

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF FLEMING COUNTY	)	2024-00179
WATER ASSOCIATION, INC.	)	

ORDER

On June 5, 2024, Fleming County Water Association, Inc. (Fleming County Water) tendered an application requesting approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 and 807 KAR 5:068. On June 5, 2024, the Commission notified Fleming County Water that its application was rejected for certain filing deficiencies. On June 12, 2024, Fleming County Water submitted further documentation to correct the filing deficiencies, and the application was deemed filed as of June 12, 2024.

LEGAL STANDARD

In accordance with KRS 278.012, when a wholesale supplier selling water to a water association increases its rates, the water association has the authority to increase its rate commensurate with the wholesale supplier. The water association must file, within the statutory and regulatory deadlines, a copy of the notice from the wholesale supplier showing the increase in the wholesale rate, and a statement of the volume of purchased water used to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

## DISCUSSION AND FINDINGS

Fleming County Water purchases water from Greater Fleming County Regional Water Commission (Greater Fleming), Rowan Water Inc. (Rowan Water) and the Electric Plant Board, city of Vanceburg (Vanceburg). Greater Fleming notified Fleming County Water that its wholesale rate would increase from \$2.00 per 1,000 gallons to \$2.07 per 1,000 gallons, effective July 1, 2024.<sup>1</sup> Fleming County Water proposes to increase the water rates to its customers effective July 1, 2024, to reflect the increased cost of purchased water from Greater Fleming. Rowan Water and Vanceburg did not propose any rate changes.

### Unaccounted-for Water Loss

Commission regulation 807 KAR 5:066, Section 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. In its 2021 Annual Report filed with the Commission, Fleming County Water reported a water loss of 11.0049 percent.<sup>2</sup> In its 2022 Annual Report filed with the Commission, Fleming County Water reported a water loss of 9.2007 percent.<sup>3</sup> In its 2023 Annual Report filed with the Commission, Fleming County Water reported a water loss of 8.2463 percent.<sup>4</sup> Fleming County Water's three-year water loss average is

---

<sup>1</sup> Application, Exhibit A, Suppliers\_notice\_of\_Changed\_Rate-\_Case\_2024-00179.pdf.

<sup>2</sup> *Annual Report of Fleming County Water to the Public Service Commission for the Year Ended (Annual Report) December 31, 2021* at 57.

<sup>3</sup> 2022 Annual Report at 57.

<sup>4</sup> 2023 Annual Report at 57.

9.4840 percent.<sup>5</sup> The approximate cost of Fleming County Water's total water loss using the three-year average water loss percentage is \$64,070.01.<sup>6</sup>

### Financial Condition and Rates

Based on a review of Commission records, Fleming County Water has never sought a general base rate adjustment. Fleming County Water's only rate increases since 2004 have occurred as a condition for federal financing of a construction project in accordance with KRS 278.023,<sup>7</sup> financing cases,<sup>8</sup> purchased water adjustment cases,<sup>9</sup> and rate adjustments to service charges.<sup>10</sup> In accordance with the provisions of

---

<sup>5</sup>  $11.0049\% + 9.2007\% + 8.2463\% = 28.4519 / 3 \text{ years} = 9.4840\%$ .

<sup>6</sup> Total water cost at new wholesale rate of \$675,558.91 times 9.4840% water loss equals \$64,070.01.

<sup>7</sup> Case No. 2014-00265, *Application of Fleming County Water Association for a Certificate of Public Convenience and Necessity, Approval of the Proposed Plan of Financing and an Order Approving the Adjustment of Rates* (Ky. PSC Aug. 25, 2014); Case No. 2009-00163, *Application of Fleming County Water Association For (1) a Certificate of Public Convenience and Necessity (2) Approval of the Proposed Plan of Financing Said Project and (3) an Order Approving the Adjustment of Rates* (Ky. PSC May 28, 2009); Case No. 2008-00180, *The Application of Fleming County Water Association, Inc. for a Certificate of Public Convenience and Necessity and Approval of Proposed Plan of Financing* (Ky. PSC June 17, 2008); and Case No. 2004-00280, *The Application of Fleming County Water Association, Inc. of Flemingsburg, KY for (1) A Certificate of Public Convenience and Necessity (2) Approval of Proposed Plan of Said Financing* (Ky. PSC Aug. 24, 2004).

<sup>8</sup> Case No. 2015-00130, *Application of the Fleming County Water Association, Inc. to Issue Securities in the Approximate Principal Amount of \$1,375,000 for the Purpose of Refunding Certain Outstanding Indebtedness of the Association Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC May 15, 2015); and Case No. 2015-00006, *Application of the Fleming County Water Association, Inc. to Issue Securities in the Approximate Principal Amount of \$790,000 for the Purpose of Refunding Certain Outstanding Indebtedness of the Association Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC Jan. 22, 2015).

