

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF MONTGOMERY	)	2026-00156
COUNTY WATER DISTRICT # 1	)	

ORDER

On June 18, 2026, Montgomery County Water District #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 by \$0.32 per 1,000 gallons or 8.38 percent, from \$3.82 per 1,000 gallons

to \$4.14 per 1,000 gallons effective July 1, 2026.¹ Montgomery District #1 proposed to increase the water rates to its customers effective July 16, 2026, 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 2021 Annual Report filed with the Commission, Montgomery District #1 reported a water loss of 16.3033 percent.² In its 2022 Annual Report filed with the Commission, Montgomery District #1 reported a water loss of 16.7207 percent.³ In its 2023 Annual Report filed with the Commission, Montgomery District #1 reported a water loss of 16.2144 percent.⁴ Montgomery District #1's three-year water loss average is 16.4128%.⁵ The cost of Montgomery District #1's total water loss using a three-year water loss average is \$36,052.06.⁶

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The

¹ TFS2026-00263 (Ky. PSC Jun. 1, 2026), the tariff was accepted for filing by the Commission by letter dated June 29, 2026.

² *Annual Report of Montgomery District #1 to the Public Service Commission for the Year Ended December 31, 2021* at 57.

³ *Annual Report of Montgomery District #1 to the Public Service Commission for the Year Ended December 31, 2022* at 46.

⁴ *Annual Report of Montgomery District #1 to the Public Service Commission for the Year Ended December 31, 2023* at 57.

⁵ $16.3033\% + 16.7207\% + 16.2144\% = 49.2384\% / 3 \text{ years} = 16.4128\%$.

⁶ Total water cost at new wholesale rate of \$219,658.20 times 16.4128% water loss equals \$36,052.06.

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 base rate adjustment in Case No. 2023-00284, using 2022 as its test year, which became final on March 4, 2024, and reflected an increase of \$101,655, or 26.23 percent.⁷ The Commission notes that Montgomery District #1's 2023 Annual Report erroneously omitted Depreciation Expense and contained a mathematical error in the Water Statistics reporting.⁸ The Commission also notes that Montgomery District #1 has not submitted Annual Reports or Audit Reports for 2024 or 2025; because of this, the financial performance of Montgomery District #1 and the impacts of its most recent base rate case, Case No. 2023-00284, are unknown.

Given this information, the Commission finds that Montgomery District #1 should file 2024 and 2025 Annual Reports and Audit Reports by November 1, 2026, and encourages Montgomery District #1 to continue monitoring its 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

⁷ 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 Mar. 4, 2024), final Order.

⁸ 2023 Annual Report of Montgomery District #1 at 20, 57.

In its application, Montgomery District #1 proposed a purchased water adjustment factor of \$0.44 per 1,000 gallons. During the 12 months ended May 31, 2026, Montgomery District #1 purchased 53,057,536 gallons of water from Mount Sterling and sold 38,632,272 gallons of water to its customers. The increase in the cost of purchased water from Mount Sterling is \$16,978.41, resulting in a purchased water adjustment factor of \$0.44 per 1,000 gallons.

The purchased water adjustment factor of \$0.44 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 July 16, 2026, 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.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.44 per 1,000 gallons is approved.
2. The rates proposed by Montgomery District #1 are approved.
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 July 16, 2026.
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. Montgomery District #1 shall file its 2024 and 2025 Annual Reports and Audit Reports on or before November 1, 2026.

6. This case is closed and removed from the Commission's docket.

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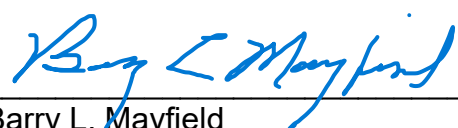
Entered on this 16th day of July, 2026.

PUBLIC SERVICE COMMISSION



Angie Hatton
Chair

Mary Pat Regan
Vice Chair

Andrew W. Wood
Commissioner

Barry L. Mayfield
Commissioner

ATTEST:



Linda C. Bridwell, PE
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2026-00156 DATED JUL 16 2026

	Base Rate	New Rate	Change
<u>Mt. Sterling W&S</u>			
Purchases in Gallons	53,057,536	53,057,536	
Rate per 1,000 Gallons	<u>\$3.82/1,000</u>	<u>\$4.14/1,000</u>	
Subtotal	\$202,679.79	\$219,658.20	\$16,978.41
Increased water cost			\$16,978.41
Increased water cost		\$16,978.41	
Divided by Gallons sold/1,000		<u>38,632,272</u>	
Purchased water adjustment factor		\$0.44	per 1,000 Gallons
		or \$ 0.00044	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2026-00156 DATED JUL 16 2026

The following rates and charges are prescribed for the customers in the area served by Montgomery County 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.

<u>Monthly Water Rates</u>			
<u>All Meters</u>			
First	2,000 Gallons	35.59	Minimum Bill
Next	3,000 Gallons	0.01189	Per Gallon
Next	5,000 Gallons	0.01087	Per Gallon
Over	10,000 Gallons	0.00985	Per Gallon
Wholesale Rate		0.00593	Per Gallon

Service List for 2026-00156

* 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