

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MCCREARY)	
COUNTY WATER DISTRICT FOR)	CASE NO.
AUTHORIZATION TO EXECUTE LEASE-)	2018-00038
PURCHASE AGREEMENT AND RELATED)	
RELIEF)	

ORDER

McCreary County Water District (“McCreary District”) has applied to the Commission for an Order authorizing McCreary District to execute a lease-purchase agreement to finance the purchase of \$781,144 of water metering equipment and either declaring that a Certificate of Public Convenience and Necessity (“CPCN”) is not required for the purchase and installation of such equipment, or in the alternative, issuing a CPCN for the proposed purchase and installation. McCreary District does not propose to adjust its rates.

No party has sought intervention in this matter, and McCreary District did not request a hearing. The record in this case is complete and the matter stands ready for a decision.

McCreary District, a water district organized under KRS Chapter 74, provides retail water service to approximately 6,149 customers in McCreary County, Kentucky.¹

The proposed project entails the purchase and installation of approximately 5,600 5/8-inch x 3/4-inch radio frequency meters, 24 1-inch radio frequency meters, 16

¹ *Annual Report of McCreary County Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2016* (“2016 Annual Report”) at 12 and 48.

1 1/2-inch radio frequency meters, 48 2-inch radio frequency meters, five 3-inch magnetic flow meters, and three 4-inch magnetic flow meters, along with associated hardware and software.² The new meters utilize Automatic Meter Reading (“AMR”) technology that wirelessly transmits data. The proposed meters are static ultrasound meters which, in contrast to mechanical meters, have no moving parts and thus are unaffected by wear and tear.³ The AMR meters allow for remote meter readings. As the meter reader drives by, the reader’s smartphone will display the meter, receive and store data transmitted from each meter, and mark whether a meter has been read or not. The meter reader can then send all readings directly to the home office while remaining out in the field.⁴

McCreary District opened bids for this project on January 19, 2018. Kamstrup Water Metering, LLC was the sole bidder and was awarded the bid. The total construction cost of the project as bid is \$781,144.⁵ To finance the cost of the proposed purchase of the meter equipment, McCreary District proposes to execute a lease agreement with Government Capital Corporation of Southlake, Texas (“Government Capital”). Under the terms of the lease agreement, Government Capital will acquire ownership of the metering equipment and will lease that equipment to McCreary District for ten years. Beginning one year after the execution of the lease-purchase agreement, McCreary District will make annual lease payments of \$96,987.62 to Government Capital. At the end of the lease period, McCreary District will acquire legal title to the

² Application at 9.

³ *Id.* at 10.

⁴ *Id.* at 11F.

⁵ *Id.* at 14.

metering equipment. This arrangement is the equivalent of a note for \$781,144, payable over a term of ten years at an interest rate of 3.744 percent per annum. Government Capital retains a security interest in the metering equipment and may take possession of the equipment in the event that McCreary District defaults on its obligations under the agreement.⁶

McCreary District will use its own personnel to remove the existing meters and replace them with the newly purchased meters. The replacement is expected to be completed within 90 days after the purchase and receipt of metering equipment.⁷ McCreary District did not include any labor expense in the estimated cost to replace its existing meters. The Commission finds that in most cases involving a construction project or replacement of an asset, the utility would be required to capitalize all costs of construction including, but not limited to, engineering, legal, and administrative costs. This would also include the outside labor required to complete the project. Therefore, McCreary District should capitalize all of its costs, including the labor recorded by its own personnel, when accounting for the replacement of its existing meters.

In addition, McCreary District states that it has not yet finalized its plans for meter disposal, but that a firm has offered to purchase the replaced meters for \$3.00 per meter.⁸ The Commission notes that McCreary District reported \$1,278,558 for meters and meter installations in its 2016 Annual Report.⁹ When accounting for the disposal of its replaced meters, McCreary District should be prepared to separate the original cost

⁶ *Id.* at 32.

⁷ *Id.* at 12.

⁸ *Id.*, Exhibit 3 at 13.

