

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF NORTH SHELBY)	2024-00165
WATER COMPANY)	

ORDER

On June 3, 2024, North Shelby Water Company (North Shelby Water) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 and 807 KAR 5:068.

LEGAL STANDARD

In accordance with KRS 278.012, when a wholesale supplier selling water to a water association increases its rates, the water association has the authority to increase its rate commensurate with the wholesale supplier. The water association 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

North Shelby Water purchases water from Louisville Water Company (Louisville Water), Shelbyville Municipal Water and Sewer Commission (Shelbyville), Frankfort Electric and Water Plant Board (Frankfort), and, on an emergency basis only, West Shelby Water District (West Shelby District). Louisville Water notified North Shelby Water

that effective July 1, 2024, its wholesale rate would increase from \$2.13 per 1,000 gallons, with an Elevated Area Surcharge of \$0.50 per 1,000 gallons, to \$2.19 per 1,000 gallons, with an Elevated Area Surcharge of \$0.53 per 1,000 gallons, and its monthly service charges would increase from \$150.72 per 4-inch meter to \$157.95 per 4-inch meter.¹ Shelbyville notified North Shelby Water that its wholesale rate would increase from \$2.41 per 1,000 gallons to 2.47 per 1,000 gallons, effective May 19, 2024.² North Shelby Water proposes to increase the water rates to its customers effective July 1, 2024, to reflect the increased cost of purchased water from Louisville Water and Shelbyville. Frankfort and West Shelby District did not propose any rate changes.

Commission Staff found an error in North Shelby Water's calculations where the increased water cost for Louisville Water is represented incorrectly as \$28,620.60.³ The correct amount for Louisville Water's increased water cost is \$28,953.36 as shown in Appendix A.

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 2023 Annual Report filed with the Commission, North Shelby Water

¹ TFS2024-00123 (Ky. PSC Mar. 27, 2024); Louisville Water submitted the tariff on March 27, 2024, and the tariff was accepted for filing by the Commission by letter dated June 20, 2024, with an effective date of July 1, 2024.

² TFS2024-00165 (Ky. PSC Apr. 11, 2024); Shelbyville submitted the tariff on April 11, 2024, and the tariff was accepted for filing by the Commission by letter dated May 16, 2024, with an effective date of May 19, 2024.

³ Application, Exhibit A-3.

reported a water loss of 9.8697 percent.⁴ In its 2022 Annual Report filed with the Commission, North Shelby Water reported a water loss of 14.4504 percent.⁵ In its 2021 Annual Report filed with the Commission, North Shelby Water reported a water loss of 16.6842 percent.⁶ North Shelby Water's three-year water loss average is 13.6681 percent.⁷ Using the three-year water loss average of 13.6681 percent, the approximate cost of North Shelby Water's total water loss based on current consumption is \$195,120.39.⁸

Financial Condition and Rates

Based on a review of Commission records, North Shelby Water's most recent general base rate adjustment occurred in Case No. 2022-00317 in which the Commission approved an increase in revenue from water sales by \$74,956 or 2.18 percent.⁹ The rate adjustment approved in Case No. 2022-00317 increased a typical residential customer's monthly bill, using 5,692 gallons, by \$1.04 from \$48.01 to \$49.05.

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

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

⁵ *Annual Report of North Shelby Water to the Public Service Commission for the Year Ended December 31, 2022* at 57.

⁶ *Annual Report of North Shelby Water to the Public Service Commission for the Year Ended December 31, 2021* at 57.

⁷ $9.8697 + 14.4504 + 16.6842 = 41.0043 / 3 \text{ years} = 13.6681\%$.

⁸ Total water cost at new wholesale rate of \$1,427,560.43 times 13.6681% water loss equals \$195,120.39.