<sup>9</sup> Case No. 2019-00033, *Purchased Water Adjustment Filing of Fleming County Water Association, Inc.* (Ky. PSC Feb. 1, 2019); Case No. 2005-00166, *Application of Fleming County Water Association, Inc. for a Purchased Water Adjustment* (Ky. PSC June 3, 2005); and Case No. 2004-00192, *Application of Fleming County Water Association, Inc. for a Purchased Water Adjustment* (Ky. PSC June 14, 2004).

<sup>10</sup> Case No. 2009-00240, *Application of Fleming County Water Association for Increase in Nonrecurring Charge* (Ky. PSC Aug. 11, 2009).

KRS 278.023, the Commission's review of such applications is a limited review that does not assess a utility's total financial stability and operational viability.

As a result of the lack of a general base rate adjustment, the Commission has not had an opportunity to perform a comprehensive review of Fleming County Water's financial records and operational structure. In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities avoid a comprehensive review of their financial records and operational practices by relying solely on less comprehensive cases to increase rates.<sup>11</sup> A key recommendation from that proceeding was that water associations should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.<sup>12</sup>

As documented in annual and audit reports filed with the Commission, Fleming County Water's rate-based income (adjusted net income minus debt service) was negative in each of the years 2019 through 2023.<sup>13</sup> Cash basis income (rate-based income plus depreciation) averaged 58 percent of depreciation for the five-year period, as shown in the table below. The Commission notes that while reported water loss is significantly under 15 percent each year, the combined water loss percentage (system use percentage plus water loss percentage) averaged 25.30 percent for the five-year period.

---

<sup>11</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>12</sup> See Case No. 2019-00041, Nov. 22, 2019 final Order.

<sup>13</sup> 2019 Annual Report, 2020 Annual Report, 2021 Annual Report, 2022 Annual Report, and 2023 Annual Report.

Description / Year	Audited 2019	Audited 2020	Audited 2021	Audited 2022	Audited 2023
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ (7,298)	\$ (66,775)	\$ (55,438)	\$ (203,370)	\$ (93,147)
(Gain) / Loss on Assets Disposal; Other Non-Recurring Items	(8,910)	6,217	(582)	145,183	0
<b>Adjusted Net Income / (Loss) before Contributions</b>	<b>\$ (16,208)</b>	<b>\$ (60,558)</b>	<b>\$ (56,020)</b>	<b>\$ (58,187)</b>	<b>\$ (93,147)</b>
Subtract: Principal Payments ( )	(87,711)	(69,706)	(70,936)	(77,211)	(78,534)
<b>Rate Based Income / (Loss)</b>	<b>\$ (103,919)</b>	<b>\$ (190,822)</b>	<b>\$ (126,956)</b>	<b>\$ (135,398)</b>	<b>\$ (171,681)</b>
Add: Depreciation Expense	343,965	354,223	334,826	353,873	353,115
<b>Cash Basis Income</b>	<b>\$ 240,046</b>	<b>\$ 163,401</b>	<b>\$ 207,870</b>	<b>\$ 218,475</b>	<b>\$ 181,434</b>
Cash Basis Income from Operations as Percent of Depreciation	70%	46%	62%	62%	51%
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 406,375	\$ 548,980	\$ 669,321	\$ 407,697	\$ 623,392
Restricted Funds (exclude construction funds from bond proceeds)	486,837	487,024	486,943	492,319	499,856
Adjusted Cash Balances	893,212	1,036,004	1,156,264	900,016	1,123,248
Net Increase (Decrease) in Cash	\$ 142,792	\$ 120,260	\$ (256,248)	\$ 223,232	
<i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	4,206	4,258	4,352	4,407	4,477
Gallons Purchased	305,003	326,538	323,255	328,084	317,924
Gallons Sold	230,473	231,335	232,688	247,608	253,177
Gallons Used for Internal Use	46,526	59,025	54,993	50,290	38,530
Water Loss Gallons	28,004	36,178	35,574	30,186	26,217
System Use Percentage	15.25%	18.08%	17.01%	15.33%	12.12%
Water Loss Percentage	9.18%	11.08%	11.00%	9.20%	8.25%
Per Cust Per Month Gallons	4,566	4,527	4,456	4,682	4,713
Revenue	\$ 1,850,473	\$ 1,895,659	\$ 1,895,502	\$ 1,991,153	\$ 2,029,740
Purchased Water Expense	637,107	658,454	649,725	662,827	652,253
Purchased Water Expense Over 15% Water Loss	0	0	0	0	0
Water Loss Expense Over 15% as Percentage of Total Revenue	0.00%	0.00%	0.00%	0.00%	0.00%

Because Fleming County Water has incurred negative rate based income for each of the past five years, the Commission concludes that Fleming County Water should file an application for a general base rate adjustment or an alternative rate adjustment on or before July 25, 2025, based upon a 2024 test year, to ensure that its revenue is sufficient to support adequate and reliable service.

