

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TREATED SEWAGE)	CASE NO.
ADJUSTMENT FILING OF HARDIN COUNTY)	2024-00383
WATER DISTRICT NO. 2)	

ORDER

On December 5, 2024, Hardin County Water District #2 (Hardin District #2) applied for approval to adjust its rates pursuant to the treated sewage adjustment procedure set forth in KRS 278.015 and 807 KAR 5: 075.

LEGAL STANDARD

In accordance with KRS 278.015 and 807 KAR 5:075, which govern treated sewage adjustment filings, a jurisdictional utility may increase its rates to pass through an increase in its provider's base rate. Commission regulation 807 KAR 5:075 authorizes a water district to file a treated sewage adjustment no earlier than 30 days prior to the proposed effective date of a wholesale provider's changed rate or no later than 20 days after adjusting for the provider's changed rate. KRS 278.015 requires the Commission to approve a treated sewage adjustment no later than 30 days after a district files notice of a rate increase from its sewage treatment provider and the volume of sewage treated used to calculate the increase in rates.

DISCUSSION AND FINDINGS

Hardin District #2 purchases wastewater treatment services from city of Elizabethtown (Elizabethtown). Elizabethtown notified Hardin District #2 that its treatment

rates would increase approximately 22.5 percent, from the old tiers of \$2.46 per 1,000 gallons for the first 2,000,000 gallons to \$3.01 per 1,000; \$2.33 per 1,000 gallons for the next 3,000,000 gallons to 2.85 per 1,000 gallons; \$2.20 per 1,000 gallons to \$ 2.70 per gallons for the next 10,000,000 gallons; and \$2.07 per 1,000 gallons to \$2.54 per 1,000 gallons for over 15,000,000 gallons. Hardin District #2 proposes to increase the sewer rates to its customers effective December 1, 2024, to reflect the increased cost of wastewater treatment from Elizabethtown.¹

Financial Condition and Rates

Based on a review of Commission records, Hardin District #2 has not sought a general base rate adjustment since its inception in January of 2020.

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.² A key recommendation from that proceeding was that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.³

The Commission reviewed the annual and audit reports filed and notes that Hardin District #2's rate based income (adjusted net income minus principal payments) was negative for all years from 2020 through 2023, while cash basis income (rate based

¹ TFS2024-00497 (Ky. PSC October 17, 2024); Elizabethtown submitted the tariff on October 17, 2024, and the tariff was accepted for filing by the Commission by letter dated November 27, 2024, with an effective date of December 1, 2024.

² See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

³ See Case No. 2019-00041, Nov. 22, 2019 final Order.

income plus depreciation expense) was positive for all years.⁴ The average rate based income shortfall as a percentage of revenues, was 81.9 percent,⁵ with minimal year to year variation. The average monthly bill for all customers (based on end of year customer counts) was \$433.66,⁶ while a bill based on 4,000 gallons of water consumption is \$50.⁷ Based on the average income shortfall, the average bill amounts above would increase to \$789.24 and \$91, respectively, if rates were established based on the average income shortfall. Hardin District #2's financial snapshot for 2020 through 2023 is presented below.

⁴ Auditor's Report of Hardin District #2 to the Public Service Commission for the Year Ended December 31, 2020 at 59, December 31, 2021 at 59, December 31, 2022 at 65, and December 31, 2023 at 57.

⁵ Income shortfall as % of revenue = 82.1% + 81.3% + 84.5% + 79.6 = 327.5% / 4 = 81.9%.

⁶ Average Monthly Bill (based on customer count) = \$444.01 + \$474.97 + \$454.73 + \$360.93 = \$1,734.64 / 4 = \$433.66.

⁷ Hardin District #2 Application, Notice of Proposed Adjustment of Sewer Rates at 20.

Description / Year	Audited 2020	Audited 2021	Audited 2022	Audited 2023
<i>Adjusted Net Income</i>				
Rate Based Income	\$ (157,468)	\$ (171,469)	\$ (179,926)	\$ (168,838)
Add: Depreciation Expense	268,951	293,401	293,938	295,878
Cash Basis Income	\$ 111,483	\$ 121,932	\$ 114,012	\$ 127,040
Cash Basis Income as Percent of Depreciation	41%	42%	39%	43%
<i>Cash and Investments</i>				
Unrestricted Cash and Investments	\$ 168,246	\$ 354,499	\$ 462,618	\$ 457,652
Restricted Funds	468,807	408,174	419,239	345,860
Adjusted Cash Balances	\$ 637,053	\$ 762,673	\$ 881,857	\$ 803,512
Net Increase (Decrease) in Cash		\$ 125,620	\$ 119,184	\$ (78,345)
<i>Selected Statistical Information (PSC Annual Reports)</i>				
Customer Count	36	37	39	49
Revenues from Sewage Services	\$ 191,811	\$ 210,885	\$ 212,813	\$ 212,229
Income Shortfall as % of Revenue	82.1%	81.3%	84.5%	79.6%
Average Monthly Bill (based on customer count)	\$ 444.01	\$ 474.97	\$ 454.73	\$ 360.93
Pro Forma Monthly Bill (based on shortfall)	\$ 808.52	\$ 861.16	\$ 839.19	\$ 648.07

Based on the average income shortfall, the Commission concludes that Hardin District #2 should file an application for a general base rate adjustment, or an alternative rate adjustment, no later than July 31, 2025, based on Hardin District #2's reported financial results from 2024, to ensure that its revenue is sufficient to support adequate and reliable service.

