

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE LARUE)	
COUNTY WATER DISTRICT #1 FOR A)	
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY TO CONSTRUCT A SYSTEM)	CASE NO.
IMPROVEMENTS PROJECT AND AN ORDER)	2020-00234
APPROVING A CHANGE IN RATES AND)	
AUTHORIZING THE ISSUANCE OF)	
SECURITIES PURSUANT TO KRS 278.023)	

ORDER

On June 8, 2021, Larue County Water District #1 (Larue District #1) filed a motion for a waiver or extension of time in which to file an application for a rate adjustment. In Case No. 2020-00194, the Commission ordered Larue District #1 to file an application for a traditional adjustment in rates or an alternative rate adjustment before July 2, 2021.¹ On August 26, 2020, in the final Order in this proceeding, the Commission noted that Larue District #1 had not filed an application for a general base rate adjustment since at least 1985, and again ordered Larue District #1 to file an application for a traditional adjustment in rates or an alternative rate adjustment before July 2, 2021.²

Larue District #1 now asks the Commission to relieve it from the twice-ordered requirement to file an application for an adjustment in rates before July 2, 2021, or in the alternative, to grant it an additional year in which to file the application, meaning that Larue

¹ Case No. 2020-00194, *Electronic Purchased Water Adjustment Filing of Larue County Water District #1* (Ky. PSC July 2, 2020).

² Order (Ky. PSC Aug. 26, 2020) at 2 and 6.

District # 1 would file an application for a rate adjustment on or before July 2, 2022.³ For the reasons stated below, the Commission denies both requests.

The Commission has articulated its concern regarding Larue District #1's lack of a general rate adjustment in the final Orders of three recent proceedings, including this Certificate of Public Convenience and Necessity application and two purchased water adjustment proceedings.⁴ The fact that the Commission has repeatedly expressed its concern that the revenue of Larue District #1 may not be sufficient to support adequate and reliable service, and that the Commission has repeatedly ordered the filing of a general rate adjustment is evidence of the seriousness with which the Commission approaches this issue. Attached to this Order, as an Appendix, is an analysis of Larue District #1's finances prepared by Commission Staff using the annual reports and audit reports submitted to the Commission by Larue District #1 since 2015. Given that this analysis indicates that Larue District #1 has reported a negative net income for five of the last six years, the Commission remains concerned that the revenue of Larue District #1 may not be sufficient for it to continue to meet its statutory obligation to provide adequate and reliable service. For this reason, the Commission finds that Larue District #1's motion for a waiver of the requirement to file an application for an adjustment in rates is denied.

In support of its motion for an extension of time, Larue District #1 states that it expects construction of a waterworks improvement project will be completed by December 2021, and it expects to issue the revenue bonds previously approved in this

³ Motion, paragraph 10.

⁴ Final Order (Ky. PSC Aug. 26, 2020); Case No. 2020-00132, *Electronic Purchased Water Adjustment Filing of Larue County Water District No. 1* (Ky. PSC May 6, 2020); Case No. 2020-00194, *Electronic Purchased Water Adjustment Filing of Larue County Water District No. 1* (Ky. PSC July 2, 2020).

proceeding upon completion of the project. Larue District #1 maintains submission of an application for a rate adjustment prior to completion of the waterworks improvement project is likely to result in rates that do not accurately reflect Larue District #1's cost of service. Further, Larue District #1 states that if the waterworks improvement project is not placed in service before the end of the ratemaking proceeding, the Commission's ratemaking practices will prevent depreciation expense related to the improvements from being considered for ratemaking purposes. Additionally, Larue District #1 maintains that if the facilities are placed into service before the end of the ratemaking proceeding, there will be very limited information regarding their operating costs.

The Commission is unpersuaded by these arguments. Given that Larue District #1 has experienced negative net income in five of the last six years, the Commission finds that an application for a general adjustment in rates should not be delayed just because the district is in the process of constructing an improvement project. The Commission has ordered Larue District #1 to file a rate application to examine the stability of its operations and reasonableness of its rates as they currently exist, not as they will be in the future. Should Larue District #1 find it necessary to file another rate case upon completion of the construction project to re-examine its rates, the Commission encourages it to do so.

Despite having nearly a year in which to seek an extension of time and present to the Commission its reasons related to its construction project for seeking an extension of time, Larue District #1 filed its motion requesting an extension of time less than 30 days before the application was due to be filed. The Commission is concerned this lack of

attention to important matters may extend to other aspects of Larue District #1's management and operation.

Additionally, the Commission notes that in its 2020 annual report Larue District #1 reported purchasing 181,643,000 gallons of water for the calendar year ending December 31, 2020,⁵ but Larue District #1's application for a purchased water adjustment in Case No. 2021-00221 indicates that from May 2020 until April 2021, it purchased 195,703,100 gallons of water.⁶ The reporting periods in each filing represent purchases made over a 12-month period, and the reporting periods overlap by eight months, meaning that the water purchases made in May 2020 through December 2020 are reflected in both filings. However, the filing in Case No. 2021-00221 indicates over 14 million more gallons of water were purchased from May 2020 until April 2021 than Larue District #1 reported purchasing in its 2020 annual report. This concerns the Commission because an under-reporting of the number of gallons of water purchased could serve to artificially reduce Larue District #1's unaccounted-for water loss percentage.

For the above stated reasons, the Commission finds that Larue District #1's motion for an extension of time in which to file an application for an adjustment in rates should be denied.

IT IS THEREFORE ORDERED that:

1. Larue District #1's motion for a waiver of the order to file an application for an adjustment in rates is denied.

⁵ *Annual Report of Larue County Water District #1 for the Year Ended December 31, 2020*, at 57. This report has been filed with the Commission but is under review and has not yet been published on the Commission's website.

⁶ Case No. 2021-00221, *Electronic Purchased Water Adjustment Filing of Larue County Water District No. 1* (filed June 1, 2021), Application at 2.

2. Larue District #1's motion for an extension of time in which to file an application for an adjustment in rates is denied.

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

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By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00234 DATED JUL 07 2021

Larue County Water District #1

Analysis of Financial Statements

Year	2015	2016	2017	2018	2019	2020**
(Numbers Derived From Annual Report)						
Net Income	\$ (92,169)	\$(200,658)	\$ (164,061)	\$(213,781)	\$ (80,863)	\$ 26,633
Add: Depreciation Expense	361,222	380,186	390,702	392,152	384,291	396,507
Cash Basis Income	\$ 269,053	\$ 179,528	\$ 226,641	\$ 178,371	\$ 303,428	\$ 423,140

Year	2015	2016	2017	2018	2019	2020
(Numbers Derived From Audit Report)						
Cash and Cash Equivalents	\$ 356,050	\$ 677,550	\$1,254,392	\$ 266,942	\$ 325,644	
Depreciation Reserve*	564,149	500,538	435,057	490,455	278,819	
Net Increase (Decrease) in Cash	37,348	(75,648)	(27,000)	59,109	(152,937)	

* Note: This number is the restricted cash line item which represents the amount needed to meet bond ordinances and depreciation reserve.

** Note: Larue County's Annual Report has not yet been posted to the PSC website.

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