

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ESTILL	)	
COUNTY WATER DISTRICT NO. 1 FOR A	)	CASE NO.
SURCHARGE TO FINANCE WATER LOSS	)	2019-00119
CONTROL EFFORTS	)	

ORDER

On August 31, 2023, Estill County Water District No. 1 (Estill District No. 1) tendered a motion for authorization to use surcharge. Estill District No. 1 is seeking authorization for five projects, hiring employees to be dedicated to leak detection, creating additional districted metering areas (DMA), purchasing vehicles, purchasing a hydro excavator and dump trailer, purchasing a Rover GNSS GPC receiver, and requesting to continue collecting the water loss surcharge until December 31, 2025.

LEGAL STANDARD

On June 13, 2019, Estill District No. 1 tendered an application requesting implementation of a water loss surcharge to fund efforts to reduce unaccounted water loss. Estill sought approval to assert a collection of \$3.54 from each customer.<sup>1</sup> Estill District No. 1 proposed several conditions to assure the funds are used solely to finance efforts to decrease unaccounted for water loss. These conditions included seeking Commission approval prior to expending surcharge funds, monthly activity reports which include a statement of monthly surcharge billings and collections to be filed with the

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<sup>1</sup> Application at 5.

Commission, three years after the surcharge is authorized a formal Commission review of performance of the surcharge and that Estill District No. 1's water loss control efforts will be conducted to determine if the surcharge should be terminated or modified.<sup>2</sup>

On August 29, 2019, the Commission entered an order authorizing Estill District No. 1 to start collecting the water loss surcharge as of August 22, 2019, subject to refund.<sup>3</sup>

### BACKGROUND

Estill District No. 1 stated in its motion that it had an increasing percentage of water loss, which increased from 25.85 percent in 2010 to 39.90 percent in 2022.<sup>4</sup> In response to that increasing water loss, Estill District No. 1 sought approval for the water loss surcharge granted in this case and to contract with Bell Engineering to draft a Comprehensive Corrective Action Plan.<sup>5</sup> Estill District No. 1 also sought other funding through Kentucky Infrastructure Authority (KIA) loans to assist with decreasing its unaccounted-for water loss.<sup>6</sup> Those projects included replacing substandard stream crossing, creating DMAs, upgrading its systems telemetry, replacing 3,000 residential meters with radio read meters, installing 700 adapters on meters allowing them to be read by radio, removing 100 inactive meters and upgrading the meter reading software and equipment.<sup>7</sup> As a result of these projects Estill District No. 1 has decreased its

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<sup>2</sup> Application at 6.

<sup>3</sup> Order (Ky. PSC Aug. 29, 2019), ordering paragraph five.

<sup>4</sup> Estill District No. 1's Motion for Authorization to Use Surcharge Proceeds (Motion for Authorization) (filed on Aug. 31, 2023) at 2.

<sup>5</sup> Motion for Authorization, Exhibit 2.

<sup>6</sup> Motion for Authorization at 12.

<sup>7</sup> Motion for Authorization at 6–7.

unaccounted-for water loss from 31.89 percent in January of 2023 to 22.11 percent in July of 2023.<sup>8</sup>

Estill District No. 1 stated that as July 31, 2023, the surcharge fund balance was \$583,619.93.<sup>9</sup>

On May 12, 2023, the Commission entered an Order stating that the status of the water loss surcharge will be reviewed in the rate case to be filed by Estill District No. 1. Estill District No. 1. filed an application for an alternative rate filing on December 1, 2023.<sup>10</sup> Therefore, the Commission will evaluate the continuing need for the surcharge in that proceeding, and the surcharge remains unchanged until further order of the Commission.

### DISCUSSION

#### Projects:

In the pending motion Estill District No. 1 sought approval for the following five projects and stated that none of these projects involve sufficient capital outlay to materially affect its financial condition and will not result in increased rates to customers.<sup>11</sup>

#### Dedicated Leak Detection Team:

Estill District No. 1 proposed hiring two additional field workers based on the recommendation from Bell Engineering.<sup>12</sup> Estill District No. 1 intends that these two employees will be assigned only to leak detection, repair, and prevention duties, and that

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<sup>8</sup> Motion for Authorization at 8.

<sup>9</sup> Motion for Authorization at 8.

<sup>10</sup> Case No. 2023-00371, *Electronic Application of Estill County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076* (filed on Dec 1, 2023), Application.

<sup>11</sup> Motion for Authorization at 12.

<sup>12</sup> Motion for Authorization at 9.

each will be equipped with a truck, a laptop or iPad, and a digital listening device.<sup>13</sup> This team will also perform system-mapping, valve-exercising, and line-flushing functions. Estill District No. 1 stated that by improving the system mapping it will be able to discover and respond to leaks more quickly, and that line flushing and exercising valves is critical preventative maintenance to reduce leaks more quickly.

Estill District No. 1 stated that it intends to pay the leak-detection teams wages and fringe benefits from the surcharge funds for a 33-month period.<sup>14</sup> Estill District No.1 stated that it anticipates the savings from reduced unaccounted-for water loss will allow it to then pay the two employees through general revenues. Estill District No. 1 estimated the total cost associated with the two employees during the 33-month period will be \$354,050.

Creation of Additional DMAs:

Estill District No. 1 stated that it currently has 20 DMAs, and that it had determined that water flow within a DMA is more effectively monitored for leaks if the DMA has no more than 200 meters. Estill District No. 1 stated it currently has three DMAs containing 600 meters and two containing 400 meters. Estill District No. 1 is seeking to add an additional five DMAs at a cost of \$125,000 to be funded from the water loss surcharge account.<sup>15</sup>

Estill District No. 1 stated that having DMAs allows the utility to isolate zones and monitor the flow entering the DMA and compare it to the metered sales to determine the

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<sup>13</sup> Motion for Authorization at 9.

