

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, 2022, Southern Water and Sewer District (Southern District) filed its second annual progress report of its meter replacement program, which is funded by a meter replacement surcharge approved in Case No. 2019-00131.¹ Southern District has responded to three requests for information from Commission Staff regarding its second progress report.² For the reasons set forth in this Order the Commission finds that no change in the amount of the surcharge is warranted at this time. As discussed in detail below, the Commission also finds that Southern District should record its surcharge billings, collections, and deposits using the form provided as an Appendix to this Order, and should include this form with the filing it makes on the fifteenth day of each month pursuant to ordering paragraph four of the April 8, 2020 Order establishing this proceeding.

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

² Southern District's Response to Commission Staff's Seventh Request for Information (Response to Staff's Seventh Request)(filed May 17, 2022); Southern District's Response to Commission Staff's Eighth Request for Information (Response to Staff's Eighth Request)(filed June 30, 2022); and Southern District's Response to Commission Staff's Ninth Request for Information (Response to Staff's Ninth Request)(filed Oct. 14, 2022). In addition Southern District filed a Revised Appendix to the Response to Staff's Ninth Request for Information on Oct. 20, 2022. (Revised Appendix).

BACKGROUND

On April 8, 2020, the Commission initiated this proceeding to monitor Southern District's meter replacement surcharge, which was approved in Case No. 2019-00131.³ 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 ever occurred first, to fund replacements of Southern District's customer meters. Due to Southern District's urgent financial need to replace aging 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.⁴ 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 install the AMR meters.⁵ 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.⁶

³ Case No. 2019-00131, Order (Ky. PSC Nov. 7, 2019).

⁴ 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).

⁵ 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).

⁶ Order (Ky. PSC Mar. 17, 2021), at ordering paragraph 1. The Commission granted Southern District's request to amend the purpose of the surcharge to include master meters because the evidence of record in this case and in Case No. 2019-00041, *Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Oct. 7, 2019), indicated that Southern District had long taken a two-prong approach to address its high level of unaccounted-for water loss, first by replacing customer meters, and secondly by installing master meters in discrete zones. See Case No. 2019-00041, July 16, 2019 Hearing Stenographic Transcript, page 19, lines 2–21, and page 34, lines 13–25.

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.⁷ Southern District experienced some difficulty in filing its first annual progress report and did not provide all of the required information. However, on October 1, 2021, the Commission issued an Order accepting Southern District's report in the interest of administrative economy. Further, the Commission identified the specific issues Southern District was to address in its second annual progress report and made no changes to the surcharge.⁸ On April 8, 2022, Southern District filed its second annual progress report. By Order issued September 9, 2022, in Case No. 2022-00099,⁹ the record of this proceeding was incorporated into the record of Southern District's most recently filed rate case.

DISCUSSION AND FINDINGS

Second Annual Progress Report: Billings, Collections, and Deposits

Southern District did not include a statement detailing its total surcharge billings, collections, and deposits over this reporting period in its annual progress report. Southern District also failed to include a statement providing the total amount of surcharge proceeds spent in this reporting period. These items are necessary to conduct an analysis of the effectiveness of the surcharge. This is why the April 8, 2020 Order opening

⁷ Order (Ky. PSC Apr. 8, 2020), at ordering paragraph 10.

⁸ Order (Ky. PSC Oct 1, 2021) at 9-11.

⁹ Case No. 2022-00099, *Electronic Application of Southern Water and Sewer District for an Alternative Rate Adjustment*, Order (Ky. PSC Sep. 9, 2022).

this proceeding required, “One year after the date of entry of this Order, and annually thereafter, Southern District shall file a 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.”¹⁰ The Commission provided further guidance on other details to be included in the annual progress report in the October 1, 2021 Order accepting the first annual progress report. However, the items included in that guidance were not intended to replace a detailed statement of surcharge collections and actual expenditures made from surcharge proceeds.

The monthly reports filed by Southern District indicate that \$338,888.54 was deposited into the surcharge account during the reporting period of April 1, 2021 through March 31, 2022. Additionally, the monthly reports indicate Southern District spent \$331,625.53 in surcharge proceeds during the reporting period. The expenditures from the surcharge account were primarily limited to payments made on the Co-Bank Loan (approximately \$24,742 per month), but also included a \$35 stop-payment fee assessed to the surcharge account when a check to Co-Bank was lost in the mail.

