

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

This matter arises from Southern Water and Sewer District's (Southern District) requests regarding purchasing and installing master meters. On December 2, 2020, and January 25, 2021, Southern District filed a motion and amended motion, respectively, requesting to use remaining funds from the water meter surcharge to purchase master meters as the next step in resolving Southern District's excessive unaccounted-for water loss. On February 8, 2021, Southern District filed an application in Case No. 2021-00046¹ requesting a Certificate of Public Convenience and Necessity to purchase and install master meters, and approval, pursuant to KRS 278.300, to finance the project with the remaining loan proceeds. The Commission entered an Order on February 26, 2021, stating that it would address Southern District's request in this proceeding and consolidating Case No. 2021-00046 into this proceeding.

BACKGROUND

Southern District's significant infrastructure issues and excessive water loss have been addressed in five recent cases since 2019. In Case No. 2019-00131, the Commission, among other things, authorized Southern District to collect a \$5.25 per

¹ 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).

month surcharge from its customers to fund the cost of customer meter replacements to address 47.52 percent water loss and to replace aged, malfunctioning meters.² Southern District explained in Case No. 2019-00041 that it was necessary to both replace the customer meters and to install master meters in order to “develop a good, reliable leak detection program” based upon discrete zones or areas, each of which would have a master meter that measured water flow in that zone.³ Southern District further explained that it obtained separate quotes to replace customer meters and master meters because, although both projects were necessary, Southern District likely would be able to fund only one of the projects.⁴

With funding available for the customer meter replacement only, in Case No. 2019-00328, Southern District requested and the Commission granted a Certificate of Public Convenience and Necessity (CPCN) to purchase and install an automatic meter reading (AMR) system.⁵ In Case No. 2020-00114, the Commission approved Southern District’s application to borrow up to \$1,400,000 (Co-Bank Loan) to purchase and install AMR

² Case No. 2019-00131, *Application of Southern Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Nov. 7, 2019). In accordance to 807 KAR 5:066, Section 6(3), unaccounted-for water loss should not exceed 15 percent.

³ Case No. 2019-00041, *Investigation into Excessive Water Loss by Kentucky’s Jurisdictional Water Utilities* (Ky. PSC Oct. 7, 2019), July 16, 2019 Hearing Stenographic Transcript (Transcript), page 19, lines 2–21, and page 34, lines 13–25.

⁴ *Id.*, page 35, lines 1–2.

⁵ 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). See also Case No. 2019-00041, *Investigation into Excessive Water Loss*, Transcript at 164, lines 15–25.

meters.⁶ Finally, the Commission established this proceeding to monitor the meter replacement surcharge proceeds collection and expenses.⁷

PROPOSED PROJECT

Since 2019, according to the evidence of record in the previous cases, Southern District planned to use a two-prong approach to address its significant unaccounted-for water loss: first, by replacing aged, malfunctioning customer meters with AMR meters; and second, by installing master meters in discrete zones.⁸ Master meter programs enable water utilities to address unaccounted-for water loss by dividing the water system into smaller sub-systems, or zones. By establishing master meter zones, utilities can identify leaking infrastructure with specificity using real-time data to identify any imbalance of the water flow into a discrete zone measured by a zone master meter and water consumption measured by customer meters in the zone.

In the previous cases and in this proceeding, Southern District explained that funding was an impediment to purchasing and installing master meters at the same time it purchased and installed AMR meters.⁹ In its motion and amended motion, Southern District stated that it completed the installation of AMR meters and that the cost to purchase and install the AMR meters was less than estimated. Southern District explained that, as a result of the lower expense, there are remaining proceeds from the

⁶ See 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).

⁷ Order (Ky. PSC Apr. 8, 2020).

⁸ Case No. 2019-00041, Transcript, page 19, lines 2–21; page 34, lines 13–25; and page 164, lines 1–25.

⁹ *Id.* at Transcript, page 19, lines 11–16; page 20, lines 6–25; and page 164, lines 3–25.

loan used to pay for AMR meters. Southern District requested approval to use the remaining loan proceeds to install ten master meter zones and to use the meter surcharge funds to apply to loan payments for the AMR meters and the master meters.

