

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC SOUTHERN WATER & SEWER	)	CASE NO.
DISTRICT METER REPLACEMENT	)	2020-00121
SURCHARGE MONITORING	)	

ORDER

On April 8, 2020, the Commission initiated this proceeding to monitor Southern Water & Sewer District's (Southern District) meter replacement surcharge, which was approved in Case No. 2019-00131.<sup>1</sup> By Order entered November 7, 2019, the Commission approved a monthly meter replacement surcharge of \$5.25 per customer for 60 months or until the cost of new meters had been assessed, whichever occurred first, to fund replacements of Southern District's customer meters. Due to Southern District's urgent financial need to replace aged customer meters, a large number of which were zero read meters, the surcharge was effective as of November 7, 2019. In Case No. 2019-00328, the Commission granted Southern District a Certificate of Public Convenience and Necessity to purchase and install an automatic meter reading (AMR) system.<sup>2</sup> In Case No. 2020-00114, the Commission approved Southern District's application to borrow up to \$1,400,000 from Co-Bank (Co-Bank Loan) to purchase and

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<sup>1</sup> Case No. 2019-00131, *Application of Southern Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Nov. 7, 2019).

<sup>2</sup> Case No. 2019-00328, *Electronic Application of Southern Water & Sewer District for a Certificate of Public Convenience and Necessity to Install Automatic Meter Reading Meters* (Ky. PSC Nov 7, 2019).

install the AMR meters.<sup>3</sup> By Order entered March 17, 2021, in this proceeding, the Commission granted Southern District's motion and amended motion to amend the purpose of the meter replacement surcharge to include the purchase and installation of AMR meters and master meters.<sup>4</sup>

### SOUTHERN DISTRICT'S ANNUAL PROGRESS REPORT

Among other requirements established by the Commission, Southern District must file an annual schedule of the estimated and actual progress of the meter replacement plan and estimated and actual expenditures made with surcharge proceeds, for the purpose of evaluating whether adjustments to the program or to the surcharge amount are required.<sup>5</sup> The first annual progress report was due to be filed with the Commission on April 8, 2021.<sup>6</sup> By Order issued on April 27, 2021, the Commission granted Southern District an extension of time until May 8, 2021, to file its first annual progress report. On May 7, 2021, Southern District filed an annual progress report that contained some of the information requested, and on June 1, 2021, Southern District filed a revised annual progress report containing additional information. However, as discussed below the revised annual progress report did not conform to the requirements of the Commission's April 8, 2020 Order.

Southern District provided data for the meter replacement program from April 2020 through April 2021. In its report filed on May 7, 2021, Southern District states that

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<sup>3</sup> Case No. 2020-00114, *Electronic Application of Southern Water and Sewer District for Approval of Co-Bank Loan for the Purpose of Financing the Purchase and Installation of New Water Meters*, (Ky. PSC Apr. 15, 2020).

<sup>4</sup> Order (Ky. PSC Mar. 17, 2021), at ordering paragraph 1.

<sup>5</sup> Order (Ky. PSC Apr. 8, 2020), at ordering paragraph 10.

<sup>6</sup> *Id.*

following a Request for Proposals, it selected RG3 as the vendor to supply AMR meters for its customer meter replacement project. Further, Southern District states it hired Meter Installation Group (MIG), an affiliate of RG3, to install the meters.<sup>7</sup> Southern District reports that on October 5, 2020, MIG completed the replacement of Southern District's customer meters with AMR meters.<sup>8</sup> Southern District reported that the final cost for replacing all of its customer meters with AMR meters was \$1,405,922.78.<sup>9</sup> Southern District states that pursuant to the April 8, 2020 and March 17, 2021 Orders in this proceeding it will be filing an application for an adjustment in rates within 90 days of October 5, 2021.<sup>10</sup> Further, Southern District requests that no adjustments be made to its meter replacement surcharge at this time, but that the Commission make any adjustment in the future rate case.<sup>11</sup>

#### FUTURE RATE CASE

The Commission's April 8, 2020 and March 17, 2021 Orders in this proceeding indicate that Southern District is to file an application for an alternative rate adjustment by January 5, 2022. For the reasons stated here, the Commission finds that the date by

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<sup>7</sup> Annual Progress Report (filed May 7, 2021) at unnumbered page 3.