Treated Sewage Adjustment Factor

In its application, Hardin District #2 proposed a treated sewage adjustment factor of \$0.45 per 1,000 gallons.⁸ During the 12 months ended November 30, 2024, Hardin District #2 purchased treatment for 46,400,000 gallons of water from Elizabethtown and sold 53,484,852 gallons of water to its customers. The increase in the cost of wastewater

⁸ Hardin District #2 Application at 2.

treatment from Elizabethtown is \$0.45, resulting in a treated sewage adjustment factor of \$0.45 per 1,000 gallons.

The treated sewer adjustment factor of \$0.45 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 sewer service rendered by Hardin District #2 on and after December 1, 2024, because the rates are supported by evidence of the increase in rates from Hardin District #2's wholesale sewage treatment provider and the volume of wastewater treatment used to calculate the rates in accordance with KRS 278.015.

IT IS THEREFORE ORDERED that:

1. The treated sewage adjustment factor of \$0.45 per 1,000 gallons is approved.
2. The rates proposed by Hardin District #2 are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Hardin District #2 on and after December 1, 2024.
4. Within 20 days of the date of service of this Order, Hardin District #2 shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. Hardin District #2 shall file an application for a general base rate adjustment, an alternative rate adjustment, or show cause why a base rate adjustment is unnecessary no later than July 31, 2025.
6. This case is closed and removed from the Commission's docket.

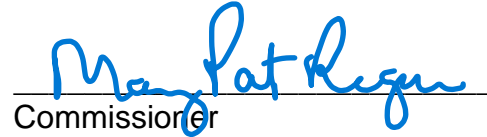
PUBLIC SERVICE COMMISSION



Chairman

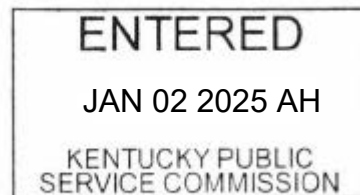


Commissioner



Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00383 DATED JAN 02 2025

Hardin County Water District #2
Wastewater Treatment in Gallons

Elizabethtown Rates

<u>Gallons</u>		<u>Current Rate</u>		<u>New Rate</u>
0 - 2,000,000	\$	2.46	\$	3.01
2,000,000 - 5,000,000	\$	2.33	\$	2.85
5,000,000 - 15,000,000	\$	2.20	\$	2.70
Over 15,000,000	\$	2.07	\$	2.54

Date	Gallons Sold by HCWD2	Gallons Treated by City of Elizabethtown	Cost of Treatment at Current Rate	Cost of Treatment at New Rate
Dec-23	1,951,390	1,471,000	\$ 3,619	\$ 4,428
Jan-24	1,661,970	1,873,000	\$ 4,608	\$ 5,638
Feb-24	1,655,180	3,366,000	\$ 7,843	\$ 9,593
Mar-24	5,455,910	3,070,000	\$ 7,153	\$ 8,750
Apr-24	4,540,390	1,929,000	\$ 4,745	\$ 5,806
May-24	3,539,420	3,335,000	\$ 7,771	\$ 9,505
Jun-24	4,991,550	4,851,000	\$ 11,303	\$ 13,825
Jul-24	8,920,430	4,497,000	\$ 10,478	\$ 12,816
Aug-24	4,211,690	5,659,000	\$ 12,450	\$ 15,279
Sep-24	6,239,154	5,863,000	\$ 12,899	\$ 15,830
Oct-24	5,233,267	5,114,000	\$ 11,251	\$ 13,808
Nov-24	5,083,501	5,372,000	\$ 11,818	\$ 14,504
Total	53,483,852	46,400,000	\$ 105,936	\$ 129,782

Total Current Rate \$105,936
Total Proposed Rate \$129,782

Increased cost of treatment \$23,846
Divided by Gallons sold/1,000 53,483,852
Treated sewage adjustment factor \$0.4459 per 1,000 Gallons

or \$0.00045 per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00383 DATED JAN 02 2025

The following rates and charges are prescribed for the sewer customers in the area served by Hardin County Water District #2. 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 Sewer Rates

First	2,000 Gallons	\$30.90	Minimum Bill
Over	2,000 Gallons	\$0.01045	Per Gallon

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