

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:)
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)
KENTUCKY-AMERICAN WATER COMPANY’S)
REQUEST FOR PERMISSION TO DEVIATE) **CASE NO. 2016-00394**
FROM 807 KAR 5:006, SECTION 26(6)(b))
)

PETITION OF KENTUCKY-AMERICAN WATER COMPANY

In accordance with 807 KAR 5:006, Section 28, Kentucky-American Water Company (“KAW”) hereby requests permission from the Commission to deviate from a portion of the requirements of 807 KAR 5:006, Section 26(6)(b). In support of this request, KAW states the following:

1. KAW is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business located at 2300 Richmond Road, Lexington, Kentucky 40502. KAW can be contacted by e-mail via the e-mail addresses of its counsel set forth below. KAW was incorporated on February 27, 1882, and is currently in good standing in the Commonwealth of Kentucky.

2. KAW is a wholly-owned subsidiary of American Water Works Company, Inc. (“American Water”) and is engaged in the distribution and sale of water in its Central Division, consisting of Bourbon, Clark, Fayette, Harrison, Jessamine, Nicholas, Scott, and Woodford Counties and its Northern Division, consisting of Gallatin, Owen, and Grant Counties. KAW currently owns, operates, and maintains potable water production, treatment, storage, transmission, and distribution systems for the purpose of furnishing potable water for residential, commercial, industrial, and governmental users in its

service territory. KAW is also engaged in the collection of wastewater in Owen, Bourbon, Clark, and Franklin Counties.

3. Pursuant to 807 KAR 5:006, Section 28, KAW is requesting a deviation from the requirement in 807 KAR 5:006, Section 26(6)(b), requiring water utilities to annually inspect meters, meter settings, and valves. 807 KAR 5:006, Section 28 allows for deviations from 5:006 when “good cause” is shown. The overarching intent of the inspection requirements set forth in 807 KAR 5:006, Section 26 is to “assure safe and adequate operation of the utility’s facilities.”¹ KAW’s current system of inspecting meters, meter settings, and valves meets this objective, and requiring KAW to adhere to 807 KAR 5:006, Section 26(6)(b) would result in significant and unnecessary expenses. Thus, good cause exists to grant KAW’s requested deviation from annual inspection requirements for meters, meter settings, and valves.

4. Currently, KAW’s approximately 20,000 valves are inspected according to KAW’s valve inspection and exercising program. Plant valves and valves 30” and larger are inspected and exercised annually. Valves that are 16”-24” are inspected and exercised every two years and valves smaller than 16” are inspected and exercised every five years. These inspections include: confirming adequate access to valves; assessing the condition of the valve box, lid and operating nut; and exercising or turning the valves themselves. Any problems are identified and documented and a service request is created for the issue to be promptly resolved. Under this schedule, KAW has had a sound track record of ensuring outages are kept to a minimum and that customers receive safe and reliable service.

¹ 807 KAR 5:006, Section 26(1).

5. Additionally, a valve failure does not present a problematic issue for several reasons. With over 2,000 miles of main, KAW has, on average, a valve every 530 feet. Therefore, in the event one valve fails to operate correctly, another valve located sufficiently nearby can be closed in the event of an emergency. Furthermore, KAW also has equipment necessary to install insertion valves in emergency situations where additional valves are not present.

6. KAW's current system of inspecting meters and meter settings also assures safe and adequate operations. All meters in KAW system are automatic meter read ("AMR") meters that are read using drive-by technology or manually read in the event of an issue with the AMR technology. The installation of AMR meters has eliminated the need for meter boxes to be accessed unless equipment failure occurs and the meter or radio requires repair or replacement. If meters and meter settings are not functioning properly, KAW would either be notified by the customer or be alerted by an abnormal change in a customer's usage. The KAW billing system has triggers in place to provide alerts of potential issues, including two consecutive estimates, three consecutive zero usage reads, or abnormal over or under usage on a bill. Thus, in essence, KAW acquires and analyzes meter functioning data as often as every month when meters are read.

7. In order to perform annual inspections of all valves, meters, and meter settings in accordance with 807 KAR 5:006, Section 26(6)(b), KAW would need significant additional staffing. As set forth in the attached estimate of labor costs alone, performing annual valve and meter inspections would increase the annual labor expenses by \$514,149.12 and \$274,050, respectively for a total of nearly \$800,000. That amount

does not include additional expense that would be incurred as a result of increased transportation and administrative costs nor does it factor in increases that would occur when grossed up for taxes. Therefore, the major benefit that will result from allowing this deviation is a financial savings to customers. If the Commission does not allow this deviation, customers would shoulder nearly \$800,000 in additional labor costs alone.

