

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF MUHLENBERG)	2024-00213
COUNTY WATER DISTRICT)	

ORDER

On July 5, 2024, Muhlenberg County Water District (Muhlenberg District) applied for approval to adjust its rates pursuant to the purchased water adjustment 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 purchases water from Central City Municipal Water & Sewer (Central City) and Todd County Water District (Todd District). Central City notified Muhlenberg District 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 Todd District did not propose any changes. Muhlenberg District proposes to increase the water rates to its customers effective July 1, 2024, to reflect the increased cost of purchased water from Central City.

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 reported a water loss of 20.3522 percent.² In its 2022 Annual Report filed with the Commission, Muhlenberg District reported a water loss of 17.7462 percent.³ In its 2023 Annual Report filed with the Commission, Muhlenberg District reported a water loss of 17.5485 percent.⁴ Muhlenberg District's three-year water loss average is 18.5490 percent.⁵ The approximate cost of Muhlenberg District's total water loss expense based on the three-year average is \$372,784.⁶

¹ TFS2024-00222 (Ky. PSC May 16, 2024) Central City 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 *Annual Report of Muhlenberg County Water District to the Public Service Commission for the Year Ended December 31, 2021* at 57.

³ *Annual Report of Muhlenberg County Water District to the Public Service Commission for the Year Ended December 31, 2022* at 57.

⁴ *Annual Report of Muhlenberg County Water District to the Public Service Commission for the Year Ended December 31, 2023* at 57.

⁵ $20.3522\% + 17.7462\% + 17.5485\% = 55.6469\% / 3 \text{ years} = 18.5490\%$.

⁶ Total water cost at new wholesale rate of \$2,009,729.23 times 18.5490% water loss equals \$372,784.

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 to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Muhlenberg District 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

Based on a review of Commission records, Muhlenberg District has not sought an alternative base rate adjustment since 2012.⁷ As a result, Muhlenberg District has avoided comprehensive review by the Commission of Muhlenberg District's financial records and operational structure for 12 years. Muhlenberg District's only rate increases since 2012 have occurred as a result of purchased water adjustment cases, which only include the pass-through increases from suppliers.⁸

In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.⁹ A key recommendation from that proceeding was that

⁷ See Case No. 2012-00009, *Alternative Rate Adjustment Filing of Muhlenberg County Water District* (Ky. PSC Apr. 30, 2012). Muhlenberg District filed to reduce its Wholesale Rates in 2021; however, that was not also an overall rate adjustment. See Case No. 2021-00210, *Electronic Tariff Filing of Muhlenberg County Water District to Reduce Its Wholesale Water Rates* (Ky. PSC Jan. 18, 2022).

⁸ Case No. 2013-00110, *Purchased Water Adjustment Filing of Muhlenberg County Water District* (Ky. PSC Apr. 5, 2013); Case 2019-00381, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District* (Ky. PSC Nov. 26, 2019); and Case 2022-00241, *Electronic Purchased Water Adjustment Filing of Muhlenberg County Water District* (Ky. PSC Aug. 30, 2022).

⁹ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹⁰

Muhlenberg District's financial snapshot for 2018 through 2022 is presented below.¹¹ Muhlenberg District has not submitted its 2023 audited financial statements and the 2023 annual report has not yet been accepted as submitted. Commission Staff reviewed the draft annual report and concluded that it does not contain sufficient information to provide a confident analysis. Rate based income (adjusted net income minus principal payments) was negative each year. Cash basis income (rate-based income plus depreciation) was positive in each year. Water loss percentage averaged 19.3705 percent for the five-year period and was over 15 percent in each year. In Case No. 2012-00009 the Commission also approved a monthly meter replacement plan surcharge of \$1.91 per customer for 120 months or until \$1,357,255 has been assessed, whichever occurs first.¹² The surcharge is still listed on Muhlenberg District's tariff. Commission Staff did not identify a monitoring case or any follow-up mechanism to determine when the charge should be discontinued.

¹⁰ See Case No. 2019-00041, Nov. 22, 2019 final Order.

¹¹ Muhlenberg County Water District Audit Reports filed with the Commission for the Years Ended December 31, 2018 through 2022; Muhlenberg County Water District Annual Reports filed with the Commission for the Years Ended December 31, 2018 through 2022;

¹² Case No. 2012-00009, *Alternative Rate Adjustment Filing of Muhlenberg County Water District* (Ky. PSC Apr. 30, 2012), final Order.

