

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

In the Matter of:

ELECTRONIC SOUTHERN WATER &	)	
SEWER DISTRICT’S METER	)	CASE NO.
REPLACEMENT SURCHARGE	)	2020-121
MONITORING	)	

ANNUAL PROGRESS REPORT

On April 8, 2020, the Public Service Commission (“Commission”), on its own motion, initiated case no. 2020-121 for the purpose of monitoring Southern Water & Sewer District’s (Southern District) meter replacement surcharge, which was approved in Case No. 2019-131.<sup>i</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 meters. The meter surcharge began in late 2019 and was based upon Southern District’s urgent financial need to replace its aged meters, a large number of which were zero read meters. In Case No. 2019-131, the Commission granted Southern District a Certificate of Public Convenience and Necessity to purchase and install the replacement advanced meter infrastructure meters.<sup>ii</sup>

This report addresses Southern District’s schedule of the estimated and actual progress of the meter replacement plan and the estimated and actual expenditures made with surcharge proceeds. The Commission indicated that this report may be used to evaluate whether adjustments to the plan or to the surcharge amount are required.

BACKGROUND

Southern District is a water district organized pursuant to KRS Chapter 74 and owns and operates facilities that provide retail and commercial water services to approximately 5,529 customers and wholesale water service to two customers in Floyd and Knott Counties.

In early 2019, all of Southern District’s Commissioners and the District’s legal counsel resigned. Shortly thereafter, five new Commissioners were installed to replace the prior board of commissioners. This new Board retained Mr. Steven Bailey as Southern District’s attorney.

After Southern District's new Board of Commissioners settled into their new roles, they discovered that the District had not complied with PSC regulations requiring Southern District to regularly test the accuracy of their water meters to ensure their accuracy and efficacy. The new Board was extremely concerned that their current meters were not providing Southern District with accurate information regarding the amount of water being consumed by their customers. Water meters are the cash registers of Southern District and are instrumental in calculating the water used and billed for each customer. Additionally, the reliability of the data gathered through Southern District's meters impacts Southern District's leak detection/prevention programs as Southern District cannot efficiently identify leaks without accurate information showing where the water produced and/or purchased by Southern District is being consumed. The Current Board of Southern District placed extreme importance on the high rate of unaccounted for water loss and decided that replacing their meters would greatly assist that objective.

### SCHEDULE OF PROGRESS OF THE METER REPLACEMENT PLAN

Shortly after Southern District's new Board was installed in early 2019, the new Board set a priority of replacing their old outdated and unreliable water meters. Southern District felt new meters were extremely important step in the process of repairing the dire financial position of Southern. The new Board was not satisfied that these meters were reporting accurate water usage information as they had not been maintained or tested as required by PSC regulations.<sup>iii</sup> Some Southern District employees estimated that many of the of the old meters were severely under reporting the actual usage of water or reading zero usage. The meters in place in early 2019 were at least 15 years old and had not been recently tested for accuracy.

Southern District decided to replace their meters due in large part on the fact that said meters had not been tested for accuracy in over 10 years, in direct violation of PSC regulations requiring meters to be tested every 10 years.<sup>iv</sup> As of 2016, Southern District's annual report showed unaccounted water loss at a rate of approximately 42.85% of the total water Southern District produced and/or purchased.<sup>v</sup> Southern District is concerned with the high unaccounted water loss rate and felt that replacing the old untested meters would improve their accountability for water produced and provide valuable data to assist in their leak detection/prevention programs.

The meters that were in use as of 2019 were "positive displacement manual read" meters. These meters required Southern District employee(s) to visit each customer's residence/place of business to manually read and record said

customer's meter usage each month. For this reason, Southern District decided that Automatic Meter Reading (AMR) meters would be best suited for their operations. These meters would reduce the manpower required each month to read and record each customer's water usage. The AMR meters automatically supply Southern District with each customer's usage data without the need for a Southern employee to drive/walk to each customer's property. Additionally, these AMR meters would eliminate the possibility of human error in reading, transcribing and reporting water usage for each customer. Southern District felt as though replacing their old meters with meters with updated technology would assist in their leak detection/prevention programs, reduce the manpower required to operate water meters and provide Southern District with more accurate usage information.