8. 807 KAR 5:006, Section 28 allows for deviations from 5:006 when “good cause” is shown. The Commission has allowed deviation from the requirements of 807 KAR 5:006 when the cost of adhering to a regulation would outweigh the benefit of adherence. For instance, in Case No. 2012-00491, the Commission approved LG&E’s requested deviation from 807 KAR 5:006, Section 26(5)(b), which provides the required frequency of residential regulator inspections.² In that matter, LG&E stated that performing inspections that adhered to the Commission’s regulation would add an incremental cost of approximately \$3.5 million annually and instead proposed inspecting the regulators every one, three, or five years in conjunction with other maintenance activities.³ The Commission noted that LG&E had “provided sufficient evidence that its proposal with regard to the regulator program will provide safe, reliable, and efficient service to its customers” and granted the deviation.⁴ Similarly, in Case No. 93-435, the Commission granted a utility’s request for deviation from a customer notice requirement in 807 KAR 5:006, finding that “good cause [had] been shown to support the deviation”

² *In the Matter of: Application of Louisville Gas and Electric Company to Implement a Gas Regulator Inspection Program and Request for Deviation*, Case No. 2012-00491, Order at 1, 5 (Ky. PSC July 30, 2013).

³ *Id.* at 4.

⁴ *Id.*

because the utility had proposed an “adequate alternative” that was less costly than complying with the regulation.⁵

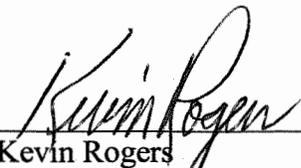
9. KAW asserts that good cause exists to grant a deviation from 807 KAR 5:006, Section 26(6)(b). KAW’s current systems for inspecting meters, meter settings, and valves ensure safe, reliable, and cost-effective service. Requiring KAW to adhere with 807 KAR 5:006, Section 26(6)(b) would result in additional annual labor expense of nearly \$800,000. The significant additional costs to customers to inspect valves, meters, and meter settings annually does not support the value added, and thus good cause exists to grant a deviation from the yearly inspection requirements.

WHEREFORE, KAW requests that the Commission approve its request for a deviation from the requirements of Section 26(6)(b) of 807 KAR 5:006 such that meters, meter settings, and valves may be tested using the inspection frequency set forth above.

⁵ *In the Matter of: The Request of South 641 Water District for a Deviation from 807 KAR 5:006, Section 7(1)(c)*, Case No. 93-435, Order at 2 (Ky. PSC Nov. 23, 1993).

VERIFICATION

I, Kevin Rogers, Vice President of Operations for Kentucky-American Water Company, do hereby state that the statements made in this Petition are true and accurate to the best of my knowledge.



Kevin Rogers
Vice President of Operations
Kentucky-American Water Company

COMMONWEALTH OF KENTUCKY)

COUNTY OF FAYETTE)

Subscribed, sworn to, and acknowledged before me by, Kevin Rogers, Vice President of Operations for Kentucky-American Water Company, for and on behalf of said corporation, on this 17th day of November, 2016.

My Commission expires: 10/3/2020



NOTARY PUBLIC, State at Large, Ky.



Lindsey W. Ingram III
L.Ingram@skofirm.com
STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000
Fax: (859) 246-3672

BY: 

Attorneys for Kentucky-American Water Company

CERTIFICATE

This certifies that Kentucky-American Water Company's electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on November 18, 2016; that a paper copy of the filing will be delivered to the Commission within two business days of the electronic filing; and that no party has been excused from participation by electronic means.

STOLL KEENON OGDEN PLLC

By 

Attorneys for Kentucky-American Water Company

Kentucky American Water
Estimated Labor Costs for Additional Annual Asset Inspections

Meters - Central Division only	
Total Meters	125,518
Average Meters per Day	200
Number of Days to inspect all meters annually	628
Days per Full-time Equivalent ("FTE")	220
Total FTEs required	2.85

Meter Inspections	
	Proposed
Estimated Hourly Rate for Meter Maintenance	\$ 38.88
Annual Hours	2,080
Estimated Annual Labor Cost	\$ 80,870.40
Additional FTEs - Central	2.85
Additional FTEs - Northern	0.50
Additional Estimated Labor Cost for Annual Meter Inspections	<u>\$ 270,915.84</u>

Central Division Valves		
Criticality	Current	Increase to Annual
High (Currently inspected annually)	0.17	0.17
Medium (Currently inspected every 2 years)	0.33	0.66
Low (Currently inspected every 5 years)	1.50	7.50
Total FTEs required	2.00	8.33

		Valve Inspections	
		Current	Increase to Annual
Estimated Hourly Rate for Valve Maintenance	\$ 38.88	\$ 38.88	\$ 38.88
Annual Hours	2,080	2,080	2,080
Annual Cost	\$ 80,870.40	\$ 80,870.40	\$ 80,870.40
Additional FTEs - Central	2.00	2.00	8.33
Additional FTEs - Northern	0.25	0.25	0.25
Additional Estimated Labor Cost for Annual Valve In:	<u>\$ 181,958.40</u>	<u>\$ 693,868.03</u>	

Total Estimated Labor Cost Increase \$ 782,825.47

Assumptions:

- 1) Costs only include labor and labor overhead for field services personnel
- 2) Labor Overhead rate is assumed to be 50% of hourly rate of pay
- 3) Estimated costs do not include additional transportation, supervisory or administrative expenses
- 4) Northern Division Meter and Valve Inspections have not been estimated on a per unit calculation due to the increased rural area