Description / Year	Audited 2018	Audited 2019	Audited 2020	Audited 2021	Audited 2022
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ (81,389)	\$ (174,176)	\$ (97,283)	\$ 219,282	\$ 30,478
Non-Cash Pension and OPEB Expense / (Income)	142,601	210,644	255,490	47,736	(6,828)
Remove Gain on Asset Sales	(54,327)	(29,225)	(14,441)	(77,020)	(53,251)
Adjusted Net Income / (Loss) before Contributions	\$ 6,885	\$ 7,243	\$ 143,766	\$ 189,998	\$ (29,601)
Subtract: Principal Payments ()	(345,000)	(345,000)	(290,000)	(295,000)	(240,000)
Rate Based Income	\$ (338,115)	\$ (330,514)	\$ (146,234)	\$ (105,002)	\$ (269,601)
Add: Depreciation Expense	535,198	505,323	501,421	476,000	481,618
Cash Basis Income	\$ 197,083	\$ 174,809	\$ 355,187	\$ 370,998	\$ 212,017
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 830,091	\$ 1,035,413	\$ 1,128,432	\$ 1,536,210	\$ 1,555,255
Restricted Funds (exclude construction funds from bond proceeds)	895,120	881,443	784,629	786,662	796,398
Adjusted Cash Balances	1,725,211	1,916,856	1,913,061	2,322,872	2,351,653
Net Increase (Decrease) in Cash		\$ 191,645	\$ (3,795)	\$ 409,811	\$ 28,781
<i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	5,928	5,965	6,019	5,976	5,984
Gallons Purchased	483,200	426,810	401,134	428,277	430,074
Gallons Sold	345,635	334,394	315,981	330,749	343,704
Gallons Used for Internal Use	34,955	15,707	6,748	10,364	10,048
Water Loss Gallons	102,610	76,709	78,405	87,164	76,322
System Use Percentage	7.23%	3.68%	1.68%	2.42%	2.34%
Water Loss Percentage	21.2355%	17.9726%	19.5458%	20.3522%	17.7462%
Gallons Sold Per Customer Per month	4,859	4,672	4,375	4,612	4,786
Revenue	\$ 3,590,852	\$ 3,556,026	\$ 3,740,585	\$ 3,830,852	\$ 4,024,854
Purchased Water Expense	1,280,266	1,155,507	1,318,611	1,421,481	1,488,669
Purchased Water Expense Over 15% Water Loss	79,831	34,349	59,942	76,081	40,883
Water Loss Expense Over 15% as Percentage of Total Revenue	2.22%	0.97%	1.60%	1.99%	1.02%

Purchased Water Adjustment Factor

In its application, Muhlenberg District proposed a purchased water adjustment factor of \$0.95 per 1,000 gallons. During the 12 months ended April 30, 2024, Muhlenberg District purchased 428,573,000 gallons of water from Central City and 2,698,100 gallons of water from Todd District and sold 343,034,800 gallons of water to its customers. The increase in the cost of purchased water from Central City is \$325,715.48, resulting in a purchased water adjustment factor of \$0.95 per 1,000 gallons. No rate changes occurred from Todd District. In its application, Muhlenberg District provided a schedule of Current and Proposed Rates.¹³ The Proposed Rates table contained errors for the 4-inch meter size, the minimum monthly bill is stated as \$487.47, with a dollar increase of \$134.20, and a percent increase of 37.99 percent, which are

¹³ Application, Exhibit C.

mathematically incorrect.¹⁴ The correct monthly minimum bill for the 4-inch meter is \$387.47, an increase of \$34.20, or 9.68 percent. The corrected rate was calculated and added to the Rate Appendix B.

The purchased water adjustment factor of \$0.95 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 Muhlenberg District on and after July 1, 2024, because the rates are supported by evidence of the increase in rates from Muhlenberg District's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015. Further, the Commission finds that additional information is needed to determine the status of the surcharge that was established in Case No. 2012-00009. On or before September 4, 2024, Muhlenberg District shall file its response to the request for information attached to this Order as Appendix C.

Additionally, the Commission finds that on or before October 31, 2025, Muhlenberg District should 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, file a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary.

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 are denied.

¹⁴ Application, Exhibit C.

3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Muhlenberg District on and after July 1, 2024.

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

5. Muhlenberg District shall respond to the request for information attached as Appendix C no later than September 4, 2024.

6. On or before October 31, 2025, Muhlenberg District 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 Muhlenberg District from this requirement.

7. This case shall remain open to determine whether the rates charged by Muhlenberg District are in compliance with 807 KAR 5:068 and KRS 278.160.

