

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

In the Matter of:

**ELECTRONIC APPLICATION OF)
SOUTH EASTERN WATER)
ASSOCIATION, INC. FOR)
COMMISSION APPROVAL PURSUANT) **CASE NO. 2022-00065**
TO 807 KAR 5:001 AND KRS 278.020 FOR)
A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO)
CONSTRUCT A CUSTOMER SERVICE)
AND OPERATIONS FACILITY)**

**RESPONSE OF
SOUTH EASTERN WATER ASSOCIATION, INC.
TO
COMMISSION STAFF'S FIRST
REQUEST FOR INFORMATION
DATED MAY 11, 2022**

FILED: May 26, 2022

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**RESPONSE OF SOUTH EASTERN WATER ASSOCIATION, INC. TO
COMMISSION STAFF’S FIRST REQUEST FOR INFORMATION**

Comes South Eastern Water Association, Inc. (“South Eastern Water”) for its Response to Commission Staff’s First Request for Information, and states as shown on the following pages.



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CASE NO. 2022-00065

**CERTIFICATION OF RESPONSE OF SOUTH EASTERN WATER
ASSOCIATION, INC. TO COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION**

This is to certify that I have supervised the preparation of South Eastern Water's Responses to Commission Staff's First Request for Information. The response submitted on behalf of South Eastern Water is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

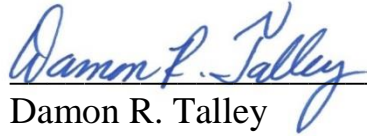
Date: May 26, 2022



**Joe D. Crawford, President
South Eastern Water Association, Inc.**

CERTIFICATE OF SERVICE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on May 26, 2022; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



Damon R. Talley

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 1

Responding Witness: Joe D. Crawford, President

Q-1. Refer to Application, pages 4–5.

- a. Explain South Eastern Water's plan for the existing customer service and operation facilities (Existing Facilities).**
- b. Explain whether South Eastern Water has discussed the sale of the Existing Facilities with any potential buyer.**
- c. State the estimated value of the Existing Facilities, including the value of land.**
- d. Provide any appraisals or other information used to determine estimated value.**
- e. Explain how the proceeds of the sale would be used if the Existing Facilities were to be sold.**

A-1.

- a. Once South Eastern Water has constructed and occupied its proposed Customer Service Center and Operations Facility (the "Proposed Facility"), the Existing Facilities will be declared "surplus" and sold at public auction.**

- b. Yes. At least three (3) persons, who have the financial resources to purchase the Existing Facilities, have expressed a keen interest in purchasing the Existing Facilities. The Existing Facilities will not be advertised for sale until after South Eastern Water has occupied its Proposed Facility.
- c. Based on conversations from these interested buyers, the Existing Facilities have an estimated value in excess of **\$200,000**.
- d. No appraisals have been made. South Eastern Water plans to sell the Existing Facilities at public auction.
- e. South Eastern Water plans to use a portion of its unrestricted cash reserves to pay for the construction of the Proposed Facility. No debt will be incurred. Therefore, the net sales proceeds from the sale of the Existing Facilities will be used to replenish South Eastern Water's cash reserves.

SOUTH EASTERN WATER ASSOCIATION, INC.

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**Response to Commission Staff's First
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Question No. 2

Responding Witness: Joe D. Crawford

Q-2. Refer to Application, page 11, paragraph 25.

- a. Explain why, in 2017, South Eastern Water purchased the property where it proposes to build the proposed facility.**
- b. State whether South Eastern Water intends to recover any part of the cost of purchasing this property in a future rate case.**
- c. State whether South Eastern Water intends to recover any part of the cost of constructing the proposed facility in a future rate case.**

A-2.

- a. For several years, South Eastern Water's Board of Directors has been looking for more suitable facilities that could be purchased or a larger, more centrally located site where new facilities could be constructed. In 2017, the owner of a parcel of real property on the east side of Somerset on the Somerset Bypass (Kentucky Highway 914) decided to sell this property. He had heard that South Eastern Water was looking for a new site and approached the General Manager of South

Eastern Water. Because of its strategic location and reasonable price, South Eastern Water quickly purchased the property before it “went on the market.” South Eastern Water believes that it purchased the property at below market price. Had South Eastern Water been able to find suitable facilities in a suitable location that were already constructed, it could have sold the property on the Somerset Bypass and made a profit. Purchasing the property in 2017 was a very wise business decision by South Eastern Water.

- b. No.
- c. No. It will, however, depreciate the Proposed Facility once it has been constructed and placed into service. The Depreciation Expense will be an expense that can be recovered in a future rate case.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 3

Responding Witnesses: Barry Dalton, CPA

Q-3. Refer to Application, page 15, paragraph 40. Provide an itemized schedule of operations costs for the Existing Facilities.

