

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF SHARPSBURG	)	2021-00189
WATER DISTRICT	)	

ORDER

On April 30, 2021, Sharpsburg Water District (Sharpsburg District) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure.<sup>1</sup> By electronic mail dated May 3, 2021, the Commission notified Sharpsburg District that its application was rejected because of certain filing deficiencies. On May 3, 2021, Sharpsburg District submitted further documentation to correct the filing deficiency, and the application was accepted for filing as of that date.

The Commission notes that in Sharpsburg District's 2019 Annual Report, a water loss of 20.3487 percent was reported.<sup>2</sup> Sharpsburg District'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

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<sup>1</sup> KRS 278.015; 807 KAR 5:068.

<sup>2</sup> *Annual Report of Sharpsburg Water District to the Public Service Commission for the Year Ended December 31, 2019* at 57.

consumed by the utility in its 2019 Annual Report,<sup>3</sup> Sharpsburg District's unaccounted-for water loss is determined to be 19.8206 percent for the updated period.<sup>4</sup> Reduction of Sharpsburg District's unaccounted-for water loss to 15 percent would result in an approximate \$15,798.52<sup>5</sup> decrease to purchased water expense. Potentially, Sharpsburg District is paying approximately \$0.1877 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the allowable 15 percent<sup>6</sup> threshold.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Sharpsburg District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Sharpsburg District 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 Commissions records from 1985 to the present, the Commission notes that its records indicate Sharpsburg District has not sought a general base rate adjustment since 2010. Sharpsburg District has not sought a general adjustment in rates by any other means than through financing approval or in conjunction with an application

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<sup>3</sup> *Id.*, Water Statistics (Ref Page: 30), line 22, divided by line 4 (1,733 divided by 107,417) equals 1.6133 percent.

<sup>4</sup> Total Purchases (application PWA Form 1 at 2)	107,144,200
Less Total Sales (application PWA Form 1 at 2)	84,179,000
Less plant use (% determined from 2019 Annual Report)	<u>1,728,557</u>
Water loss - gallons	21,236,643
Water loss - percent	19.8206

<sup>5</sup> Water loss above 15 percent is 4.8206 percent, potential purchased water expense reduction (Total water cost at new wholesale rate times water loss above 15 percent) = \$327,729.26 X 4.8206 = \$15,798.52

<sup>6</sup> Potential purchased water expense reduction divided by sales (\$15,798.52/(84,179,000/1,000)) equals \$.1877/1,000.

for a Certificate of Public Convenience and Necessity. The practical result of such policy is that Sharpsburg District has managed to avoid Commission review of its financial records and operational structure for more than ten years.<sup>7</sup> While Sharpsburg District has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD), the Commission's review of records in a RD financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. In 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 by relying solely on financing cases to increase rates.<sup>8</sup> A key recommendation from that 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.<sup>9</sup> In evaluating Sharpsburg District's financial records, the Commission notes that in its past five annual reports filed with the Commission, Sharpsburg District reported a total water loss of over 15 percent every year.<sup>10</sup> An examination of finances outlined in the annual reports filed with the Commission finds that Sharpsburg District has been operating with a negative

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<sup>7</sup> Sharpsburg District's last application for a general adjustment of rates was filed in 2010. See Case No. 2010-00128, *Application of Sharpsburg Water District for an Adjustment of Water Rates* (Ky. PSC May 6, 2010).

<sup>8</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

<sup>9</sup> *Id.*

<sup>10</sup> *Annual Report of Sharpsburg County Water District to the Public Service* (Annual Report of Sharpsburg District) for the Year Ended December 31, 2015 at 61; 2016 Annual Report of Sharpsburg District at 56; 2017 Annual Report of Sharpsburg District at 56; 2018 Annual Report of Sharpsburg District at 57; 2019 Annual Report of Sharpsburg District at 57.

net income for the past five years, which indicates that cash needs may have been supplemented by depreciation reserves, as shown below.<sup>11</sup>

Year	2015		2016		2017		2018		2019	
Net Income	\$	(110,853)	\$	(51,466)	\$	(105,329)	\$	(61,982)	\$	(57,499)
Add: Depreciation Expense		150,083		134,639		133,872		133,871		133,814
Cash Basis Income	\$	39,230	\$	83,173	\$	28,543	\$	71,889	\$	76,315

Year	2015		2016		2017		2018		2019	
Cash and Cash Equivalents	\$	218,645	\$	256,246	\$	242,103	\$	243,923	\$	269,516
Net Increase (Decrease) in Cash		---		37,601		(14,143)		1,820		25,593 <sup>12</sup>

