

# Reason for Application

Southern Water & Sewer District (“the District”) is filing this application in accordance with the Public Service Commission’s Order dated November 7, 2019, in Case No. 2019-00131, which was later amended by an Order dated October 1, 2021, in Case No. 2020-00121. The District is not seeking a change in rates with the current application.

The District does not consider it appropriate to change its rates now because of the many operational changes that have occurred over the past few years and are planned for the near future. These changes, outlined below, will have a very significant and positive impact on the District’s financial situation. Under these circumstances, now is not the time to increase rates.

The financial analysis included with this application demonstrates that with the existing rate structure the District will operate with a positive cash flow and be able to make substantial contributions to its depreciation fund. The District respectfully requests that the PSC allow a period of time for the cost savings from all improvements to be fully realized. It is proposed that the District file another ARF case by June 30, 2024, and use that analysis to determine the next schedule of general service rates. It should also be noted that soon after that date, the Meter Replacement Surcharge now being paid by customers will be eliminated, thus reducing the overall cost to customers.

The District’s water loss was 70% in 2019, but with the advent of a new Board and UMG management, the water loss for 2021 was lowered to 55%. Continued water loss reduction and the reduction in operating expenses in general are the highest priorities for Southern District. Continued progress in this regard will be reflected in the revenue requirement computed in the proposed 2024 analysis and rate case.

One of the most consequential and measurable financial changes that will be realized by 2024 is the District’s reduction of debt. Several of Southern’s existing loans will be paid or nearly paid in full, so in 2024 the average debt service and coverage that will be used in a rate analysis will be some \$190,000 less than current. This will make a huge difference in future revenue requirements and rates.

## **Past Improvements**

- The District hired Utility Management Group (UMG) in 2019 to manage day to day operations, administration, and billing. This brought in a skilled and experienced company that reviewed and controlled all the processes of operations and management.
- Equipment at tanks has been properly calibrated and, in some cases, replaced to prevent water loss due to overflows.
- Multiple large leaks were located and repaired.
- Areas of excessive high pressure were identified and corrected, reducing water losses.
- Employees have been trained on leak detection and leak detection equipment purchased.
- Multiple duplex pump stations have been refurbished to insure both pumps are operational. These actions decreased maintenance and increased reliability.

- Ongoing leak detection and leak repairs have reduced the operating hours at the water treatment plant.
- All water meters have been replaced with radio read meters. This reduces labor costs and increases meter/billing accuracy.
- The overtime policy has been revised so that overtime is paid only after 40 regular hours. Changes have also been made to Sick Leave and Vacation benefits. These changes reduce operating costs.
- Completed construction of a new Mink Branch tank. This replaces a deteriorated tank that was leaking badly. This project was funded by a \$740,000 grant.
- Completed the \$285,000 Estill Bottom line relocation which rerouted a 3,000 foot section along Beaver Creek that was as much as 20 feet deep in spots. This made leak detection difficult or impossible. The connected service lines were also replaced. Downstream pressure increased after this construction, indicating there were significant leaks along this line.
- In January 2022 the District began the process to upgrade its billing software. Although this conversion is still ongoing, it is apparent that future access to and reports from billing data will be greatly enhanced.
- From 2020 to 2021 the amount of water purchased from neighboring utilities was reduced substantially. This lowered the average Purchased Water Expense by 29 percent while the quantity of water produced by the District was also reduced. With the completion of the Mink Branch project in February 2022 and a pump station upgrade, it's estimated that purchases from Pikeville can be reduced by at least another 2 million gallons per month.
- A public information campaign using social media and traditional advertising was launched in February 2022. The purpose of this initiative is to change public perception of water theft and educate the public on its cost to the District and its customers. An email address is also provided for citizens to report water theft.

### **Upcoming Improvements**

- Construction is expected to start in 2022 on the Lackey to Wayland line replacement. This is a 30,000 foot section of aged and deteriorated water main and customer service lines which is funded by an AML grant of \$1,500,000. This project will further reduce water losses as evidenced by the results from the Estill Bottom project.
- A project to install ten new master meters at a rate of one per month has begun. These meters in conjunction with new telemetry will be monitored daily to identify rapid tank drops and/or high flow rates caused by sudden line leaks.
- The District has just been awarded a \$325,000 grant for new telemetry. This equipment will provide enhanced data from all water tanks and the new master meters. It will allow the District's personnel to monitor tank drop rates and distribution water flow in real time and thus enhance leak detection efficiency through quicker identification of specific zones where problems exist.
- Southern has been awarded a \$100,000 grant from the Floyd County Fiscal Court to be used for upgrading motor logic controllers at the water treatment plant. This will help reduce chemical usage and costs.
- Multiple additional projects have been identified and grants are being solicited to replace aged infrastructure where frequent line breaks occur. Attached is a current list of projects on file with the Kentucky Infrastructure Authority.

<u>PNum</u>	<u>Primary County</u>	<u>Applicant</u>	<u>Project Title</u>	<u>Project Status</u>	<u>Funding Status</u>	<u>Schedule (yrs)</u>	<u>Project Cost</u>	<u>Profile Modified</u>	<u>GIS Modified</u>
WX21071001	Floyd	Southern Water & Sewer District	Telemetry Upgrades and Replacement Project	Approved	Partially Funded	0-2 Years	\$759,000	06-21-2021	<a href="#">11-13-2020</a>
WX21071006	Floyd	Southern Water & Sewer District	Master Meter Installation Project	Approved	Not Funded	0-2 Years	\$291,500	06-10-2021	<a href="#">11-19-2020</a>
WX21071008	Floyd	Southern Water & Sewer District	Southern Water - Mink Branch Tank Replacement	Under Construction	Partially Funded	0-2 Years	\$726,648	09-02-2020	<a href="#">06-10-2021</a>
WX21071009	Floyd	Southern Water & Sewer District	Water System Improvements - Mink Branch to Ligdon	Approved	Not Funded	0-2 Years	\$3,464,000	06-10-2021	<a href="#">06-10-2021</a>
WX21071012	Floyd	Southern Water & Sewer District	Sw&sd Water Treatment Plant and Intake Rehabilitation Project	Approved	Not Funded	0-2 Years	\$1,400,000	06-10-2021	<a href="#">09-02-2020</a>
WX21071013	Floyd	Southern Water & Sewer District	Water Main Replacement (Sidelines) Project	Approved	Not Funded	0-2 Years	\$2,180,924	06-10-2021	<a href="#">06-10-2021</a>
WX21071014	Floyd	Southern Water & Sewer District	Estill Bottom Line Relocation	Approved	Not Funded	0-2 Years	\$248,955	09-15-2020	<a href="#">04-28-2020</a>
WX21071015	Floyd	Southern Water & Sewer District	KY-680 Minnie to KY-80 Waterline Extension/Connector Project	Approved	Not Funded	0-2 Years	\$1,909,717	07-16-2021	<a href="#">06-28-2021</a>
WX21071730	Floyd	Southern Water & Sewer District	SWSD - Lackey to Wayland Water Line Replacement	Approved	Not Funded	0-2 Years	\$1,500,000	11-10-2020	<a href="#">02-27-2017</a>
WX21071731	Floyd	Southern Water & Sewer District	Southern Water & Sewer District - Water Meter Change Out Program	Under Construction	Not Funded	0-2 Years	\$1,500,000	09-02-2020	<a href="#">01-24-2018</a>