

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT OF FOUNTAIN RUN WATER)	2024-00376
DISTRICT NO.1)	

ORDER

On December 4, 2024, Fountain Run Water District #1 (Fountain Run District #1) tendered an application requesting approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.015 and 807 KAR 5:068.¹ On December 12, 2024, Fountain Run District #1 submitted further documentation to correct the filing deficiencies, and the application was deemed filed as of December 12, 2024.

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.

¹ On December 5, 2024, Fountain Run District #1 was notified that its application was rejected for certain filing deficiencies.

DISCUSSION AND FINDINGS

Fountain Run District #1 purchases water from Glasgow Water Company (Glasgow). Glasgow notified Fountain Run District #1 that its wholesale rate would increase from \$1.95 per 1,000 gallons to \$2.01 per 1,000 gallons, effective November 30, 2024.² Fountain Run District #1 proposed to increase the water rates to its customers effective December 1, 2024, to reflect the increased cost of purchased water from Glasgow.

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, Fountain Run District #1 reported a water loss of 28.1364 percent.³ In its 2022 Annual Report filed with the Commission, Fountain Run District #1 reported a water loss of 21.9626 percent.⁴ In its 2023 Annual Report filed with the Commission, Fountain Run District #1 reported a water loss of 15.9395 percent.⁵ Fountain Run District #1's three-year water loss average is

² TFS2024-00483 (Ky. PSC Oct. 3, 2024); Glasgow submitted the tariff on Oct. 3, 2024, and the tariff was accepted for filing by the Commission by letter dated Nov. 27, 2024, with an effective date of Nov. 30, 2024.

³ *Annual Report of Fountain Run District #1 to the Public Service Commission for the Year Ended December 31, 2021* at 57.

⁴ *Annual Report of Fountain Run District #1 to the Public Service Commission for the Year Ended December 31, 2022* at 57.

⁵ *Annual Report of Fountain Run District #1 to the Public Service Commission for the Year Ended December 31, 2023* at 57.

22.0128 percent.⁶ The annual cost of Fountain Run District #1's total water loss using the three-year average is \$23,049.37.⁷

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. To address water loss issues, the Commission strongly encourages water districts to pursue reasonable actions to reduce its unaccounted-for water loss. Here, the Commission recognizes the improvements made by Fountain Run District #1 and encourages it to continue to actively address water loss issues with infrastructure planning and improvements.

Financial Condition and Rates

Based on a review of Commission records, Fountain Run District #1 has not sought a general base rate adjustment since 2018. In 2018, Fountain Run District #1's filed an alternative rate adjustment, Case No. 2018-00205,⁸ using 2017 as the test year that resulted in an increase of \$74,272, or 32.27 percent. The 2018 rate increase was phased in over a two-year period. No other rate increases have occurred since that time.

As documented in annual and audit reports filed with the Commission, Fountain Run District #1's rate based income (adjusted net income minus principal payments) was negative for the years 2019 through 2022 with a positive rate based income in 2023. Fountain Run District #1's cash basis income (rate based income plus depreciation

⁶ $28.1364 (2021) + 21.9626 (2022) + 15.9395 (2023) = 66.0395 / 3 \text{ years} = 22.0128\%$.

⁷ Total water cost at new wholesale rate of \$104,708.94 times 22.0128% water loss equals \$23,049.37.

⁸ Case No. 2018-00205, *Application of Fountain Run Water District No. 1 for Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Nov. 19, 2018), final Order.

expense) was positive for the years 2019-2023. Fountain Run District #1's financial snapshot for 2019 through 2023 is presented below.