A-3. The total annual operating costs for the Existing Facilities for calendar year 2021 was **\$30,095**. These costs are itemized below:

Electricity	\$ 7,418
Water & Sewer	\$ 1,563
Internet Service	\$ 1,440
Telephone	\$ 7,158
Building Insurance	\$ 5,520
Janitorial Service	<u>\$ 6,996</u>
Total	\$ 30,095

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 4

Responding Witnesses: Barry Dalton and Joe D. Crawford

Q-4. Refer to Application, page 8, paragraph 20.

- a. Provide the annual amount that South Eastern Water pays to repair shops to perform maintenance on its service vehicles.**
- b. State how much it will cost South Eastern Water to purchase the necessary tools and equipment, as well as the annual expense of hiring employees capable of performing the work necessary to service the vehicles properly in-house.**
- c. Provide any cost-benefit analysis performed to justify bringing all repair work in-house as opposed to outsourcing the repair work to third-parties as is currently done.**
- d. State whether costs necessary to perform the repair work in-house were factored into the overall projected cost of \$2,115,864, and if so, identify those portions of the overall projected cost that represent the costs associated with moving the repair work in-house.**

A-4.

- a. \$19,128 is the amount that South Eastern Water spent in calendar year 2021 to various vendors for servicing and maintaining its service vehicles.**

- b. **\$7,500** is the approximate cost of the tools and equipment that South Eastern Water will need to purchase to enable its employees to perform routine service and maintenance work on its vehicles and equipment. No new employees will need to be hired to perform this work. South Eastern Water currently has at least three (3) or four (4) employees who are qualified to perform this service work.
- c. No cost-benefit analysis has been performed.
- d. The projected cost of \$2,115,864 to construct the Proposed Facility does not include the approximately \$7,500 cost of purchasing the necessary tools and equipment referenced in the answer to Question 4(b).

SOUTH EASTERN WATER ASSOCIATION, INC.

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**Response to Commission Staff's First
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Question No. 5

Responding Witness: Morris Vaughn

Q-5. Provide the expected costs of moving from the Existing Facilities to the proposed facility.

A-5. South Eastern Water does not anticipate spending any money to move from the Existing Facilities to the Proposed Facility. The move will be accomplished by utilizing its current employees and vehicles. Therefore, it will not be necessary to hire a professional moving company.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 6

Responding Witness: Morris Vaughn

Q-6. Describe, including time frames, any expected interruption of operations during the move from the Existing Facilities to the proposed facility.

A-6. At most, South Eastern Water estimates that its office will be closed for two (2) working days. Depending upon the completion date of the Proposed Facilities, it might be possible to schedule the move over a long, three-day weekend where Monday is a holiday. If so, the office may only be closed for one day.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 7

Responding Witnesses: Joe D. Crawford and Morris Vaughn

Q-7. Provide the numbers and percentages of growth in customer base and the increase in the number of personnel since South Eastern Water began using the Existing Facilities.

A-7. The Existing Facilities were constructed by Nelson Valley Water Association, which had three (3) employees and approximately 900 customers. Nelson Valley Water Association later merged with three (3) other water associations to form South Eastern Water. South Eastern Water has 13 employees and 7,721 customers.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 8

Responding Witness: Joe D. Crawford

**Q-8. State the number of personnel that could reasonably work in the
facility.**

A-8. A total of five (5) employees can reasonably work in the Existing Facilities.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 9

Responding Witness: Morris Vaughn

Q-9. Identify the number of personnel by department that occupy South Eastern Water's Existing Facilities and the number of personnel by department that South Eastern Water expects to occupy the proposed facility.

A-9. Currently, South Eastern Water has 13 full-time employees:

Administrative:	2 (General Manager & Assistant Manager)
Customer Service:	3
Transmission & Distribution:	8

None of the Transmission & Distribution employees have offices or separate cubicles in the Existing Facilities.

The same 13 employees will occupy the Proposed Facility. The Customer Service Department (3 employees), the General Manager, and the Assistant Manager will have offices in the proposed Customer Service Building. Each

employee in the Transmission & Distribution Department will have separate offices or cubicles in the proposed Shop Building.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 10

Responding Witness: Morris Vaughn

Q-10. State whether South Eastern Water currently owns or leases any buildings or facilities containing offices or storage space other than the Existing Facilities, and if so:

- a. Identify the location of each building or facility, provide the size of each building or facility, and describe how each such building or facility is currently used.**
- b. Explain whether and why each such building or facility would be suitable for providing the extra workspace that is claimed to be needed by a brand-new office facility.**

A-10.

- a. The only buildings or facilities which South Eastern Water leases or rents is a 10 feet by 10 feet storage unit which costs \$600 per year. This storage unit is used to store old records which South Eastern Water needs to preserve. Once the Proposed Facility is constructed, these records will be moved to the Proposed Facility and the storage unit lease will not be renewed. South Eastern Water does not own any

buildings or facilities “off-site” from the Existing Facilities other than
pump stations and water storage tanks.