On September 6, 2019 Southern District tendered an application for a Certificate of Public Convenience and Necessity (CPCN) to purchase and install new automatic meter reading (AMR) meter system.<sup>vi</sup> This new case was given case number 2019-328. Southern District responded to two rounds of discovery but no formal hearing took place in that case. An Order was issued by the PSC on November 7, 2019 that granted Southern District a CPCN for the proposed meter replacement project.<sup>vii</sup>

RG3 was selected by Southern District as the most appropriate water meters for their operation after receiving several bids from seven different meter companies in response to a request for proposal.<sup>viii</sup> Several factors were used by Southern District in selecting RG3, including; RG3's experience, warranty, cost, proven technology, and power output.<sup>ix</sup> Southern retained Meter Installation Group (MIG), which is owned by the same parent as RG3, to install said meters. This plan included the installation of approximately 5,600 AMR meters and the associated appurtenances at a cost of around \$1,291,750.<sup>x</sup>

Southern Water and Sewer District employed Meter Installation Group (M.I.G.) to replace/install the new RG3 water meters to all of their water customers. M.I.G. started installing the new water meters on June 17, 2020. The meter replacement project was completed on October 5, 2020. On October 31, 2020, Southern converted from flat fee billing to volumetric billing for all of their customers.

Pursuant to the April 8, 2020 Order in Case 2020-121, Southern District is required to 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 metering system. Southern requests that any adjustments to the surcharge amount

be made in the yet to be filed rate case that Southern District is required to file in the next few months.

ESTIMATED AND ACTUAL EXPENDITURES  
MADE WITH SURCHARGE PROCEEDS

In Case 2019-131, the PSC permitted Southern District to assess a surcharge of \$5.25 per month per customer for a period of 60-months or until the cost of new meters have been assessed, whichever occurs first, for the purpose of financing the new A.M.R. water meters.<sup>xi</sup> The proceeds of this surcharge were deposited into a separate interest-bearing account.<sup>xii</sup>

The PSC opened up Case 2020-121 for the purpose of monitoring Southern District’s Meter Replacement Surcharge. In April of 2020, Southern District started filing monthly reports in PSC Case No. 20-121 that summarize the monthly surcharge collections and expenditures.

Please find the monthly surcharge revenue, disbursements and the total remaining in the surcharge bank account for one calendar year, April 2020 through April 2021:

Month Collected	Surcharge Revenue	Disbursements	Bank Acct Total
April 2020	\$33,107.58	\$0	\$100,198.64
May 2020	\$26,477.31	\$0	\$126,675.95
June 2020	\$25,390.35	-\$22,243.44	\$129,822.86
July 2020	\$26,715.73	-\$24,304.59	\$132,264
August 2020	\$25,169.19	-\$24,739.50	\$132,663.69
September 2020	\$22,590.50	-\$24,739.45	\$130,514.74
October 2020	\$27,326.38	-\$24,740.89	\$130,100.23
November 2020	\$25,523.87	-\$24,739.64	\$133,884.46
December 2020	\$25,328.01	-\$24,739.60	\$134,472.87
January 2021	\$28,047.06	-\$24,741.14	\$137,778.79
February 2021	\$28,344.78	-24,739.70	\$141,383.87
March 2021	\$27,884.60	-\$24,742.56	\$144,525.91
April 2021	\$27,362.01	-\$24,742.89	\$147,145.03

Two financial entries should be noted. First, in June 2020, \$155.22 was expended to order checks for this bank account. The invoice associated with this charge was tendered into the record in PSC Case No. 2020-121 on July 16, 2020. Additionally, on January 12, 2021 Southern District deposited \$43,783.50 in funds

from an Abandoned Mine Lands grant into the meter surcharge bank account due to the fact that Southern had not yet created a bank account for said AML Grant. This \$43,783.50 was then transferred into a different account designated for the AML Grant on January 20, 2021. Southern District understands that it should not deposit any other monies besides the funds from the meter surcharge into the bank account designated for said surcharge funds.