<sup>14</sup> Motion for Authorization at 10.

<sup>15</sup> Motion for Authorization at 10–11.

level of water loss within each DMA. Estill District No. 1 stated that this assists in locating and repairing leaks.<sup>16</sup>

Vehicle Purchases:

Estill District No. 1 stated that it intends to purchase three trucks with water-loss surcharge funds for leak detection purposes. Two of the trucks will be assigned to the two new employees, and the third vehicle will be available to tow leak repair equipment, and for general field use. Estill District stated the purchase of these vehicles will allow the leak detection team to work in different DMAs and allow the other field personal to assist with leak detection efforts. Estill District estimated the cost of the three vehicles to be a total of \$150,000 and provided a quote.<sup>17</sup>

Purchase of a Hydro Excavator and Dump Trailer:

Estill District No. 1 proposed to purchase a hydro excavator for \$100,000 and a dump trailer for \$8,000 from the water loss surcharge fund. Estill District No. 1 stated that the hydro excavator will allow it to access more quickly, and repair broken or leaking lines, and that it will allow for safer digging without damaging underground facilities. Estill District No. 1 stated the dump trailer is required to carry replacement soil to excavator sites to replace soil vacuumed by the hydro excavator. <sup>18</sup>

Purchase of Rover GNSS GPS Receiver:

Estill District No. 1 proposed to purchase a compact global navigation satellite system and a global position system receiver at a cost of \$6,353 using water loss

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<sup>16</sup> Motion for Authorization at 11.

<sup>17</sup> Motion for Authorization at 11 and Exhibit 5.

<sup>18</sup> Motion for Authorization at 11–12.

surcharge funds. Estill District No. 1 stated that the receiver will allow for more accurate and detailed mapping of their system which will assist in quickly responding to leaks. Estill District No. 1 also stated that improved accuracy in mapping will help reduce damage to its underground facilities when the utility itself or other parties are engaging in excavations while relying on Estill District No.1's marking of its facilities. <sup>19</sup>

Continued Assessment and Collection of the Surcharge:

Estill District No. 1 requested the collection of the water loss surcharge be authorized by the Commission to continue until December 31, 2025.<sup>20</sup> Estill District No. 1 stated that by doing so it will be able to collect an additional \$355,850.32 to be used for decreasing its unaccounted for water loss, and the total collections will not exceed \$953,000.<sup>21</sup> Estill District No.1 stated that by allowing this additional collection it will permit the utility to implement the above stated projects and allow for sufficient time to assess the plan's effectiveness and make necessary corrections. Estill District No. 1 estimated that with the additional funds it will have \$206,486 available to be used for additional water loss reduction efforts and as a contingency reserve that could be used to meet unexpected water loss events or control projects.<sup>22</sup>

FINDINGS

Based on the evidence in the record, the Commission finds that the requested relief should be granted in part and denied in part. The Commission finds that Estill

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<sup>19</sup> Motion for Authorization at 12.

<sup>20</sup> Motion for Authorization at 13.

<sup>21</sup> Motion for Authorization at 13.

<sup>22</sup> Motion for Authorization at 13.

District No. 1 has shown that the purchasing of the listed leak detection equipment will assist with identifying its unaccounted-for water loss, and thus those purchases should be granted, excluding the purchase of the three trucks. The Commission finds that the request to hire two new employees using the water loss surcharge funds should be denied. The Commission notes that employee compensation is an expense traditionally recovered through a utility's base rates and any request to recover costs for additional employees should be included in a base rate adjustment request. Also, Estill District No. 1's proposed plan to cover the two employees' expenses from its base rates after the surcharge period would require approval from the Commission through a general rate case, as the potential revenue savings from unaccounted-for water loss above 15 percent is not already contemplated in the rates being charged by Estill District No. 1. Furthermore, as the use of water loss surcharge funds is being denied for the hiring of two new employees the Commission also finds that the purchase of the three pickup trucks using water loss surcharge funds should also be denied. In addition, as with employee compensation, the cost of vehicles and financing methodology is traditionally recovered through base rates.

The Commission further finds that Estill District No. 1's request to continue collecting the water loss surcharge should be reviewed in the pending rate case, Case No. 2023-00371, pursuant to the Commissioners May 12, 2023 Order. The surcharge should remain in place until further order of the Commission.

IT IS THEREFORE ORDERED that:

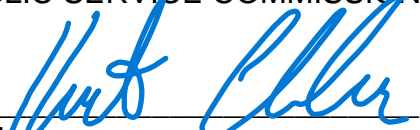
1. Estill District No. 1 is authorized to use funds from water loss surcharge account for the creation of five additional DMAs.

2. Estill District No. 1 is authorized to use funds from water loss surcharge account for the purchase of a hydro excavator and dump trailer.
3. Estill District No. 1 is authorized to use funds from water loss surcharge account for the purchase of a Rover GNSS GPS Receiver,
4. Estill District No. 1 is denied authorization to use funds from the water loss surcharge fund to purchase three trucks.
5. Estill District No. 1 is denied authorization to use funds from the water loss surcharge fund to hire two new employees for the dedicated leak detection team.
6. The status of the surcharge, and the continuation thereof, shall be reviewed within the pending rate case in Case No. 2023-00371.

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PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ENTERED  
DEC 13 2023  
KENTUCKY PUBLIC SERVICE COMMISSION  
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ATTEST:

  
Executive Director

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