In previous cases, Southern District identified the locations for installing the master meters and how many master meters will be needed.¹⁰ Southern District selected three brands of master meters that are compatible with its system and obtained quotes for the master meters by the vendors of the three brands.¹¹ The estimated cost per master meter zone is \$25,000, with an estimated project total of \$250,000 for ten master meter zones.

As a basis for the request, Southern District maintained that the master meters would enable it to more effectively and efficiently detect water leaks, which, in turn, would significantly benefit Southern District's financial position and operations.

DISCUSSION AND FINDINGS

KRS 278.020(1)(a) generally requires a utility to obtain a CPCN before beginning the construction of any plant, equipment, property, or facility. To obtain a CPCN, a utility must demonstrate a need for such facilities and an absence of wasteful duplication.¹²

Need requires a "showing of a substantial inadequacy of existing service" that is due to "a substantial deficiency of service facilities" or "to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service."¹³

¹⁰ *Id.*, page 19, lines 11–16; page 134, line 25 through page 135, line 5.

¹¹ *Id.*

¹² *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 252 S.W.2d 885 (Ky. 1952).

¹³ *Id.* at 890.

Wasteful duplication is defined as “an excess of capacity over need” and “an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties.”¹⁴ To demonstrate that a proposed facility does not result in wasteful duplication, we have held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.¹⁵ The fundamental principle of reasonable least-cost alternative is embedded in such an analysis. Selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.¹⁶ All relevant factors must be balanced.¹⁷

Based upon the evidentiary record of this proceeding and previous cases, the Commission finds that Southern District presented sufficient evidence to support a determination that there is a need for master meters and that the master meters will not create a wasteful duplication of facilities. By establishing discrete metered areas, Southern District can quickly identify an imbalance of measured and consumed water within each area, and thus reduce the volume of unaccounted-for water. By reducing its significant unaccounted-for water loss, Southern District will improve its financial position if expenses are reduced for water that is purchased or treated, but, due to water leaks, Southern District does not recover revenue for that expense.

¹⁴ *Id.*

¹⁵ Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

¹⁶ See *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 390 S.W.2d 168, 175 (Ky. 1965).

¹⁷ Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certification of Public Convenience and Necessity to Construct a 138 KV Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005).

Because Southern District requested to use the same funding source for master meters as the Commission approved for AMR meters, the Commission finds that, by a separate Order to be issued in Case No. 2020-00114,¹⁸ the purpose of the approved financing should be amended to reflect approval to use the funds to purchase and install AMR meters and up to ten master meters.

Finally, the Commission finds that the purpose of the meter replacement surcharge should be amended to include funding to replace AMR meters and master meters.

IT IS THEREFORE ORDERED that:

1. Southern District's motion and amended motion to use meter replacement surcharge funds to purchase and replace AMR meters and master meters is granted.
2. Southern District's request for a CPCN to purchase and install up to ten master meters is granted.
3. Southern District is authorized to use up to \$250,000 of the remaining proceeds of the loan approved in Case No. 2020-00114¹⁹ to purchase and install up to ten master meters.
4. Within 45 days of the date of this Order, Southern District shall file the project timeline and detailed construction plan.
5. Southern District shall file notice with the Commission within 30 days of the completion of the installation of up to ten master meters.
6. Ordering paragraph 9 of the April 8, 2020 Order in this proceeding is stricken and replaced with the following:

¹⁸ Case No. 2020-00114, *Southern Water and Sewer District* (Ky. PSC Apr. 15, 2020).

¹⁹ *Id.*

Southern District shall not spend any funds beyond those authorized for the AMR and master meter purchase and installation until further Orders of this Commission.

7. Ordering paragraph 12 of the April 8, 2020 Order in this proceeding is stricken and replaced with the following:

Southern District shall file a new rate application pursuant to 807 KAR 5:076 within 90 days of the one-year anniversary of the completion of the total replacement of its customer meters with AMR meters.

8. All other provisions of the April 8, 2020 Order that are not in conflict with the terms of this Order shall remain in full force and effect.

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By the Commission



ATTEST:


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