PUBLIC SERVICE COMMISSION

Chairman



Vice Chairman

Mary Pat Regan

Commissioner



ATTEST:

Linda C. Bridwell

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00213 DATED AUG 02 2024

	Base Rate	New Rate	Change
<u>Central City</u>			
Purchases in Gallons	428,573,000	428,573,000	
Rate per 1,000 Gallons	<u>\$3.81/1,000</u>	<u>\$4.57/1,000</u>	
Subtotal	\$1,632,863.13	\$1,958,578.61	\$325,715.48
<u>Todd District</u>			
Purchases in Gallons	25,053,100	25,053,100	
Rate per 1,000 Gallons	<u>\$5.87/1,000</u>	<u>\$5.87/1,000</u>	
Subtotal	\$147,061.70	\$147,061.70	\$0.00
Total Water Cost	\$1,779,924.83	\$2,105,640.31	
Increased water cost			\$325,715.48
Increased water cost		\$325,715.48	
Divided by Gallons sold/1,000		<u>343,034,800</u>	
Purchased water adjustment factor		\$0.95	per 1,000 Gallons
		or	
		\$0.00095	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00213 DATED AUG 02 2024

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County 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.

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$30.27	Minimum Bill
Next	8,000 Gallons	0.01132	Per Gallon
Next	10,000 Gallons	0.01066	Per Gallon
Next	30,000 Gallons	0.01001	Per Gallon
Over	50,000 Gallons	0.00935	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$64.23	Minimum Bill
Next	5,000 Gallons	0.01132	Per Gallon
Next	10,000 Gallons	0.01066	Per Gallon
Next	30,000 Gallons	0.01001	Per Gallon
Over	50,000 Gallons	0.00935	Per Gallon

1 1/2-Inch Meter

First	11,000 Gallons	\$131.46	Minimum Bill
Next	9,000 Gallons	0.01066	Per Gallon
Next	30,000 Gallons	0.01001	Per Gallon
Over	50,000 Gallons	0.00935	Per Gallon

2-Inch Meter

First	16,000 Gallons	\$184.74	Minimum Bill
Next	4,000 Gallons	0.01066	Per Gallon
Next	30,000 Gallons	0.01001	Per Gallon
Over	50,000 Gallons	0.00935	Per Gallon

3-Inch Meter

First	26,000 Gallons	\$287.39	Minimum Bill
Next	24,000 Gallons	0.01001	Per Gallon
Over	50,000 Gallons	0.00935	Per Gallon

4-Inch Meter

First	36,000 Gallons	\$387.47	Minimum Bill
Next	14,000 Gallons	0.01001	Per Gallon
Over	50,000 Gallons	0.00935	Per Gallon

Wholesale Rate

0.00686 Per Gallon

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2024-00213 DATED AUG 02 2024

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO MUHLENBERG COUNTY WATER DISTRICT

Muhlenberg County Water District (Muhlenberg District), pursuant to 807 KAR 5:001, shall file with the Commission an electronic version of the following information. The information requested is due on September 4, 2024. The Commission directs Muhlenberg District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹⁵ regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Muhlenberg District shall make timely amendment to any prior response if Muhlenberg District obtains information that indicates the response was incorrect or

¹⁵ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

incomplete when made or, though correct or complete when made, is now incorrect or incomplete in any material respect.

For any request to which Muhlenberg District fails or refuses to furnish all or part of the requested information, Muhlenberg District shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied and scanned material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Muhlenberg District shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Muhlenberg District's tariff at unnumbered sheet 7 of 43 that is dated effective April 30, 2012, that describes the "Surcharge" established in Commission Order 2012. The tariff states "Muhlenberg County Water District is authorized to assess a monthly surcharge of \$1.91 on each customer beginning on May 1, 2012, and continuing for a period of 120 months or until the total amount of the surcharge assessed equals \$1,357,255, whichever comes first."

a. State whether Muhlenberg District currently charges customers for the tariff described above.

b. If Muhlenberg District is no longer charging customers for the tariff described above, state when it discontinued the charges.

c. State where the surcharge billings are reported in Muhlenberg District's (1) Annual Report, and (2) Audited Financial Statements.

2. Provide the following historical information for the surcharge described above.

a. Provide the cumulative amount of surcharge billings and collections through December 31, 2021.

b. Provide the cumulative amount of surcharge expenditures through December 31, 2021.

c. Provide the amount of surcharge billings and collections for each of the periods ended December 31, 2022, December 31, 2023, and year-to-date June 30, 2024.

d. Provide the amount of surcharge expenditures for each of the periods ended December 31, 2022, December 31, 2023, and year-to-date June 30, 2024.

e. State where unexpended surcharge funds are reported in the audited financial statements for each of the years ended December 31, 2021, 2022, and 2023.

f. Provide a copy of the most recent bank statement, with account numbers redacted, for the account in which the surcharge funds are held.

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