<sup>8</sup> *Id.*, Southern District did not supply the final number of meters replaced, but states that approximately 5,600 AMR meters were installed.

<sup>9</sup> Although this information is not included in either its annual progress report or its revised annual progress report, Southern District filed its final cost for replacing all of its customer meters with AMR meters in Case No. 2019-00328 (filed Apr. 1, 2021) and into the record of this proceeding on Apr. 20, 2021, as "AMR Meter Program Expenses."

<sup>10</sup> Annual Progress Report (filed May 7, 2021) at unnumbered page 3. Southern District filed a statement in this proceeding on April 20, 2021, indicating that its customer meter replacement was complete on October 5, 2020. This means according to the terms of the Commission's April 8, 2020 and March 17, 2021 Orders in this proceeding, Southern District's rate filing would be due on January 5, 2022.

<sup>11</sup> Annual Progress Report (filed May 7, 2021) at unnumbered page 3–4.

which Southern District should make its application for an alternative rate adjustment should be April 1, 2022.

Southern District will not have its annual report for 2021 available by January 5, 2022, and per regulations pertaining to alternative rate filings, Southern District would need to base its rate case on its 2020 annual report if it filed its rate case on January 5, 2022.<sup>12</sup> Using data from 2020 instead of 2021 would present an incomplete record of actual usage, because Southern District did not resume billing for actual usage until November 2020. Therefore, only two months of volumetric usage is reflected in Southern District's 2020 annual report. An April 1, 2022, filing date for Southern District's rate case will permit a decision to be based on a complete year of financial data using the new AMR metering system.

#### DISCUSSION AND ADDITIONAL FINDINGS

Staff found errors in the financial data submitted by Southern District demonstrating its AMR meter replacement expenses spent to date.<sup>13</sup> Staff reviewed the supporting invoices provided by Southern in this case record<sup>14</sup> and in the record of Case No. 2019-00328<sup>15</sup> and has determined the actual cost to replace all of Southern District's

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<sup>12</sup> 807 KAR 5:0076, Section 3, requires the Commission to base a utility's request for an alternative rate adjustment on the applicant's annual reports for the immediate past year.

<sup>13</sup> Response to Commission Staff's Sixth Request for Information (filed Aug. 19, 2021), Item 1.b.. In review of the PDF provided with this response, Staff discovered Southern District erroneously added, rather than subtracted, certain credits that were issued to Southern District for returned items. Additionally, Staff notes there are invoices included by Southern in its various filings that are not included on the summary page provided in this response. The combination of these errors resulted in an overstatement of the amounts reported to have been expended on the project by \$10,003.95.

<sup>14</sup> *Id.*, Item 1.a.

<sup>15</sup> Case No. 2019-00328, Response to ordering paragraph 4 the Commission's November 7, 2019 Order (filed Nov. 23, 2020), Meter Project Invoices.

customer meters with AMR meters was \$1,395,918.83.<sup>16</sup> The inaccuracy of the information contained in Southern District's filings concerns the Commission, as does Southern District's habitual failure to timely file documents that the Commission has ordered it to file. Since the Commission's April 8, 2020 Order in this proceeding, Southern District has been on notice it was required to file an annual progress report of its meter replacement program by April 8, 2021.<sup>17</sup> However, Southern District filed nothing in response to this requirement until April 20, 2021, when it filed a one-page chart of expenses that were alleged to be related to the meter replacement project.<sup>18</sup> This chart was not accompanied by invoices or any other documentation.

Following notification by Staff that the chart submitted was incomplete and insufficient in detail, Southern District requested and was granted the extensions of time discussed above. Despite the assistance of counsel, the employment of an accounting firm to assist with recordkeeping, and the benefit of considerable additional time in which to file a report, Southern District still failed to file an annual progress report in conformance with the Commission's April 8, 2020 Order. After receiving the revised annual progress report, Staff issued two requests for information to Southern District in order to obtain basic information necessary to evaluate whether adjustments in the surcharge amount for the meter replacement program were necessary. For instance, neither annual

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<sup>16</sup> All invoices submitted by Southern District total \$1,395,918.83. This includes \$8,695.99 of amounts expended on the meter replacement project by Southern District through its general fund that was not reimbursed by the surcharge account, nor the proceeds of the Co-Bank loan.