To assist Southern District in compiling monthly reports that reflect the total amount of surcharge billings, collections, and deposits, the Commission finds that Southern District should begin using the form attached to this Order as an Appendix, and submit the information required on the form every month with its surcharge monitoring monthly report. The Commission notes that ordering paragraph 4, of the April 8, 2020 Order establishing this proceeding requires Southern District to submit an activity report that

¹⁰ Order (Ky. PSC April 8, 2020) at ordering paragraph 10.

includes a statement of surcharge billings and collections; a monthly surcharge bank statement; a list of each payment from the account; its payee; and a description of the purpose; and invoices supporting each payment. To date, Southern District has not filed a statement of surcharge billings and collections in its monthly filings, only a bank statement showing deposits into and withdrawals from the surcharge account. The Commission has not approved this deviation, but has not commented upon it until now. The Commission finds that not including such a statement of billings, collections, and deposits gives an incomplete picture of the activity related to the surcharge. Going forward, the Commission expects Southern District to file all of the items listed in ordering paragraph 4, of the April 8, 2020 Order every month, and that Southern District will utilize the form developed by Commission Staff to file the surcharge billing, collection, and deposit information on a monthly basis as a part of this report.

Second Annual Progress Report: Master Meter Installation

Southern District planned to install ten master meters starting in the late summer and fall of 2021, and to complete the project by late summer of 2022.¹¹ However, the second annual progress report indicates this has not occurred. Southern District cited staffing issues at Southern District, environmental impacts from weather, and delays from vendors due to COVID as reasons for its lack of progress.¹² Further, Southern District stated that it has decided to use clamp-on ultra-sonic master meters instead of the mechanical master meters it originally planned to use.¹³ In support of its decision to use

¹¹ Master Meter Construction Plan and Timeline (filed June 24, 2021).

¹² Second Annual Progress Report (filed April 8, 2022) at unnumbered pages 1 and 6.

¹³ Second Annual Progress Report at unnumbered page 1.

the ultra-sonic meters, Southern District stated that these meters are less expensive than mechanical master meters, require less appurtenances, and are easier to install.¹⁴ Additionally, Southern District maintained that these meters provide greater flexibility because they can easily be moved from one location to another and can be programmed to service water lines of different sizes.¹⁵ Southern District maintained that the ultra-sonic meters have a useful life of greater than ten years.¹⁶

During the reporting period Southern District ordered one clamp-on ultra-sonic master meter and the related telemetry box. The cost of the meter was \$4,214, and the telemetry box was \$4,430.¹⁷ At the time the second annual progress report was filed, Southern District had not yet received the invoice for these items. The Commission notes that monthly reports of the surcharge account filed subsequent to the annual progress report do not reflect that this invoice has been paid out of surcharge proceeds to date. The record of this proceeding was incorporated into the record of Case No. 2022-00099¹⁸ by Order issued September 9, 2022. A hearing in Case No. 2022-00099 is scheduled for November 9, 2022. The Commission anticipates taking testimony regarding the payment of this invoice at the hearing.

¹⁴ Second Annual Progress Report at unnumbered page 2.

¹⁵ Second Annual Progress Report at unnumbered page 2.

¹⁶ Response to Staff's Seventh Request, Item 1a.

¹⁷ Second Annual Progress Report at unnumbered page 3.

¹⁸ Case No. 2022-00099, *Electronic Application of Southern Water and Sewer District for an Alternative Rate Adjustment*, Order (Ky. PSC Sep. 9, 2022).

Southern District stated in its master meter construction plan that it estimated the cost to purchase and install ten mechanical master meters was \$118,031.89.¹⁹ However, in its second annual progress report Southern District revised that estimate to \$92,340²⁰ given the reduced cost of the clamp-on ultra-sonic meters. This reflects a cost reduction of \$25,691.89²¹ for the project. Southern District stated that it has chosen a vendor for these meters and that the bid it accepted is effective for one year from March 28, 2022, which was the date of the bid.²²

At the time the second annual progress report was filed the surcharge bank account balance was \$145,749.46.²³ Southern District maintained it planned to install its first master meter by the end of April 2022, and has set a goal to install one master meter per month until the project is finished.²⁴ Monthly surcharge reports filed subsequent to the second annual progress report do not reflect any expenditures related to the purchase or installation of master meters. The Commission anticipates exploring this at the upcoming hearing in Case No. 2022-00099.

¹⁹ Master Meter Construction Plan and Timeline at unnumbered page 2. See also: Case No. 2021-00046, *Electronic Application of Southern Water and Sewer District for approval of Financing Pursuant to KRS 278.300 Purchase and Install Master Meters*, (filed Feb. 8. 2021) Application, in its original request, Southern District estimated it would cost \$250,000 to purchase and install ten mechanical master meters. At the time of its filing of the Construction Plan on June 24, 2021, Southern District revised this estimate to \$118,031.89.

²⁰ Second Annual Progress Report at unnumbered page 3.

²¹ \$118,031.89 (estimated cost to purchase and install mechanical master meters) - \$92,340 (estimated cost to purchase and install clamp-on ultra-sonic meters) = \$25,691.89.

²² Second Annual Progress Report at unnumbered page 3; See Exhibit 1, Wascon Quotes (filed April 8, 2022), the quotes filed with the report indicate the price is good only for 60 days from the date on the quote, but Southern District maintained this price is effective for one year.