⁹ 2016 Annual Report at 25.

of the meters from meter installations when removing them from service, less the salvage value (if any) as discussed in its application.

McCreary District states that the AMR system will achieve several operational efficiencies as well as provide additional benefits to McCreary District. Currently, McCreary District employs three employees to read its meters manually. Each employee is assigned a vehicle and spends 40 hours per week performing this task. After the installation of the proposed metering equipment, only one McCreary District employee will perform meter reading duties and will read all meters within a four-day period. McCreary District estimates that the deployment of the proposed metering equipment will produce annual savings in labor expenses for meter readings of approximately \$105,406. In its responses to Commission Staff's First Data Request, this savings is the result of replacing a field crew employee, who left McCreary District in March 2018, with a meter reader in lieu of hiring an additional employee. In addition, another meter reader will be reassigned to McCreary District's plant as a water treatment plant operator. McCreary District stated that they operate two water treatment plants which are currently understaffed. The reassignment of the meter reader to the water treatment plant is expected to ensure adequate personnel at the water plant and to lessen significantly the accrual of overtime.¹⁰

McCreary District also predicts that the water district will be able to reduce the size and the operation and maintenance costs of its existing vehicle fleet.¹¹ In its responses to Commission Staff's data request, McCreary District estimated that they

¹⁰ McCreary County Water District's responses to Staff's first data request, item 1.

¹¹ Application, at 13C.

would be able to save approximately \$10,500 in depreciation and fuel costs on two trucks as a result of the proposed project.¹²

McCreary District predicts that the new meters will reduce unaccounted-for water loss because of quicker detection of water leaks, meter tampering, and theft. This is accomplished by the meter automatically issuing a report if water flow exceeds a given value for a continuous period of 30 minutes or if the meter detects any unauthorized access.¹³ Additionally, McCreary District states that the AMR meters are more accurate in the measurement of water use, and believes that water use previously unmeasured is more likely to be recorded and billed, thereby reducing the level of water loss from its current water loss percentage of 14.6566.¹⁴

Since McCreary District does not intend to reduce personnel, but rather to divert the existing meter reading staff-hours towards water treatment, maintenance, and leak prevention and repair, McCreary District's cost of operation will not decrease as a result of this installation. The installation will, however, eliminate the need to hire additional employees.¹⁵

McCreary District argues in its application that no CPCN is required in this instance.¹⁶ McCreary District asserts that the proposed purchase of the AMR water metering equipment and related accessories meets the definition of an extension in the ordinary course of business as set forth in 807 KAR 5:001, Section 15(3). McCreary

¹² McCreary County Water District's responses to Staff's first data request, item 7.

¹³ Direct Testimony of Stephen Whitaker, ("Whitaker's Testimony") at 10.

¹⁴ *Id.*

¹⁵ Application at 13A and 13B.

¹⁶ Application at 17.

District further maintains that the proposed purchase will not result in the wasteful duplication of utility plant, will not compete with the facilities of existing public utilities, and does not involve a sufficient capital outlay to materially affect McCreary District's existing financial condition or to require an increase in McCreary District's rates. To support its claim regarding the capital outlay, McCreary District states that, as of December 31, 2016, McCreary District had net utility plant totaling \$27,287,860.11. McCreary District states that the purchase price of the proposed AMR water metering equipment is \$781,144 and that the cost of the proposed equipment represents approximately 2.86 percent of McCreary District's net utility plant.

Based on the evidence of record, the Commission finds that McCreary's District's AMR program is not exempt from the requirement to obtain a CPCN. The replacement of a utility's entire inventory of meters, regardless of their remaining service life, does not constitute an extension of service in the ordinary course of business. Furthermore, it can be argued that such replacement constitutes a duplication of facilities, and can only be determined to be a non-wasteful duplication after a full investigation by the Commission. The \$781,144 capital outlay for this project would affect the utility's financial condition materially if the cost could not be recovered from ratepayers due to a Commission finding that the project was either not needed or created wasteful duplication. The Commission has stated that "any projects involving significant capital investment by the cooperative, such as AMR, must be included in a work plan that is filed with the Commission and approved by our issuance of a CPCN prior to proceeding with any project activities."¹⁷ Furthermore, a lease-purchase agreement resulting in the

