

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF GARRARD COUNTY)	2024-00323
WATER ASSOCIATION, INC.)	

ORDER

On October 2, 2024, Garrard County Water Association, Inc. (Garrard Water) tendered an application requesting approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 and 807 KAR 5:068. On October 10, 2024, the Commission notified Garrard Water that its application was rejected for certain filing deficiencies. On October 10, 2024, Garrard Water submitted further documentation to correct the filing deficiencies, and the application was deemed filed as of October 10, 2024.

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

Garrard Water purchases water from the city of Lancaster (Lancaster), the city of Danville (Danville) and the city of Berea (Berea). Lancaster notified Garrard Water that its wholesale rate would increase from \$2.49 per 1,000 gallons to \$2.63 per 1,000 gallons for the first 325,000,000 gallons, and from \$1.40 per 1,000 gallons to \$1.48 per 1,000 gallons for over 325,000,000 gallons, effective September 26, 2024.¹ Garrard Water proposed to increase the retail water rates to its customers effective September 26, 2024, to reflect the increased cost of purchased water from Lancaster. Garrard Water did not propose changing the rate for Bulk Sales.² Danville and Berea proposed no rate changes.

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, Garrard Water reported a water loss of 27.7554 percent.³ In its 2022 Annual Report filed with the Commission, Garrard Water reported a water loss of 19.0662 percent.⁴ In its 2023 Annual Report filed with the Commission, Garrard Water reported a water loss of 20.9261 percent.⁵ Garrard

¹ See Case No. 2023-00424, *Electronic Tariff Filing of the City of Lancaster to Increase the Wholesale Rate Charged to Garrard County Water Association* (Ky. PSC Sept. 26, 2024), final Order.

² Response to Deficiency (filed Oct. 10, 2024), paragraph 4.

³ *Annual Report of Garrard Water to the Public Service Commission for the Year Ended December 31, 2021* at 58.

⁴ *Annual Report of Garrard Water to the Public Service Commission for the Year Ended December 31, 2022* at 58.

⁵ *Annual Report of Garrard Water to the Public Service Commission for the Year Ended December 31, 2023* at 58.

Water's three-year water loss average is 22.5826 percent.⁶ The cost of Garrard Water's total water loss using a three-year average is \$266,997.96.⁷

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Garrard Water to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Garrard Water 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, Garrard Water has not sought a general base rate adjustment in many decades, Garrard Water's only rate increases have occurred as a condition for federal financing of a construction project in accordance with KRS 278.023.⁸ In accordance with the provisions of KRS 278.023, the Commission's review of such applications is a limited review of a utility's total financial stability and operational viability.

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

⁶ $27.7554\% (2021) + 19.0662\% (2022) + 20.9261\% (2023) = 67.7477 / 3 \text{ years} = 22.5826\%$.

⁷ Total water cost at new wholesale rate of \$1,182,317.19 (See Appendix A) times 22.5826% water loss equals \$266,997.96.

⁸ Case No. 2023-00276, *Electronic Application of Garrard County Water Association, Inc. for a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project, Finance, and Increase in Rates Pursuant to the Provisions of KRS 278.023* (Ky. PSC Dec. 13, 2023).

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

Based upon a review of the annual and audit reports filed with the Commission, Garrard Water filed a federally funded construction project and proposed rate increase (KRS 278.023) case in 2022 which increased rates 6.31 percent.¹¹ Rate based income (adjusted net income minus principal payments) was negative in the years 2019, 2020, 2021, and 2022. Rate based income was positive in 2023, which reflected the rate increase authorized in Case No. 2022-00276.¹² Cash basis income (rate based income minus depreciation expense) was positive in the most recent five years. The Commission recommends Garrard Water monitor its operating performance annually to determine whether a rate adjustment application should be submitted. Future rate cases should be filed at least every three to five years to ensure that the Commission has appropriate oversight of a utility's rate analysis.

