

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF MUHLENBERG)	2024-00212
COUNTY WATER DISTRICT #3)	

ORDER

On July 8, 2024, Muhlenberg County Water District No. 3 (Muhlenberg District No 3) applied for approval to adjust its rates pursuant to the purchased water adjustment (PWA) procedure set forth in KRS 278.015 and 807 KAR 5:068.

LEGAL STANDARD

In accordance with KRS 278.015, when a wholesale supplier selling water to a water district increases its rates, the water district has the authority to increase its rate commensurate with the wholesale supplier. The water district 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

Muhlenberg District No. 3 purchases water from Central City Municipal Water & Sewer (Central City). Central City notified Muhlenberg District No. 3 that its wholesale rate would increase from \$3.81 per 1,000 gallons to \$4.57 per 1,000 gallons, effective

July 1, 2024.¹ Muhlenberg District No. 3 proposes to increase the water rates to its customers effective July 1, 2024, to reflect the increased cost of purchased water from Central City.

Prior to filing this PWA, Muhlenberg District No. 3 also had an Alternative Rate Filing (ARF) application, Case No. 2023-00400, pending before the Commission. Despite its pending ARF application, Muhlenberg District No. 3 properly calculated its proposed PWA rates² based on the rates approved in its prior rate case, Case No 2022-00231.³ After the PWA application was filed on July 8, 2024, new rates were approved in Muhlenberg District No. 3's ARF case and those rates were effective August 1, 2024.⁴ Therefore, the rates as proposed by Muhlenberg District No. 3 in its application should be denied. The rates as set forth in Appendix B to this Order are calculated based on the current rates approved in Case No. 2023-00400 on August 1, 2024.

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, Muhlenberg District

¹ TFS2024-00222 (Ky. PSC May 16, 2024); Muhlenberg District No. 3 submitted the tariff on May 16, 2024, and the tariff was accepted for filing by the Commission by letter dated June 28, 2024, with an effective date of July 1, 2024.

² Application, Exhibit C.

³ Case No. 2022-00231, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District #3* (Ky. PSC June 6, 2023).

⁴ Case No. 2023-00400, *Electronic Application of Muhlenberg County Water District #3 for an Alternative Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 1, 2024), final Order, Appendix B.

No. 3 reported a water loss of 18.2354 percent.⁵ In its 2022 Annual Report filed with the Commission, Muhlenberg District No. 3 reported a water loss of 19.1359 percent.⁶ In its 2023 Annual Report filed with the Commission, Muhlenberg District No. 3 reported a water loss of 15.5462 percent.⁷ Muhlenberg District No. 3's three-year water loss average is 17.6392%.⁸ The approximate cost of Muhlenberg District No. 3's annual total water loss based on the 3-year average is \$137,973.71.⁹

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Muhlenberg District No. 3 to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Muhlenberg District No. 3 to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Financial Condition and Rates

As noted above, Muhlenberg District No. 3 recently sought an alternative rate adjustment in Case No. 2023-00400, using a test year of 2022.¹⁰ The operating ratio method was applied, and the Commission determined Muhlenberg District No. 3's Overall

⁵ *Annual Report of Muhlenberg District No. 3 to the Public Service Commission for the Year Ended December 31, 2021* at 57.

⁶ *Annual Report of Muhlenberg District No. 3 to the Public Service Commission for the Year Ended December 31, 2022* at 57.

⁷ *Annual Report of Muhlenberg District No. 3 to the Public Service Commission for the Year Ended December 31, 2023* at 57.

⁸ $18.2354 + 19.1359 + 15.5462 = 52.9175 / 3 \text{ years} = 17.6392\%$.

⁹ Total water cost at new wholesale rate of \$782,199.37 times 17.6392% water loss equals \$137,973.71.

¹⁰ See Case No. 2023-00400, Aug. 1, 2024 final Order.

Revenue Requirement to be \$1,625,953, a revenue increase of \$239,003, or 17.87 percent.¹¹ The August 1, 2024 Order increased the monthly bill of a typical residential customer using 4,000 gallons from \$42.15 to \$49.63, an increase of \$7.48, or 17.75 percent.¹²

Purchased Water Adjustment Factor

In its PWA application, Muhlenberg District No. 3 proposed a purchased water adjustment factor of \$0.95 per 1,000 gallons. During the 12 months ended April 30, 2024, Muhlenberg District No. 3 purchased 171,159,600 gallons of water from Central City and sold 137,201,500 gallons of water to its customers. The increase in the cost of purchased water from Central City is \$130,081.29, resulting in a purchased water adjustment factor of \$0.95 per 1,000 gallons as shown in Appendix A.

The purchased water adjustment factor of \$0.95 per 1,000 gallons, as calculated in Appendix A, and the rates set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by Muhlenberg District No. 3 on and after August 1, 2024, because the rates are supported by evidence of the increase in rates from Muhlenberg District No. 3's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.95 per 1,000 gallons is approved.
2. The rates proposed by Muhlenberg District No. 3 are denied.

¹¹ Case No. 2023-00400, Aug. 1, 2024 final Order at 19.

¹² Case No. 2023-00400, Aug. 1, 2024 final Order at 20.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Muhlenberg District No. 3 on and after August 1, 2024.

4. Within 20 days of the date of service of this Order, Muhlenberg District No. 3 shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

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

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PUBLIC SERVICE COMMISSION

Chairman



Vice Chairman



Commissioner

ENTERED

AUG 06 2024

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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00212 DATED AUG 06 2024

	Base Rate	New Rate	Change
<u>Central City</u>			
Purchases in Gallons	171,159,600	171,159,600	
Rate per 1,000 Gallons	<u>\$3.81/1,000</u>	<u>\$4.57/1,000</u>	
Sub-total	\$652,118.08	\$782,199.37	\$130,081.29
Total	\$652,118.08	\$782,199.37	
Increased water cost			\$130,081.29
Increased water cost Divided by Gallons sold/1,000		<u>\$130,081.29</u> <u>137,201,500</u>	
Purchased water adjustment factor		\$0.9481	per 1,000 Gallons
		or \$ 0.00095	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00212 DATED AUG 06 2024

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District No. 3. 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 Meter Sizes

First	2,000	Gallons	31.81	Minimum Bill
Next	8,000	Gallons	0.01081	Per Gallon
Next	10,000	Gallons	0.01038	Per Gallon
Next	30,000	Gallons	0.00982	Per Gallon
Over	50,000	Gallons	0.00941	Per Gallon

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