Description / Year	Audited 2019	Audited 2020	Audited 2021	Audited 2022	Audited 2023
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ 4,692	\$ 308	\$ 19,337	\$ (1,959)	\$ 34,307
Subtract: Principal Payments ()	(21,000)	(21,000)	(22,000)	(22,000)	(24,000)
Rate Based Income	\$ (16,308)	\$ (20,692)	\$ (2,663)	\$ (23,959)	\$ 10,307
Add: Depreciation Expense	54,183	50,438	54,245	48,067	48,784
Cash Basis Income	\$ 37,875	\$ 29,746	\$ 51,582	\$ 24,108	\$ 59,091
Cash Basis Income as Percent of Depreciation	70%	59%	95%	50%	121%
Capital Spending	\$ 9,412	\$ 1,725	\$ 4,956	\$ 4,795	\$ 9,894
<i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 126,320	\$ 164,554	\$ 209,693	\$ 202,578	\$ 242,656
Restricted Funds	88,176	90,886	61,583	95,556	97,481
Adjusted Cash Balances	214,496	255,440	271,276	298,134	340,137
Net Increase (Decrease) in Cash	\$ 22,165	\$ 40,944	\$ 15,836	\$ 26,858	\$ 42,003
<i>Selected Statistical Information (PSC Annual Reports)</i>					
	2019	2020	2021	2022	2023
Customer Count	527	532	534	538	538
Gallons Purchased	47,686	49,536	52,480	50,586	45,403
Gallons Sold	36,730	34,576	37,207	39,068	37,712
Gallons Used for Internal Use	328	526	507	408	454
Water Loss Gallons	10,628	14,434	14,766	11,110	7,237
System Use Percentage	0.69%	1.06%	0.97%	0.81%	1.00%
Water Loss Percentage	22.2875%	29.1384%	28.1364%	21.9626%	15.9395%
Gallons Sold Per Customer Per Month	5,808	5,416	5,806	6,051	5,841
Revenues from the Sale of Water	\$ 293,697	\$ 296,296	\$ 320,458	\$ 328,779	\$ 324,421
Purchased Water Expense	93,840	96,596	102,334	98,732	88,764
Purchased Water Expense Over 15% Water Loss	6,839	13,657	13,443	6,874	834
Water Loss Expense Over 15% as Percentage of Water Revenue	2.33%	4.61%	4.19%	2.09%	0.26%

Fountain Run District #1's negative rate based income for four out of five years leads the Commission to conclude that Fountain Run District #1 should file an application for a general base rate adjustment or an alternative rate adjustment by July 31, 2025, using 2024 as the test year, to ensure that its revenue is sufficient to support adequate and reliable service or present sufficient proof as to why such an adjustment is unnecessary.

Purchased Water Adjustment Factor

In its application, Fountain Run District #1 proposed a purchased water adjustment factor of \$0.08 per 1,000 gallons. During the 12 months ended September 30, 2024, Fountain Run District #1 purchased 52,094,000 gallons of water from Glasgow and sold 41,059,100 gallons of water to its customers. The increase in the cost of purchased water from Glasgow is \$3,125.64, resulting in a purchased water adjustment factor of \$0.08 per 1,000 gallons.

The purchased water adjustment factor of \$0.08 per 1,000 gallons, as calculated in Appendix A, and the rates as proposed by Fountain Run District #1, and set forth in Appendix B to this Order, are fair, just and reasonable and should be approved for water service rendered by Fountain Run District #1 on and after December 1, 2024. Fountain Run District #1's proposed rates are fair, just and reasonable because the rates are supported by evidence of the increase in rates from Fountain Run District #1's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.015.

On or before July 31, 2025, Fountain Run District #1 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 \$0.08 per 1,000 gallons is approved.

2. The rates proposed by Fountain Run District #1 are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Fountain Run District #1 on and after December 1, 2024.
4. Within 20 days of the date of service of this Order, Fountain Run District #1 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, Fountain Run District #1 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, file 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 Fountain Run District #1 from this requirement.
6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ATTEST:

 

Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00376 DATED JAN 7 2025

	Base Rate	New Rate	Change
<u>Glasgow</u>			
Purchases in Gallons	52,094,000	52,094,000	
Rate per 1,000 Gallons	<u>\$1.95/1,000</u>	<u>\$2.01/1,000</u>	
Subtotal	\$101,583.30	\$104,708.94	\$3,125.64
Total	\$101,583.30	\$104,708.94	
Increased water cost			\$3,125.64
Increased water cost		\$3,125.64	
Divided by Gallons sold/1,000		<u>41,059,100</u>	
Purchased water adjustment factor		\$0.0761	per 1,000 Gallons
		or \$ 0.00008	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00376 DATED JAN 7 2025

The following rates and charges are prescribed for the customers in the area served by Fountain Run Water District #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

5/8 X 3/4-Inch Meter

First	2,000 Gallons	18.96	Minimum Bill
Next	8,000 Gallons	0.00843	Per Gallon
Next	10,000 Gallons	0.00718	Per Gallon
Over	20,000 Gallons	0.00588	Per Gallon

1-Inch Meter

First	5,000 Gallons	44.25	Minimum Bill
Next	5,000 Gallons	0.00843	Per Gallon
Next	10,000 Gallons	0.00718	Per Gallon
Over	20,000 Gallons	0.00588	Per Gallon

2-Inch Meter

First	20,000 Gallons	158.20	Minimum Bill
Over	20,000 Gallons	0.00588	Per Gallon

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