<sup>17</sup> Order (Ky. PSC Apr. 8, 2020) at ordering paragraph 10.

<sup>18</sup> AMR Meter Program Expenses (filed Apr. 20, 2021).

progress report filing contained the number of customer meters actually replaced.<sup>19</sup> The Commission is concerned Southern District failed to include the actual number of meters replaced, when the customer meter replacement portion of the project was completed six months before the annual progress report was due, and therefore the information was readily attainable.

Additionally, Southern District found it necessary to request additional time to respond to Staff's July 9, 2021 request for information. The Commission considers Southern District's frequent requests for extension of time to provide information to be excessive and unacceptable. The Commission admonishes Southern District to calendar the due date of its next annual progress report, and to ensure that the personnel tasked with preparing the progress report possess the requisite skills and are provided with the resources necessary to submit a report that will conform to the Commission's April 8, 2020 Order and the requirements set forth here.

Following the replacement of its customer meters, Southern District states that its unaccounted for water loss remains high, ranging from 48.14 percent in February 2021, to 63.72 percent in March 2021.<sup>20</sup> Southern District further states that it is addressing its excessive water loss by planning to install 10 master meters.<sup>21</sup> Southern District states each master meter, along with the needed appurtenances, will cost approximately \$25,000 to install for an estimated total cost of \$250,000 to install ten master meters.<sup>22</sup>

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<sup>19</sup> Annual Progress Report (filed May 7, 2021) at unnumbered page 3 provides an approximate 5,600 customer meters were replaced. However, Southern District's Response to Staff's Fifth Request for Information (filed Aug. 6, 2021), Item 3 provides the actual number of customer meters replaced is 5,066.

<sup>20</sup> Revised Annual Progress Report (filed June 1, 2021) at unnumbered page 2 and Attachments.

<sup>21</sup> Revised Annual Progress Report (filed June 1, 2021) at unnumbered page 2.

<sup>22</sup> *Id.*

Despite the Commission approving the use of surcharge funds for the purpose of installing master meters,<sup>23</sup> Southern District failed to meaningfully or accurately include its plan to install master meters in either its annual progress report or its revised annual progress report. In its revised annual progress report, Southern District discusses the fact that it requested Commission approval to purchase and install master meters using surcharge funds but does not include in its report that the Commission approved the request. Both of Southern District's annual progress report filings refer to the funding of master meters as if Southern District is still awaiting approval from the Commission to proceed with this aspect of the meter replacement program. In fact, the Commission incorporated the purchase and installation of master meters into the meter replacement program and approved the use of surcharge funds for the purchase and installation of master meters on March 17, 2021.<sup>24</sup> This failure to include the master meter portion of the meter replacement program contributes significantly to the deficiency of the annual progress report filings.

Although not included in either of its annual progress report filings, Southern District included its timeline for installing master meters in its construction plan for the master meter project.<sup>25</sup> Southern District plans to solicit bids for the master meters from at least three vendors and choose a vendor in late summer 2021.<sup>26</sup> Southern District states it plans to use its own employees to install the master meters, and will begin

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<sup>23</sup> Order (Ky. PSC Mar. 17, 2021).

<sup>24</sup> *Id.*

<sup>25</sup> Construction Plan (filed June 24, 2021).

<sup>26</sup> *Id.*

installation late summer or early fall 2021.<sup>27</sup> Southern District projects that it will install one master meter per month until all 10 master meters are installed, and that the project will be completed by late summer 2022.<sup>28</sup> Southern District acknowledges that revenue from the surcharge will not be sufficient to complete the master meter installation project, and states it intends to include this project in the application for a rate adjustment it must file in the next few months.<sup>29</sup>

According to amounts provided by Southern District in its May 7, 2021, report, Southern District collected \$349,267.37 in surcharge revenue from April 2020 through April 2021.<sup>30</sup> Southern District dispersed \$269,213.40 from the surcharge account during this reporting period to service the Co-Bank Loan approved in Case No. 2020-00114. Southern District states that the monthly payment to service this debt is \$24,459.83, and it collects an average of \$26,855.79 each month in surcharge revenue, which is sufficient to maintain the minimum required balance on the surcharge account and timely pay its debt service payment.<sup>31</sup>

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the annual progress report filings made by Southern District on May 7, 2021, and June 1, 2021, should be accepted. The Commission makes this finding purely in the interest of administrative economy, not because the Commission finds the

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<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> Revised Annual Progress Report (filed June 1, 2021) at unnumbered 3.

