

## **807 KAR 5:067. Purchased water adjustment for investor-owned utilities.**

RELATES TO: KRS 278.010, 278.030, 278.040

STATUTORY AUTHORITY: KRS 278.030(1), 278.040(3)

NECESSITY, FUNCTION, AND CONFORMITY: KRS 278.030(1) requires that all rates charged by a utility subject to the jurisdiction of the Public Service Commission shall be fair, just, and reasonable. This administrative regulation establishes the requirements under which a privately-owned water utility implements a purchased water adjustment to recover the cost of water purchased.

Section 1. Definitions. (1) "Application" means:

- (a) A completed Purchased Water Adjustment Form 2;
  - (b) A schedule listing current and proposed rates;
  - (c) A copy of the supplier's notice showing a change in supplier's base rate;
  - (d) The calculation and all supporting documents used to determine the change in purchased water costs sufficient to determine the accuracy of the calculation; and
  - (e) If the utility is not a sole proprietorship or partnership, a copy of the resolution or other document of the utility's governing body authorizing the proposed rates.
- (2) "Changed rate" means the rate of a utility's supplier after the most recent increase or decrease in the supplier's base rate.
- (3) "Commission" is defined by KRS 278.010(15).
- (4) "Person" is defined by KRS 278.010(2).
- (5) "Supplier's base rate" means the rate of a utility's supplier in effect immediately prior to the most recent increase or decrease.
- (6) "Tariff" means the schedules of a utility's rates, charges, regulations, rules, tolls, terms, and conditions of service over which the commission has jurisdiction.
- (7) "Unaccounted for water" means the volumetric sum of all water purchased and produced by the utility less the volume of water:
- (a) Sold;
  - (b) Provided to customers without charge as authorized by the utility's tariff; and
  - (c) Used by the utility to conduct the daily operation and maintenance of its treatment, transmission, and distribution systems.
- (8) "Utility" means a privately-owned utility that meets the requirements of KRS 278.010(3)(d).
- (9) "Web site" means an identifiable site on the Internet, including social media, which is accessible to the public.

Section 2. Change in Supplier's Base Rate. (1) Upon an increase in its supplier's base rate, a utility may increase each of its rate schedules by a purchased water adjustment factor determined in accordance with Section 3 of this administrative regulation to pass through its increased purchased water costs to its customers on a per unit basis regardless of customer classification.

(2) Upon a decrease in the supplier's base rate, a utility that has previously revised its rates pursuant to this administrative regulation shall decrease each of its rate schedules by a purchased water adjustment factor determined in accordance with Section 3 of this administrative regulation to pass through its decreased purchased water costs on a per unit basis regardless of customer classification.

Section 3. Purchased Water Adjustment Factor. (1) If unaccounted for water does not exceed fifteen (15) percent, the purchased water adjustment factor to adjust a utility's rate to reflect a change in the utility's base rate shall be determined using the following formula:

*PWA Adjustment Factor*

$$= \frac{(Changed\ Rate \times Total\ Utility\ Water\ Purchases) - (Base\ Rate \times Total\ Utility\ Water\ Purchases)}{Total\ Utility\ Water\ Sales}$$

(a) The purchased water adjustment factor shall be expressed in cents per gallons or cubic feet, depending upon the unit of measure that the utility bases its customers' bills.

(b) Total utility water purchases shall be determined based upon the level of water purchases for a period of twelve (12) consecutive months ending within ninety (90) days immediately prior to the effective date of the utility rate adjustment month period.

(c) Total utility water sales shall be determined based upon the level of water sales for a period of twelve (12) consecutive months ending within ninety (90) days immediately prior to the effective date of the utility rate adjustment month period. If the utility bases its customer billings on a flat rate in lieu of a volumetric rate, the total number of customers or residential equivalents billed for the period shall be used.

(2) If unaccounted for water exceeds fifteen (15) percent and no reasonable percentage has been determined, pursuant to 807 KAR 5:006, Section 6, in the utility's last rate case, the purchased water adjustment factor to adjust a utility's rate to reflect a change in the utility's base rate shall be determined using the following formula:

*PWA Adjustment Factor*

$$= \frac{(Changed\ Rate \times Total\ Utility\ Water\ Purchases) - (Base\ Rate \times Total\ Utility\ Water\ Purchases)}{Total\ Utility\ Water\ Sales \div 85\%}$$

(a) The purchased water adjustment factor shall be expressed in cents per gallons or cubic feet, depending upon the unit of measure that the utility bases its customers' bills.

(b) Total utility water purchases shall be determined based upon the level of water purchases for a period of twelve (12) consecutive months ending within ninety (90) days immediately prior to the effective date of the utility rate adjustment month period.

(c) Total utility water sales shall be determined based upon the level of water sales for a period of twelve (12) consecutive months ending within ninety (90) days immediately prior to the effective date of the utility rate adjustment month period. If the utility bases its customer billings on a flat rate in lieu of a volumetric rate, the total number of customers or residential equivalents billed for the period shall be used.

(3) If unaccounted for water exceeds fifteen (15) percent and a reasonable percentage has been determined, pursuant to 807 KAR 5:006, Section 6, in the utility's last rate case, the purchased water adjustment factor to adjust a utility's rate to reflect a change in the utility's base rate shall be determined using the following formula:

*PWA Adjustment Factor*

$$= \frac{(Changed\ Rate \times Total\ Utility\ Water\ Purchases) - (Base\ Rate \times Total\ Utility\ Water\ Purchases)}{Total\ Utility\ Water\ Sales \div (100\% - Determined\ Reasonable\ Unaccounted\ for\ Water\ Percentage)}$$

(a) The purchased water adjustment factor shall be expressed in cents per gallons or cubic feet, depending upon the unit of measure that the utility bases its customers' bills.