The Commission’s review of Sharpsburg District’s financial records indicates that Sharpsburg District 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. Sharpsburg District purchases water from Bath County Water District (Bath District) and the city of Carlisle (Carlisle).
2. Bath District notified Sharpsburg District that its wholesale rate would increase from \$3.66 per 1,000 gallons to \$3.82 per 1,000 gallons, effective April 15, 2021. The rates charged by Carlisle to Sharpsburg District did not change. Sharpsburg District

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<sup>11</sup> 2015 Annual Report of Sharpsburg District at 25; 2016 Annual Report of Sharpsburg District at 20; 2017 Annual Report of Sharpsburg District at 20; 2018 Annual Report of Sharpsburg District at 21; 2019 Annual Report of Sharpsburg District at 21.

<sup>12</sup> 2015 Annual Report of Sharpsburg District at 20; 2016 Annual Report of Sharpsburg District at 15; 2017 Annual Report of Sharpsburg District at 15; 2018 Annual Report of Sharpsburg District at 16; 2019 Annual Report of Sharpsburg District at 16.

proposes to increase the water rates to its customers effective April 15, 2021, to reflect the increased cost of purchased water from Bath District.

3. Sharpsburg District proposed a purchased water adjustment factor of \$0.16 per 1,000 gallons in its application.

4. During the 12 months ended February 28, 2021, Sharpsburg District purchased 85,793,000 gallons of water from Bath District and 21,351,200 gallons from Carlisle. During the same period, Sharpsburg District sold 84,179,000 gallons of water. The increase in the cost of purchased water is \$13,726.88 resulting in a purchased water adjustment factor of \$0.17 per 1,000 gallons.

5. The purchased water adjustment factor of \$0.17 per 1,000 gallons, as calculated in Appendix A to this Order, is fair, just and reasonable and should be approved.

6. Sharpsburg District's proposed rates are denied.

7. 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 Sharpsburg District on and after April 15, 2021.

8. Sharpsburg District shall file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of this Order.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.17 per 1,000 gallons is approved.

2. The rates proposed by Sharpsburg District are denied.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Sharpsburg District on and after April 15, 2021.

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

5. Sharpsburg District shall file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of this Order.

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

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By the Commission



ATTEST:

  
Linda C. Lindwell  
Executive Director

Case No. 2021-00189

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00189 DATED MAY 27 2021

	Base Rate	New Rate	Increase
<u>Bath County District</u>			
Purchases	85,793,000	85,793,000	
Wholesale rate	<u>\$ 3.66/1000</u>	<u>\$ 3.82/1000</u>	
	\$314,002.38	\$327,729.26	\$13,726.88
<u>Carlisle</u>			
Purchases	21,351,200	21,351,200	
Wholesale rate <sup>1</sup>	<u>NO CHANGE</u>	<u>NO CHANGE</u>	
	\$32,861.70	32,861.70	NO CHANGE
Increased water cost			\$ 13,726.88
Increased water cost		\$13,726.88	
Divided by Gallons sold/1,000		<u>84,179,000</u>	
Purchased water adjustment factor		\$ 0.16307 per 1,000 Gallons	
		or \$ 0.17 per 1,000 Gallons	

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<sup>1</sup> First 1,000 gallons	\$11.21	12,000	\$134.52
Next 4,000 gallons	3.82	48,000	183.36
Next 5,000 gallons	2.95	60,000	177.00
Next 5,000 gallons	2.05	60,000	123.00
Next 10,000 gallons	1.90	120,000	228.00
Next 25,000 gallons	1.58	300,000	474.00
All over 50,000 gallons	1.52	20,751,200	<u>31,541.82</u>
TOTAL			\$32,861.70

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00189 DATED MAY 27 2021

The following rates and charges are prescribed for the customers in the area served by Sharpsburg Water District. 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

5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$ 26.50 Minimum Bill
Next 3,000 Gallons	.00676 per gallon
Next 5,000 Gallons	.00610 per gallon
Over 10,000 Gallons	.00584 per gallon

1-Inch Meter

First 5,000 Gallons	\$ 46.78 Minimum Bill
Next 5,000 Gallons	.00610 per gallon
Over 10,000 Gallons	.00584 per gallon

2-Inch Meter

First 16,000 Gallons	\$ 112.32 Minimum Bill
Over 16,000 Gallons	.00584 per gallon

Bulk Loading Station	\$ .00900 per gallon
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\*Ms. Gayle Haney  
Manager/Distribution Operator  
Sharpsburg Water District  
16 East Mill Street  
P. O. Box 248  
Sharpsburg, KY 40374

\*Sharpsburg Water District  
16 East Mill Street  
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\*Shania Sexton  
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