²³ Second Annual Progress Report at unnumbered page 6, and Exhibit 3.

²⁴ Second Annual Progress Report at unnumbered page 5.

Second Annual Progress Report: Water Loss Data

Southern District included water loss reports for April 2021 through February 2022 in its second annual progress report. During the reporting period Southern District's water loss ranged from a low of 49.48 percent in August of 2021²⁵ to a high of 60.25 percent in November 2021.²⁶ Further, Southern District stated that it was awarded a \$248,955 grant to relocate water lines in the area of Estill Bottom.²⁷ This project was completed in September 2021, and was intended to address several leaks detected in the area.²⁸ Southern District maintained that this project will enable it to reduce the amount of water it purchases each month.

Southern District also reported detecting several leaks in the Toler Creek area that were due to the excessively high water pressure needed to reach residences at a high elevation.²⁹ Southern District reported that it installed a booster pump to supply water to the higher elevation and dropped the pressure on the water line, and reduced the leaks. Further, Southern District reported that it has obtained leak detection equipment and provided training in leak detection for its employees and for employees of Utility Management Group (UMG), the entity that is currently providing day-to-day management of Southern District.³⁰ Additionally, Southern District reported: starting a public relations campaign to educate customers on the effect of water theft on customers' bills; replacing

²⁵ Water Loss Report for August 2021 (filed Apr. 8, 2022).

²⁶ Water Loss Report for November 2021 (filed Apr. 8, 2022).

²⁷ Response to Staff's Seventh Request, Item 4b.

²⁸ Second Annual Progress Report at unnumbered page 7.

²⁹ Second Annual Progress Report at unnumbered page 7.

³⁰ Second Annual Progress Report at unnumbered page 7.

a water tank at Mink Branch, and calibrating equipment at water tanks to prevent overflows.

Southern District reported that it discovered leaks on several occasions in its Brush Creek Tank³¹ and had the tank repaired, but that it is seeking a grant to replace the tank or to make a “more permanent repair.”³² The Commission anticipates taking testimony on this at the upcoming hearing in Case No. 2022-00099 to explore what a more permanent repair would entail and to receive an update on the condition of this asset. Because Southern District’s water loss remains significantly above 15 percent, the Commission finds that Southern District should file a monthly water loss report into the record of this proceeding each month along with its record of surcharge billings, collections and deposits; surcharge bank statement; list of all payments from the surcharge account, the payee for each payment, and a description of the payment’s purpose; and invoices supporting each payment. This will enable the Commission to better evaluate Southern District’s progress in reducing its unaccounted-for water loss. Southern District has filed monthly water loss reports with each of its annual progress reports. Going forward, Southern should file these monthly by including them with its monthly activity report.

The Commission accepts Southern District’s second annual progress report of its meter replacement program and finds that no changes in the surcharge amount are warranted at this time. Further the Commission finds that Southern District should file a complete monthly activity report as described in ordering paragraph 4 of the Commission’s April 8, 2020 Order in this proceeding and as more fully described in this

³¹ See Water Loss Reports for June 2021, July 2021, December 2021, January 2022, and February 2022.

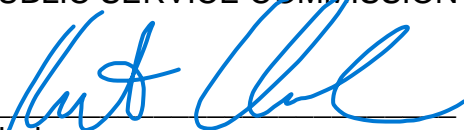
³² Response to Staff’s Seventh Request, Item 3d.

Order. This report should include a monthly water loss report, the form attached to this Order as an Appendix, the surcharge account bank statement, a list of all payments from the surcharge account that includes the payee for each payment and a statement of the purpose of the payment and its relation to meter replacement. The report should also include all invoices supporting the payments.

IT IS THEREFORE ORDERED that:

1. Southern District's second annual progress report is accepted.
2. There shall be no change in the surcharge amount at this time.
3. On the fifteenth day of the month, Southern District shall file with the Commission a monthly water loss report and a monthly activity report that includes the statement of surcharge billings, collections, and deposits attached to this Order as an Appendix; a monthly bank statement; a list of each payment from the surcharge account, its payee, and a description of the purpose; and invoices supporting each payment.
4. On or before December 15, 2022, Southern District shall file monthly water loss reports for March 2022 through October 2022 into the record of this proceeding.
5. Southern District's next annual progress report shall be filed on April 10, 2023.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2020-00121 DATED

Southern Water and Sewer Surcharge (Case No. 2020-00121)
Selected Financial Information and Better / Worse (B / (W)) Performance

A	B	C	D	E C - B	F D - C
Month	Billings	Collections	Deposits	Collections B / (W) Billings	Deposits B / (W) Collections
<i>2022</i>					
September					
October					
November					
December					
Total	0.00	0.00	0.00	0.00	0.00
<i>2023</i>					
January					
February					
March					
April					
May					
June					
July					
August					
September					
October					
November					
December					
Total	0.00	0.00	0.00	0.00	0.00

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