Order.
2. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:


Executive Director

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