⁹ Case No. 2022-00317, *Electronic Application of North Shelby Water Company for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 15, 2023), final Order.

financing cases to increase rates.¹⁰ A key recommendation from that proceeding was that water associations should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹¹

Based upon a review of the annual and audit reports filed with the Commission, North Shelby Water's rate-based income (adjusted operating income minus principal debt service payments) increased by \$331,687 from 2022 to 2023 primarily due to a 6 percent increase in gallons sold and the improvement in water loss. The Commission recommends North Shelby Water review its financial performance annually and consider filing future rate requests every three to five years depending on inflation and operating performance.

Purchased Water Adjustment Factor

In its application, North Shelby Water proposed a purchased water adjustment factor of \$0.08 per 1,000 gallons. During the 12 months ended April 30, 2024, North Shelby Water purchased 317,848,000 gallons of water from Louisville Water, 133,662,111 gallons of water from Shelbyville and 79,326,360 gallons of water from Frankfort. North Shelby Water sold 530,836,471 gallons of water to its customers during the same 12-month period. The increase in the cost of purchased water from Louisville Water and Shelbyville is \$36,640.32, resulting in a purchased water adjustment factor of \$0.08 per 1,000 gallons.

¹⁰ See Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

¹¹ See Case No. 2019-00041, Nov. 22, 2019 final Order.

The purchased water adjustment factor of \$0.08 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 North Shelby Water on and after July 1, 2024, because the rates are supported by evidence of the increase in rates from North Shelby Water 's wholesale water suppliers and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

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 North Shelby Water are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by North Shelby Water on and after July 1, 2024.
4. Within 20 days of the date of service of this Order, North Shelby Water 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.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00165 DATED JUL 03 2024

	Base Rate	New Rate	Change
<u>Shelbyville</u>			
Purchases in Gallons	133,662,111	133,662,111	
Rate per 1,000 Gallons	<u>\$2.41/1,000</u>	<u>\$2.47/1,000</u>	
Subtotal	\$322,125.69	\$330,145.41	\$8,019.72
<u>Louisville Water Company</u>			
Purchases in Gallons	317,848,000	317,848,000	
Rate per 1,000 Gallons	<u>\$2.63/1,000</u>	<u>\$2.72/1,000</u>	
Subtotal	\$835,940.24	\$864,546.56	\$28,606.32
Months	12	12	
Charge per 4-Inch Meter	\$150.72	\$157.95	
Number of meters	4	4	
Subtotal	<u>\$7,234.56</u>	<u>\$7,581.60</u>	\$347.04
<u>Frankfort</u>			
Purchases in Gallons	79,326,360	79,326,360	
Rate per 1,000 Gallons	<u>\$2.84/1,000</u>	<u>\$2.84/1,000</u>	
Subtotal	\$225,286.86	\$225,286.86	\$0.00
Total Water Cost	\$1,390,587.35	\$1,427,560.43	
Increased water cost			\$36,973.08
Increased water cost		\$36,973.08	
Divided by Gallons sold/1,000		<u>507,157,700</u>	
Purchased water adjustment factor (per 1,000 gallons)		\$0.08	
	or	\$0.00008	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00165 DATED JUL 03 2024

The following rates and charges are prescribed for the customers in the area served by North Shelby Water Company. 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	\$23.87	Minimum Bill
Next	3,000 Gallons	0.00815	Per Gallon
Next	5,000 Gallons	0.00673	Per Gallon
Next	40,000 Gallons	0.00604	Per Gallon
Over	50,000 Gallons	0.00534	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$48.32	Minimum Bill
Next	5,000 Gallons	0.00673	Per Gallon
Next	40,000 Gallons	0.00604	Per Gallon
Over	50,000 Gallons	0.00534	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$82.02	Minimum Bill
Next	40,000 Gallons	0.00604	Per Gallon
Over	50,000 Gallons	0.00534	Per Gallon

2-Inch Meter

First	15,000 Gallons	\$112.22	Minimum Bill
Next	35,000 Gallons	0.00604	Per Gallon
Over	50,000 Gallons	0.00534	Per Gallon

3-Inch Meter

First	35,000 Gallons	\$233.02	Minimum Bill
Next	15,000 Gallons	0.00604	Per Gallon
Over	50,000 Gallons	0.00534	Per Gallon

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