

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF MONTGOMERY	)	2024-00268
COUNTY WATER DISTRICT #1	)	

ORDER

On August 21, 2024, Montgomery County Water District No. 1 (Montgomery District #1) 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

Montgomery District #1 purchases water from Mount Sterling Water & Sewer (Mount Sterling). Mount Sterling notified Montgomery District #1 that its wholesale rate would increase from \$3.67 per 1,000 gallons to \$3.82 per 1,000 gallons, effective

September 1, 2024.<sup>1</sup> Montgomery District #1 proposes to increase the water rates to its customers effective September 1, 2024, to reflect the increased cost of purchased water from Mount Sterling.

### 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 2020 Annual Report filed with the Commission, Montgomery District #1 reported a water loss of 23.5545 percent.<sup>2</sup> In its 2021 Annual Report filed with the Commission, Montgomery District #1 reported a water loss of 16.3033 percent.<sup>3</sup> In its 2022 Annual Report filed with the Commission, Montgomery District #1 reported a water loss of 16.7207 percent.<sup>4</sup> Montgomery District #1's three-year water loss average is 18.8595 percent.<sup>5</sup> The cost of Montgomery District #1's total water loss based on the three-year average is \$33,989.51.<sup>6</sup>

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<sup>1</sup> TFS2024-00329 (Ky. PSC July 17, 2024); Montgomery District #1 submitted the tariff on July 17, 2024, and the tariff was accepted for filing by the Commission by letter dated August 29, 2024, with an effective date of September 1, 2024.

<sup>2</sup> *Annual Report of Montgomery District #1 to the Public Service Commission for the Year Ended December 31, 2020* at 57.

<sup>3</sup> *Annual Report of Montgomery District #1 to the Public Service Commission for the Year Ended December 31, 2021* at 57.

<sup>4</sup> *Annual Report of Montgomery District #1 to the Public Service Commission for the Year Ended December 31, 2022* at 46.

<sup>5</sup>  $23.5545\% + 16.3033\% + 16.7207\% = 56.5785\% / 3 \text{ years} = 18.8595\%$ .

<sup>6</sup> Total water cost at new wholesale rate of \$180,224.85 times 18.8595% water loss equals \$33,989.51.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Montgomery District #1 to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Montgomery District #1 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, Montgomery District #1 last sought a general base rate adjustment in 2023.<sup>7</sup> Case No. 2023-00284 resulted in an authorized increase to Montgomery District #1 rates of \$101,655, or 26.23 percent.<sup>8</sup>

The Commission notes that Montgomery District #1 has not submitted its 2023 audited financial statements and the 2023 Annual Report is missing several water statistics components and depreciation expense. As such, the Commission cannot review whether the remainder of the reported income statement is complete due to the omitted items.

Based upon a review of the annual and audit reports filed with the Commission,<sup>9</sup> Montgomery District #1's rate-based income (adjusted net income minus principal payments) was negative in each year. Cash basis income (rate-based income plus depreciation expense) was positive in all years except 2022 which reflected -\$1,436. Given this information, the Commission recommends Montgomery District #1 monitor its

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<sup>7</sup> Case No. 2023-00284, *Electronic Application of Montgomery County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC March 4, 2024).

<sup>8</sup> Case No. 2023-00284, March 4, 2024 final Order.

<sup>9</sup> Montgomery District #1 Audit Reports 2018–2022.

operating performance annually and consider filing future rate cases no less than every three to five years, depending on operating performance, to ensure that its revenue is sufficient to support adequate and reliable service.

#### Purchased Water Adjustment Factor

In its application, Montgomery District #1 proposed a purchased water adjustment factor of \$0.19 per 1,000 gallons. During the 12 months ended June 30, 2024, Montgomery District #1 purchased 47,179,280 gallons of water from Mount Sterling and sold 36,464,810 gallons of water to its customers. According to Montgomery District #1, the increase in the cost of purchased water from Mount Sterling is \$6,743, resulting in a purchased water adjustment factor of \$0.19 per 1,000 gallons. The Commission found several errors in the calculations provided by the district,<sup>10</sup> accounting for these errors the correct increase in the cost of purchased water is \$7,076.89, which still results in a purchase water adjustment factor of \$0.19 per 1,000 gallons.

The purchased water adjustment factor of \$0.19 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 Montgomery District #1 on and after September 1, 2024, because the rates are supported by evidence of the increase in rates from Montgomery District #1's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

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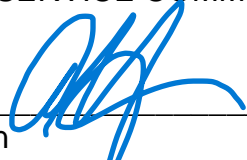
<sup>10</sup> The calculations provided by Montgomery District #1 utilized 44,957,642 as the number of gallons purchased during the 12-month period resulting in an increased water cost of \$6,743.65. However, the number of gallons purchased during the 12-month period showed in the PWA form is 47,179,280 resulting in an increased water cost of \$7,076.89. Another error was discovered in the Monthly Water Rates comparison provided by Montgomery District #1 where the new wholesale rate was calculated incorrectly as \$0.005319 per gallon after the PWA factor was added, the correct amount is \$0.00549 per gallon.

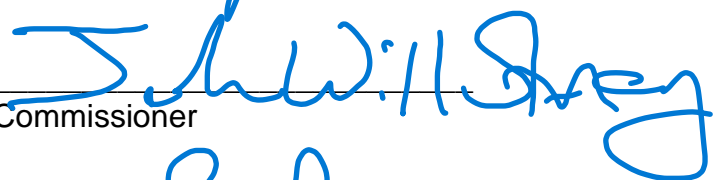
IT IS THEREFORE ORDERED that:

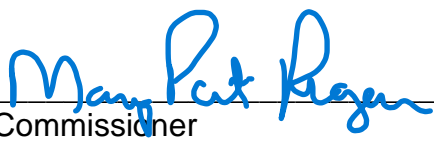
1. The purchased water adjustment factor of \$0.19 per 1,000 gallons is approved.
2. The rates proposed by Montgomery District #1 are denied.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Montgomery District #1 on and after September 1, 2024.
4. Within 20 days of the date of service of this Order, Montgomery District #1 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

  
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Chairman

  
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Commissioner

  
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Commissioner

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KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00268 DATED SEP 20 2024

	Base Rate	New Rate	Change
<u>Mt. Sterling W&amp;S</u>			
Purchases in Gallons	47,179,280	47,179,280	
Rate per 1,000 Gallons	<u>\$3.67/1,000</u>	<u>\$3.82/1,000</u>	
Subtotal	\$173,147.96	\$180,224.85	\$7,076.89
Increased water cost			\$7,076.89
Increased water cost		\$7,076.89	
Divided by Gallons sold/1,000		<u>36,464,810</u>	
Purchased water adjustment factor		\$0.19	per 1,000 Gallons
		or \$ 0.00019	per Gallon

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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00268 DATED SEP 20 2024

The following rates and charges are prescribed for the customers in the area served by Montgomery County Water District No. 1. 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	34.71 Minimum Bill
Next	3,000 Gallons	0.01145 Per Gallon
Next	5,000 Gallons	0.01043 Per Gallon
Over	10,000 Gallons	0.00941 Per Gallon
Wholesale Rate		0.00549 Per Gallon



\*Montgomery County Water District #1  
4412 Camargo Road  
Mt. Sterling, KY 40353

\*Sandra Morton  
Montgomery County Water District #1  
4412 Camargo Road  
Mt. Sterling, KY 40353