

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF NORTH LOGAN)	2020-00221
WATER DISTRICT #1)	

ORDER

On July 7, 2020, North Logan Water District #1 (North Logan District #1) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure.¹

The Commission notes that in North Logan District #1's 2019 Annual Report a water loss of 16.9326 percent was reported.² North Logan District #1's application provides updated purchase and sales information for a more current period than the 2019 Annual Report. Commission regulation 807 KAR 5:066(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. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2019 Annual Report,³ North Logan District #1's unaccounted-for water loss is determined to be 17.2508 percent for the updated

¹ KRS 278.015; 807 KAR 5:068.

² 2019 Annual Report at 57.

³ 2019 Annual Report, Water Statistics (Ref Page: 57), line 22, divided by line 4, (1,617 divided by 54,463) equals 2.97 percent.

period.⁴ Reduction of North Logan District #1's unaccounted-for water loss to 15 percent would result in an approximate \$4,140.18⁵ decrease to purchased water expense. Potentially, North Logan District #1 is paying approximately \$0.09 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the allowable 15 percent⁶ threshold.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages North Logan District #1 to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by North Logan District #1 to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

In a review of the Commissions records from 1985 to the present, the Commission notes that its records indicate North Logan District #1 has not sought a general base rate adjustment since 2003. In Commission Case No. 2019-00041 and the resulting investigative report, the Commission discusses the problems that can occur when utilities intentionally avoid a review of their financial records.⁷ A key recommendation from that

⁴ Total Purchases (application PWA Form 1 at 2)	55,238,000
Less Total Sales (application PWA Form 1 at 2)	44,069,000
Less plant use (% determined from 2018 Annual Report)	<u>1,640,010</u>
Water loss - gallons	9,528,990
Water loss - percent	17.2508

⁵ Water loss above 15 percent is 2.2508 percent, potential purchased water expense reduction (Total water cost at new wholesale rate times water loss above 15 percent) = \$183,942.54 X .022508 = \$4,140.18.

⁶ Potential purchased water expense reduction divided by sales (\$4,140.18/(44,069,600/1,000) equals \$0.09/1,000.

⁷ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019).

investigative report 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.⁸ An analysis of North Logan District #1's annual reports indicate negative net income balances and possible decreases to the depreciation reserve to meet daily expenses.

Year	2015	2016	2017	2018	2019
Net Income	\$ (4,383)	\$ 8,188	\$ 48,670	\$ (36,549)	\$ (98,757)
Add: Depreciation Expense	80,984	80,742	80,739	80,663	79,960
Cash Basis Income	\$ 76,601	\$ 88,930	\$ 129,409	\$ 44,114	\$ (18,797)

Due to these negative financial indices, the Commission finds that North Logan District #1 should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of this Order to ensure its revenue is sufficient to support adequate and reliable service.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that:

1. North Logan District #1 purchases water from the Logan/Todd Regional Water Commission (Logan/Todd).
2. Logan/Todd notified North Logan District #1 that its wholesale rate would decrease from \$3.91 per 1,000 gallons to \$3.33 per 1,000 gallons, effective April 1, 2020. North Logan District #1 proposes to decrease the water rates to its customers effective August 1, 2020, to reflect the decreased cost of purchased water from Logan/Todd.
3. North Logan District #1 proposed a purchased water adjustment factor of (\$0.73) per 1,000 gallons in its application.

⁸ *Id.*

4. During the 12 months ended April 30, 2020, North Logan District #1 purchased 55,238,000 gallons of water from Logan/Todd. During the same period, North Logan District #1 sold 44,069,000 gallons of water. The decrease in the cost of purchased water is (\$32,038.04), resulting in a purchased water adjustment factor of (\$0.72) per 1,000 gallons.

5. North Logan District #1's proposed purchased water adjustment factor of (\$0.73) per 1,000 gallons should be denied.

6. The purchased water adjustment factor of (\$0.72) per 1,000 gallons, as calculated in Appendix A to this Order, is fair, just, and reasonable and should be approved.

7. North Logan District #1's proposed rates should be denied.

8. 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 North Logan District #1 on and after August 1, 2020.

9. North Logan District #1 shall file an application for an adjustment in base rates within one year of the date of entry of this Order.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of (\$0.72) per 1,000 gallons is approved.

2. The rates proposed by North Logan District #1 are denied.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by North Logan District #1 on and after August 1, 2020.

4. Within 20 days of the date of entry of this Order, North Logan District #1 shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

5. North Logan District #1 shall file an application for an adjustment in base rates within one year of the date of entry of this Order.

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

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By the Commission



ATTEST:

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Acting Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00221 DATED AUG 05 2020

	New Rate	Base Rate
Logan/Todd		
Purchases in gallons	55,238,000	55,238,000
Wholesale rate	<u>\$3.33/1,000</u>	<u>\$3.91/1,000</u>
	\$183,942.54	\$215,980.58
Decreased water cost		(\$32,038.04)
Decreased water cost		(\$32,038.04)
Divided by Gallons sold/1,000		<u>44,069,000</u>
Purchased water adjustment factor		(\$ 0.7270) per 1,000 Gallons
		or (\$ 0.72) per 1,000 Gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00221 DATED AUG 05 2020

The following rates and charges are prescribed for the customers in the area served by North Logan 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.

Monthly Water Rates

First 2,000 Gallons	\$23.08 Minimum Bill
Next 2,000 Gallons	10.54 Per 1,000 Gallons
Next 6,000 Gallons	6.73 Per 1,000 Gallons
Next 15,000 Gallons	6.38 Per 1,000 Gallons
Over 25,000 Gallons	6.03 Per 1,000 Gallons

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