¹⁷ Case No. 2009-00410, *Application of Shelby Energy Cooperative, Inc. for an Adjustment of Rates* (Ky. PSC July 27, 2010).

assumption of a long-term liability, such as the one proposed here, is subject to the requirements of KRS 278.300 and requires Commission approval.¹⁸

Having reviewed the application and being otherwise sufficiently advised, the Commission finds that:

1. The record for this case is complete.
2. The proposed construction will not result in wasteful duplication of existing facilities.
3. The proposed construction does not conflict with any existing certificates or the service of any other utility operating in the area.
4. Public convenience and necessity require the proposed construction, which will allow McCreary District to provide reliable and adequate water service to its customers.
5. A CPCN is required for the proposed AMR project and should be granted.
6. The project will be funded through a lease-purchase agreement for \$781,144.
7. The proposed project will eliminate the need to hire additional employees, which results in an approximate future value savings of \$1,054,060 over ten years.¹⁹
8. The proposed lease-purchase agreement with Government Capital is for lawful objects within McCreary District's corporate purpose. It is necessary for, appropriate for, and consistent with the proper performance of McCreary District's

¹⁸ See Case No. 92-178 *Burkesville Gas Company, Inc., Ken-Gas of Kentucky, Inc., and Ken Turner Alleged Violation of KRS 278.300* (Ky. PSC Oct. 28, 1992).

¹⁹ The future value savings is based on the total annual savings in labor expense for meter reading of approximately \$105,406, times the ten-year life of the lease agreement. This calculation does not include cost-of-living or other wage adjustments.

service to the public, will not impair McCreary District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

9. McCreary District should be authorized to utilize the proceeds of the lease agreement for \$781,144 on the project approved herein.

IT IS THEREFORE ORDERED that:

1. McCreary District is authorized to enter into a lease-purchase agreement with Government Capital in the amount of \$781,144 over a term of ten years at an interest rate not to exceed the lower of 3.744 percent per annum and be equal to the lower of the rate in effect at the time of approval, or the interest rate in effect at the time of execution of the lease-purchase agreement.

2. McCreary District's request for a CPCN for its AMR program is approved.

3. McCreary District shall notify the Commission prior to performing any additional construction not expressly authorized by this Order.

4. Any deviation from the construction approved by this Order shall be undertaken only with the prior approval of the Commission.

5. Within 30 days of executing its proposed lease-purchase agreement with Government Capital, McCreary District shall file with the Commission an executed copy of the lease-purchase agreement. McCreary District shall use \$781,144 of the proceeds from the proposed lease-purchase agreement with Government Capital only for the lawful purposes set forth in its application. None of the proceeds shall be used for the construction of any project not approved by the Commission, except those clearly identified in McCreary District's Application in this proceeding, unless and until McCreary District obtains prior Commission approval for the use of the proceeds.

6. McCreary District shall file with the Commission documentation of the total costs of this project, including the cost of construction and all other capitalized costs, (e.g., engineering, legal, administrative, etc.), within 60 days of the date that construction authorized under this CPCN is substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

7. Upon disposal of the replaced meters, McCreary District shall record on its books of original entry the disposal of the asset less the salvage value (if any), with any loss on disposition of property amortized over five years.

8. McCreary District shall depreciate the cost of the new meters over 20 years using the straight-line method of depreciation.

9. McCreary District shall file a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

10. Any documents filed in the future pursuant to ordering paragraphs 3, 6, 7, and 10 shall reference this case number and shall be retained in the post-case correspondence file.

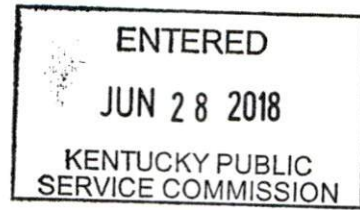
11. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon McCreary District's showing of good cause for such extension.

12. Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any other agency thereof as to the securities authorized herein.

13. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:


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