<sup>30</sup> This total is obtained by adding the individual monthly amounts of revenue Southern District reported receiving, although in the narrative of its report Southern District states it collected \$349,125.33 in surcharge revenue during this period.

<sup>31</sup> Annual Progress Report (filed May 7, 2021) at unnumbered page 5.



filings conform to the April 8, 2020 Order. The Commission believes it would serve no useful purpose to require Southern District to make corrections to its annual progress report filings, given that Staff has searched the record of this and other proceedings and issued discovery requests in an effort to locate or obtain items missing from the annual progress report and the revised annual progress report. The Commission has recently discussed Southern District's difficulty in providing the Commission with basic information, and chastised Southern District for its lack of candor and its inability to properly provide documentation.<sup>32</sup> The Commission again reminds Southern District's board of commissioners that they are responsible for ensuring that the utility complies with all applicable statutes and regulations, as well as Commission Orders. If the pattern of incomplete and inaccurate filings and numerous requests for extensions of time to produce information that should be readily available persists, the Commission may find further investigation into Southern District's operations is warranted.

The Commission also finds that no adjustment to the meter replacement surcharge amount or program should be made at this time.

Further, the Commission finds that Southern District should begin using a calendaring system to ensure that its next annual progress report is filed on or before April 8, 2022, and that Southern District should provide the Commission with a report of the changes it has put into place to ensure that the report is timely filed.

Finally, the Commission finds that Southern District's next annual progress report on its meter replacement surcharge and program should contain the following information:

- The number of master meters installed in the reporting period.

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<sup>32</sup> Case No. 2021-00366, *Electronic Application of Southern Water & Sewer District for Approval Financing Pursuant to KRS 278.300*, (Ky. PSC Apr. 23, 2021) at 6–14.

- A description of each master meter installed, including its brand, model, size, and location.
- The estimated and actual cost associated with the purchase and installation, including parts and appurtenances, of each master meter.
- The estimated and actual total cost to purchase and install all master meters purchased and installed during the reporting period.
- A statement indicating whether the actual cost to purchase and install the master meters is over or under the estimated \$25,000 per meter estimate contained in Southern District's previous filings.
- An explanation for the actual costs exceeding or falling below the estimated costs.
- A statement indicating whether the project progressed with installing one master meter per month as projected, or if the progress was faster or slower than anticipated during the reporting period.
- An explanation for any delay in progress or for greater than anticipated progress in installing the master meters.
- An explanation for the placement of any master meter placed at a location other than those locations listed in the construction plan.
- The number of master meters remaining to be installed at the close of the reporting period.
- A projection of the costs associated with purchasing and installing the master meters remaining to be installed at the end of the reporting period.
- The balance in the surcharge bank account at the end of the reporting period, supported by a bank statement.
- Invoices supporting each expenditure listed in the report; and
- Water loss data, including Southern District's monthly water loss reports for the months included in the reporting period, as well as a narrative explaining any unusual factors contributing to water loss occurring during the reporting period and identifying any actions other than the installation of master meters that Southern District used to address water loss during the reporting period.

IT IS THEREFORE ORDERED that:

1. Southern District's annual progress report and revised annual progress report are accepted in the interest of administrative economy.

2. Southern District shall continue to implement its meter replacement surcharge and program as set forth in the April 8, 2020 and March 17, 2021 Orders in this proceeding.

3. Ordering paragraph 12 of the April 8, 2020 Order in this proceeding and Ordering paragraph 7 of the March 17, 2021 Order in this proceeding are stricken and replaced with the following:

Southern District shall file a new rate application pursuant to 807 KAR 5:076 on or before April 1, 2022.

4. Southern District shall file its next annual progress report of the meter replacement surcharge and program as described in this Order on April 8, 2022.

5. Southern District shall file a report into the record of this proceeding detailing what steps it has taken to ensure that its next annual progress report is accurate, complete, and timely filed by December 1, 2021.

By the Commission

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KENTUCKY PUBLIC  
SERVICE COMMISSION

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Case No. 2020-00121

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