### Purchased Water Adjustment Factor

In its application, Fleming County Water proposed a purchased water adjustment factor of \$0.09 per 1,000 gallons. During the 12 months ended March 31, 2024, Fleming County Water purchased 314,429,000 gallons of water from Greater Fleming, 11,146,800 gallons of water from Rowan Water and 2,289,500 gallons of water from Vanceburg and sold 253,433,090 gallons of water to its customers. The increase in the cost of purchased

water from Greater Fleming is \$22,010, resulting in a purchased water adjustment factor of \$0.09 per 1,000 gallons. No rate changes occurred from Rowan Water and Vanceburg

The purchased water adjustment factor of \$0.09 per 1,000 gallons, as calculated in Appendix A and 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 Fleming County Water on and after July 1, 2024, because the rates are supported by evidence of the increase in rates from Fleming County Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.09 per 1,000 gallons is approved.
2. The rates proposed by Fleming County Water are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Fleming County Water on and after July 1, 2024.
4. Within 20 days of the date of service of this Order, Fleming County Water shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. On or before July 31, 2025, Fleming County Water shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary. Any filing for a rate adjustment filed under KRS 278.023 does not relieve Fleming County Water from this requirement.

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

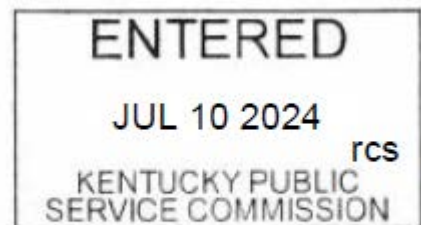
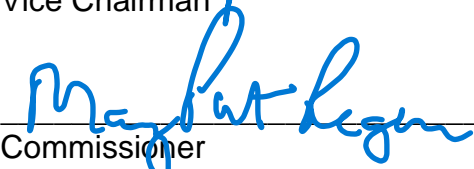
[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PUBLIC SERVICE COMMISSION

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Vice Chairman

\_\_\_\_\_  
Commissioner



ATTEST:

  
\_\_\_\_\_  
Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00179 DATED JUL 10 2024

	Base Rate	New Rate	Change
<u>Greater Fleming Regional</u>			
Purchases in Gallons	314,429,000	314,429,000	
Rate per 1,000 Gallons	<u>\$2.00/1,000</u>	<u>\$2.07/1,000</u>	
Subtotal	\$628,858.00	\$650,868.03	\$22,010.03
<u>Rowan Water</u>			
Purchases in Gallons	11,146,800	11,146,800	
Rate per 1,000 Gallons	<u>\$1.87/1,000</u>	<u>\$1.87/1,001</u>	
Subtotal	\$20,844.52	\$20,844.52	\$0.00
<u>Vanceburg</u>			
Purchases in Gallons	2,289,500	2,289,500	
Rate per 1,000 Gallons	<u>\$1.68/1,000</u>	<u>\$1.68/1,001</u>	
Subtotal	\$3,846.36	\$3,846.36	\$0.00
Total Water Cost	\$653,548.88	\$675,558.91	
Increased water cost			\$22,010.03
Increased water cost		\$22,010.03	
Divided by Gallons sold/1,000		<u>253,433,090</u>	
Purchased water adjustment factor		\$0.09 per 1,000 Gallons	
		or	
		\$0.00009	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00179 DATED JUL 10 2024

The following rates and charges are prescribed for the customers in the area served by Fleming County Water Association, Inc. 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

All Meters

First	2,000 Gallons	\$18.88	Minimum Bill
Next	8,000 Gallons	0.00704	Per Gallon
Next	40,000 Gallons	0.00559	Per Gallon
Over	50,000 Gallons	0.00439	Per Gallon

\*Kevin Cornette  
Superintendent  
Fleming County Water Association, Inc.  
P. O. Box 327  
Flemingsburg, KY 41041

\*Fleming County Water Association, Inc.  
2772 Morehead Road  
P. O. Box 327  
Flemingsburg, KY 41041