(b) Total utility water purchases shall be determined based upon the level of water purchases for a period of twelve (12) consecutive months ending within ninety (90) days immediately prior to the effective date of the utility rate adjustment month period.

(c) Total utility water sales shall be determined based upon the level of water sales for a period of twelve (12) consecutive months ending within ninety (90) days immediately prior to the effective date of the utility rate adjustment month period. If the utility bases its customer billings

on a flat rate in lieu of a volumetric rate, the total number of customers or residential equivalents billed for the period shall be used.

Section 4. Submitting the Purchased Water Adjustment Application. (1) A utility adjusting its rates pursuant to this administrative regulation shall submit an application to the commission.

(2) The application shall be submitted in accordance with 807 KAR 5:001, Sections 7 and 8.

Section 5. Notice. Upon filing an application for a purchased water adjustment resulting from a supplier's increased rate, a utility shall provide notice as follows:

(1) Public postings.

(a) A utility shall post at its place of business a copy of the notice no later than the date the application is submitted to the commission.

(b) A utility that maintains a Web site shall, within five (5) business days of the date the application is submitted to the commission, post on its Web sites:

1. A copy of the public notice; and

2. A hyperlink to the location on the commission's Web site where the case documents are available.

(c) The information required in paragraphs (a) and (b) of this subsection shall not be removed until the commission issues a final decision on the application.

(2) Customer Notice.

(a) If a utility has twenty (20) or fewer customers, it shall mail a written notice to each customer no later than the date on which the application is submitted to the commission.

(b) If a utility has more than twenty (20) customers, it shall provide notice by:

1. Including notice with customer bills mailed no later than the date the application is submitted to the commission;

2. Mailing a written notice to each customer no later than the date the application is submitted to the commission; or

3. Publishing notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made no later than the date the application is submitted to the commission.

(c) A utility that provides service in more than one (1) county may use a combination of the notice methods listed in paragraph (b) of this subsection.

(3) Proof of Notice. A utility shall file with the commission no later than forty-five (45) days from the date the application was initially submitted to the commission:

(a) If notice is mailed to its customers, an affidavit from an authorized representative of the utility verifying the contents of the notice, that notice was mailed to all customers, and the date of mailing; or

(b) If notice is published in a newspaper of general circulation in the utility's service area, an affidavit from the publisher verifying the contents of the notice, that the notice was published, and the dates of the notice's publication.

(4) Notice Content. Each notice issued in accordance with this section shall contain:

(a) The proposed effective date and the date the proposed rates are expected to be filed with the commission;

(b) The present rates and proposed rates for each customer classification to which the proposed rates will apply;

(c) The amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rates will apply;

(d) The amount of the average usage and the effect upon the average bill for each customer

classification to which the proposed rates will apply;

(e) A statement that a person may examine this application at the offices of (utility name) located at (utility address);

(f) A statement that a person may examine this application at the commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the commission's Web site at <http://psc.ky.gov>;

(g) A statement that comments regarding the application may be submitted to the Public Service Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602; and

(h) A statement that the rates contained in this notice are the rates proposed by (utility name) but that the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice.

Section 6. Orders of the Commission. (1) A utility shall not implement its proposed rates until the commission issues an order authorizing the utility to adjust its rates.

(2) Within twenty (20) days of the date of the commission's order, the utility shall submit its revised tariff sheet in accordance with 807 KAR 5:011 establishing the rates approved by the commission.

Section 7. Refund from a Supplier. (1) A utility that receives a refund from its supplier for previously paid for water service due to a reduction in the supplier's rate shall notify the commission in writing of this refund within twenty (20) days of receipt of the refund and shall distribute the refund to its customers by reducing each of its rate schedules by a refund factor determined in accordance with subsection (2) of this section. The notice to the commission shall include:

(a) A description of the circumstances surrounding the refund;

(b) A schedule showing the calculation of the refund factor;

(c) A copy of the supplier's notice of the refund; and

(d) All supporting documents used to determine the refund factor in detail sufficient to determine the accuracy of the calculation.

(2) Refund factor. (a) The refund factor shall be determined using the following formula:

$$\text{Refund Factor} = \frac{\text{Refund Amount}}{\text{Estimated Total Utility Water Sales}}$$

(b) The refund factor shall be expressed in cents per gallons or cubic feet, depending upon the unit of measure that the utility bases its customers' bills.

(c) Estimated total utility water sales shall be determined based upon the estimated level of water sales for the two (2) month period beginning the first day of the month following the utility's receipt of the refund. If the utility bases its customer billings on a flat rate in lieu of a volumetric rate, the estimated total number of customers or residential equivalents billed for the period shall be used.

(3) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, the utility shall reduce each of its rate schedules by the refund factor upon calculating customer bills for the next two (2) billing periods.

(4) If the commission determines that the utility has inaccurately calculated the refund, the commission shall direct the utility to make revisions to the utility's refund plan.

Section 8. Deviations from Rules. In special cases, for good cause shown, the commission shall permit deviations from this administrative regulation.

Section 9. Incorporation by Reference. (1) "Purchased Water Adjustment Form 2", Purchased Water Adjustment for Privately-Owned Utilities, July 2013, is incorporated by reference.

(2) This material may be inspected, copied, or obtained, subject to applicable copyright law, at the commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the commission's Web site at <http://psc.ky.gov>. (7 Ky.R. 793; eff. 9-2-1981; 1895; eff. 7-2-1986; 40 Ky.R. 452; 815; eff. 10-18-2013; Crt eff. 3-27-2019.)