Over the course of April 2020 through April 2021, Southern District collected a total of \$349,125.33 from the \$5.25 meter surcharge. The average amount received each month from the monthly surcharge is around \$26,855.79. The average monthly amount paid to service the debt associated with the meter replacement project calculated over the 11 months that Southern has paid said monthly debt obligation is \$24,459.83. Thus, there is only \$2,239.96 difference between the average amount collected each month from the surcharge and the amount required to service the debt associated with the meter replacement project. Southern District is confident that the amount collected from the meter replacement surcharge is sufficient to service the debt associated with the meter replacement project.

Southern District anticipates that the monthly debt obligation and the monthly revenue from the meter surcharge will continue to be similar figures. Although the monthly surcharge revenue exceeds the amount due each month to service the meter replacement debt, the surplus is not significant.

Currently, Southern District has approximately \$174,145.03 in the Surcharge Bank Account as of April 30, 2021. Southern District requests PSC input on what to do with this surplus. Due to Southern District's high unaccounted water loss rate, Southern District proposes to use much of this surplus to fund specific projects related to preventing and reducing water loss. Southern District would file the appropriate CPCN or related filings that detail the specific projects to be funded by this surplus. Purchasing and installing several master meters is one of the projects Southern District feels would improve their water loss rate. Southern District would propose to keep a reserve in said surcharge bank account of at least two months worth of monthly debt obligation or around \$50,000 and use the remaining funds to fund specific water loss prevention/leak detection projects. This proposal would assist Southern District with one of their most important objectives, reducing unaccounted water loss.

## CONCLUSION

Southern District is confident that its financial situation has improved since the new Board of Commissioners were installed in 2019. Southern District is in agreement with Ordering Paragraph #4 on page 13 of the PSC's Order in 2019-131 that Southern District should assess the surcharge of \$5.25 per month per customer for 60 months or until the cost of the new meters have been assessed, whichever occurs first, to fund the meter replacement efforts.<sup>xiii</sup> The last payment due to satisfy the loan to fund the meter replacement project is scheduled to be made on May 20, 2025. Southern District intends on using the surcharge funds to service/satisfy the meter replacement project loan and requests approval from the PSC to use any remaining funds in the surcharge bank account to improve leak prevention and detection projects for the purpose of reducing Southern District's unaccounted water loss.

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<sup>i</sup> Case 2019-0131, *Application of Southern Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Nov. 17, 2019).

<sup>ii</sup> Case 2019-328, *Electric Application of Southern Water & Sewer District for a Certificate of Public Convenience and Necessity to Install Automatic Reading Meters* (Ky, PSC Nov. 7, 2019).

<sup>iii</sup> See 807 KAR 5:066

<sup>iv</sup> See 807 KAR 5:066

<sup>v</sup> May 29, 2018. *Periodic Water Inspection of Southern Water and Sewer District Water System*.

<sup>vi</sup> Case 2019-328, *Electronic Application of Southern Water & Sewer District for a CPCN to install automatic meter reading meters*. (Ky. PSC November 17, 2019).

<sup>vii</sup> *Id.*

<sup>viii</sup> *Id.*

<sup>ix</sup> Case 2019-328, *Electronic Application of Southern Water & Sewer District for a CPCN to install automatic meter reading meters*. (Ky. PSC November 17, 2019).

<sup>x</sup> *Id.*

<sup>xi</sup> Case 2019-131. *Application of Southern Water & Sewer District for an Alternative rate Adjustment*. (KY PSC November 7, 2019).

<sup>xii</sup> *Id.*

<sup>xiii</sup> Case 2019-131. *Application of Southern Water and Sewer District for an alternative rate adjustment*. (KY PSC, 11/7/2019).