- b. N/A.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 11

Responding Witness: Joe D. Crawford

Q-11. State whether South Eastern Water considered leasing any property that would satisfy the needs stated in its CPCN application.

- a. If South Eastern Water did consider leasing such property, explain what efforts were made to obtain a lease, and why it was ultimately decided to not be a viable alternative.**
- b. If South Eastern Water did not consider leasing such property, explain the reason why it was not considered.**

A-11.

- a. South Eastern Water did consider leasing property to relocate its operations and headquarters. The President of South Eastern Water worked with local real estate professionals, including the ones referenced in its Application at pages 10 and 11, paragraph 24, to either purchase or lease suitable facilities that were already constructed. Unfortunately, no such rental properties were available.
- b. N/A.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
Request for Information**

Question No. 12

Responding Witness: Barry Dalton

Q-12. Identify the depreciation rate currently used to calculate depreciation expense for the existing headquarters facility, and identify the case in which that depreciation rate was set.

A-12. The depreciation rate for the Existing Facilities is 2.5% (based on a 40-year useful life). This depreciation rate has been used since at least 1996. After a diligent search, South Eastern Water is unable to identify the case in which this depreciation rate was set. In South Eastern Water's most recent rate case (Case No. 2021-00126 decided on September 17, 2021), however, the Commission approved the Deprecation Schedule which used a depreciation rate of 2.5% for its Existing Facilities (office building). The Commission adopted the findings contained in the Staff Report concerning depreciation. (See Staff Report dated June 14, 2021 at pages 16-17).

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2022-00065

**Response to Commission Staff's First
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Question No. 13

Responding Witness: Barry Dalton

Q-13. Provide the useful life of South Eastern Water's existing headquarters facility used to calculate its depreciation rate.

A-13. 40 years.

SOUTH EASTERN WATER ASSOCIATION, INC.

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**Response to Commission Staff's First
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Question No. 14

Responding Witness: Barry Dalton

Q-14. Provide the plant in service and accumulated depreciation for South Eastern Water's existing headquarters as of December 31, 2021.

A-14. The plant in service for the Existing Facilities (existing headquarters) is \$95,077 and the accumulated depreciation is \$65,697. This leaves a net plant in service of \$29,380 for the Existing Facilities.

SOUTH EASTERN WATER ASSOCIATION, INC.

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**Response to Commission Staff's First
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Question No. 15

Responding Witness: Joe D. Crawford

Q-15. State whether any consideration was made to purchase or lease office space to house a portion of the customer service representatives, engineers, or any other employees currently located in the present office space in order to alleviate the overcrowding issues mentioned in the application, and thereby eliminate the need to construct an entirely new building.

- a. If such consideration was made, state the reason or reasons why it was determined to not be feasible.**
- b. If no such consideration was made, state why not.**

A-15.

- a. Yes, South Eastern Water considered numerous options and alternatives, including leasing or purchasing office space to alleviate the overcrowding issues discussed in the Application. As stated in the Application at pages 10 and 11, paragraph 24, South Eastern could have

purchased an office building in Somerset, but it would have been located several miles away from the Existing Facilities. Had it done so, however, this would not have alleviated all the problems and shortcomings associated with the Existing Facilities. The Existing Facilities are not adequate or suitable to serve as an operations facility to house South Eastern Water's Transmission and Distribution Department, its service vehicles, dump trucks, backhoes, trailers, and other equipment. As stated in the Application at pages 5 through 9, paragraphs 15 through 20, there are no inside equipment storage buildings at the Existing Facilities and no room to construct a garage or shop building. In addition, having the Customer Service Department located miles away from the operations facility would create numerous other problems and inefficiencies.

The only commercial property that "came close" to satisfying the needs of South Eastern Water was the large trucking terminal located on the south side of Somerset on a 23 acre site. This site was given serious consideration by South Eastern Water. This property was vacant and could have been purchased for \$1,400,000. There are several drawbacks to this property and the building located on this property: (1) it is in the wrong location; (2) the shop and garage

building is very old; (3) the building is much, much larger than that needed by South Eastern Water; (3) it only has a tiny office located in the garage; and (4) remodeling the existing building to make it suitable for having an adequate Customer Service Center, other offices, and a board room were estimated to cost at least \$750,000. This would have made the total cost exceed \$2,100,000. Finally, the building would still have been in the wrong location. It would have been outside South Eastern Water's service area. This location would have required South Eastern Water's maintenance crews to drive through Somerset with their dump trucks and backhoes before traveling to the eastern and northeastern part of the county to its service area. It would also have been inconvenient for South Eastern Water's customers. All these factors made the decision to construct a new facility on South Eastern Water's existing property an easy one. . . and the most prudent one.

- b. See above.