Purchased Water Adjustment Factor

In its application, Garrard Water proposed a purchased water adjustment factor of \$0.16 per 1,000 gallons. During the 12 months ended July 31, 2024, Garrard Water purchased 423,878,136 gallons of water from Lancaster, 25,950,900 gallons of water from Danville and sold 340,699,914 gallons of water to its customers. Garrard Water made no purchases from Berea. The increase in the cost of purchased water from

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

¹¹ Case No. 2022-00276, Dec. 13, 2023 final Order.

¹² Case No. 2022-00276, Dec. 13, 2023 final Order.

Lancaster is \$53,410.25, resulting in a purchased water adjustment factor of \$0.16 per 1,000 gallons. No rate changes occurred from Danville and Berea.

The Commission finds the purchased water adjustment factor of \$0.16 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 Garrard Water on and after September 26, 2024, because the rates are supported by evidence of the increase in rates from Garrard Water's wholesale water supplier 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 \$0.16 per 1,000 gallons is approved.
2. The rates proposed by Garrard Water are approved.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Garrard Water on and after September 26, 2024.
4. Within 20 days of the date of service of this Order, Garrard 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



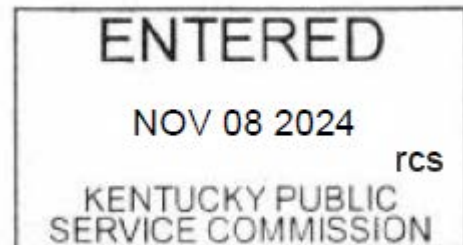
Chairman



Commissioner



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00323 DATED NOV 08 2024

	Base Rate	New Rate	Change
<u>Lancaster</u>			
Purchases in Gallons	325,000,000	325,000,000	
Rate per 1,000 Gallons	<u>\$2.49/1,000</u>	<u>\$2.63/1,000</u>	
Subtotal	\$809,250.00	\$854,750.00	\$45,500.00
 <u>Lancaster</u>			
Purchases over 350,000,000 Gallons	98,878,136	98,878,136	
Rate per 1,000 Gallons	<u>\$1.40/1,000</u>	<u>\$1.48/1,000</u>	
Subtotal	\$138,429.39	\$146,339.64	\$7,910.25
 Kentucky River Association			
Purchases in Gallons	423,878,136	423,878,136	
Rate per 1,000 Gallons	<u>\$0.28/1,000</u>	<u>\$0.28/1,000</u>	
Sub-total	\$118,685.88	\$118,685.88	\$0.00
 <u>Danville</u>			
Purchases in Gallons	25,950,900	25,950,900	
Rate per 1,000 Gallons	<u>\$2.41/1,000</u>	<u>\$2.41/1,000</u>	
Sub-total	\$62,541.67	\$62,541.67	\$0.00
 Total	 \$1,128,906.94	 \$1,182,317.19	
 Increased water cost			 \$53,410.25
 Increased water cost Divided by Gallons sold/1,000 Purchased water adjustment factor		 \$53,410.25 <u>340,699,914</u> \$0.16 per 1,000 Gallons	
			or \$ 0.00016 per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00323 DATED NOV 08 2024

The following rates and charges are prescribed for the customers in the area served by Garrard County Water Association, Inc. 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	1,000	Gallons	\$13.02	Minimum Bill
Next	1,000	Gallons	0.00715	Per Gallon
Next	1,000	Gallons	0.00583	Per Gallon
Next	2,000	Gallons	0.00559	Per Gallon
Over	5,000	Gallons	0.00523	Per Gallon

1-Inch Meter

First	5,000	Gallons	\$37.17	Minimum Bill
Over	5,000	Gallons	0.00523	Per Gallon

1 1/2-Inch Meter

First	10,000	Gallons	\$63.32	Minimum Bill
Over	10,000	Gallons	0.00523	Per Gallon

2-Inch Meter

First	25,000	Gallons	\$141.74	Minimum Bill
Over	25,000	Gallons	0.00523	Per Gallon

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