

RECEIVED

MAY 22 2019

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF SOUTHERN WATER)
AND SEWER DISTRICT FOR AN) CASE NO. 2019-00131
ALTERNATIVE RATE ADJUSTMENT)

ATTORNEY GENERAL’S COMMENTS

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“Attorney General”), and hereby tenders his comments in the above-styled action.

Southern Water and Sewer District (“Southern”) filed its application for an adjustment under the alternative rate filing (“ARF”) procedure on April 19, 2019. In its application, Southern requested an expedited review and an emergency rate increase during the pendency of the ARF rate case. On April 26, 2019, the Commission ordered an evidentiary hearing to consider an emergency rate increase, which was subsequently held on May 9, 2019. On May 16, 2019 the Commission issued a procedural schedule, which provided for the issuance of a Staff Report no later than July 19, 2019.

I. The Billing Analysis Is Inaccurate And Cannot Be Relied Upon

Southern’s most recent prior rate application, 2018-00230, was denied by the Commission due to the billing analysis not being based upon an entire year’s worth of usage data, but rather on data which was extrapolated from one month of usage.¹ In the present case, Southern presented an

¹ Commission Order, *Electronic Application Of Southern Water And Sewer District For An Alternative Rate Adjustment*, Case No. 2018-00230 (Ky. Commission January 31, 2019).

entire year's worth of usage in its billing analysis, but the record so far has demonstrated that the billing analysis cannot be relied upon due to slow or totally inactive, untested meters, which produce anomalous and inaccurate readings.

During the hearing, representatives of Southern confirmed that approximately 700–750 meters on its system are reading zero despite incurring usage, and are producing only minimum bills for those relevant customers.² Additionally, about 200 meters so far were found to be inactive.³ Southern's new board chair stated that between 12–20% of the system's water loss is directly related to its meters.⁴ Without, at the very least, a meter testing program, this problem will only continue to worsen over time. Nevertheless, given the testimony at the May 9, 2019 hearing, the state of the metering system itself might render a meter testing program unproductive. The wholesale replacement of meters on the system is the only way to ensure future reliability, water loss reduction, proper allocation of costs, and increased cash flow.

II. Meter Reading Should Be Suspended And Customers Should Be Temporarily Charged An Across The Board Level Charge

Just as it would be futile to continue using the proposed billing analysis with the knowledge that the figures are based on inaccurate and incomplete usage records, it does not make sense to continue to incur the expense of reading meters if the meters do not accurately convey usage. As has been documented in this hearing, and in past cases, Southern has not tested meters in compliance with the Commission's requirements for many years, and the meters that do reflect

² Video Transcript Evidence ("VTE") at 9:27:09—9:28:50.

³ *Id.*

⁴ VTE at 9:44:28—9:45:48 (Mr. Prater related that UMG Special Projects Manager Grondall Potter told him "the only way to truly have a viable leak detection program is to have accurate residential meters so that you can monitor the consumer usage and you monitor the tank draw so you know how much water you've lost in each section of the system. If our meters are 15–20% out of accuracy or we are not having an accurate metering system, we can't really address water loss through leaks in the way that we need to").

any usage read significantly slow.⁵

As such, the Commission should allow Southern to temporarily suspend its meter reads. Suspending its meter reads will allow Southern staff to focus on more pressing issues like reducing any backlog of unpaid bills, training staff on basic financial controls, identifying and prosecuting theft of service, as well as leak detection and repair—which will markedly improve with new meters. In conjunction with this suspension, Southern should charge its customers an across the board rate until such time that the meters have either been replaced or tested and recalibrated. An across the board rate is the most practical and equitable solution, and it aligns with prior Commission precedent.

III. The Commission Should Require Southern To Concentrate On Obtaining New AMR Meters

Arguably, any investment in the current meters, including the cost to read or test them is simply throwing good money after bad. In order to ensure that any approved emergency rate or surcharge is spent in the most cost-effective manner, the Commission should require that some portion of these funds be placed aside in a separate account earmarked exclusively for the identification, purchase, and installation of new AMR meters.

An independent water audit analysis performed by RG3 Meter Company on behalf of Southern estimated that the cost of installing AMR meters could be totally recouped within a span of just over three years.⁶ The same analysis used a weighted 6.0% accuracy loss of 25 tested meters of varying age to estimate that the total annual residential revenue loss from current meters is

⁵ Hearing Transcript, Case No. 2018-00230, at 48–49, 164, 226 (Ky. Commission March 25, 2019).

⁶ Southern Response to Second Request for Information to Nonparty, *Electronic Investigation Into Southern Water And Sewer District Manager Dean Hall Alleged Failure To Comply With KRS 278.160, KRS 278.170, KRS 278.300, 807 KAR 5:066, And 807 KAR 5:095*, Case No. 2019-00084 (Ky. Commission April 25, 2019).

\$176,299.20.⁷ The ten-year projected return on investment from new meters would yield an extra \$1,762,992 in revenue.⁸ The analysis further identified ancillary benefits of obtaining new meters, which include increased efficiencies in the billing process, improved cash flow, and earlier indications of possible water leaks to allow for more timely repairs. Moreover, no part of the analysis seemed to take into account Southern's inability to include in its revenue requirement the purchase and production costs of unaccounted-for water in excess of 15%, which only adds to the possible benefits of meter replacement.⁹

Even if the cited figures and associated benefits are optimistic at best, this course of action represents the most cost-effective investment Southern can make in its system to put it on the path toward financial sustainability. In previous proceedings, Southern personnel remarked that they presumed the utility could never afford to invest in new meters, and the Chairman responded that he couldn't see how Southern could afford not to invest in them.¹⁰ The Attorney General agrees.

CONCLUSION

Southern's issues cannot be solved overnight, but its current expenses can be further reduced and the Commission can exercise closer oversight over the utility in directing it toward a more prudent use of the funds it may receive in this proceeding with the implementation of the Attorney General's recommendations.

WHEREFORE, the Attorney General asks that the Commission grant the relief requested herein.

⁷ *Id.*

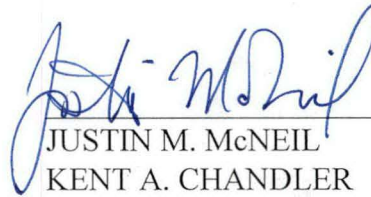
⁸ *Id.*

⁹ 807 KAR 5:066(6)(3).

¹⁰ Hearing Transcript, Case No. 2018-00230, at 164.

Respectfully submitted,

ANDY BESHEAR
ATTORNEY GENERAL



JUSTIN M. McNEIL
KENT A. CHANDLER
LAWRENCE W. COOK
REBECCA W. GOODMAN
ASSISTANT ATTORNEYS GENERAL
700 CAPITOL AVE, SUITE 20
FRANKFORT, KY 40601-8204
PHONE: (502) 696-5453
FAX: (502) 573-1005
Justin.McNeil@ky.gov
Kent.Chandler@ky.gov
Larry.Cook@ky.gov
Rebecca.Goodman@ky.gov

Certificate of Service and Filing


Counsel certifies that an original and ten (10) photocopies of the foregoing were served and filed by hand delivery to Gwen R. Pinson, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, KY 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail to:

Steven P. Bailey
Attorney
Bailey Law Office, P.S.C.
181 East Court Street
Prestonsburg, Kentucky 41653

Southern Water & Sewer District
245 Kentucky Route 680
P.O. Box 610
McDowell, KY 41647

Jeff Prater
Chairman
Southern Water & Sewer District
245 Kentucky Route 680
P.O. Box 610
McDowell, KY 41647

This 22nd day of May 2019.



Assistant Attorney General