

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTHERN	)	
WATER AND SEWER DISTRICT FOR APPROVAL	)	CASE NO.
OF CO-BANK LOAN FOR THE PURPOSE OF	)	2020-00114
FINANCING THE PURCHASE AND	)	
INSTALLATION OF NEW WATER METERS	)	

ORDER

On April 8, 2020, Southern Water and Sewer District (Southern District), pursuant to KRS 278.300, filed an application (Application) for approval of financing to install an automatic meter reading meter system (AMR project).<sup>1</sup> The Commission granted Southern District a Certificate of Public Convenience and Necessity for the AMR project in a previous proceeding.<sup>2</sup> Having obtained financing for the AMR project, Southern District now seeks Commission approval of its proposed financing plan. Southern District proposes to finance the project with a \$1,400,000 loan from Co-Bank. No party has sought intervention in this matter. The record for this case is complete, and the matter stands ready for a decision.

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<sup>1</sup> Southern District tendered its application on April 7, 2020. By letter dated April 7, 2020, the Commission rejected the application due to filing deficiencies. Southern District cured the deficiencies and the application was deemed filed as of April 8, 2020.

<sup>2</sup> Case No. 2019-00328, *Application of Southern Water and Sewer District for a Certificate of Public Convenience and Necessity to Install Automatic Meter Reading Meters* (Ky. PSC Nov. 7, 2019).

## BACKGROUND

Southern District, a water district organized under KRS Chapter 74, provides retail service to approximately 5,399 water customers<sup>3</sup> in Floyd and Knott counties, Kentucky.<sup>4</sup> Following testimony by representatives of Southern District in Case No. 2019-00131 that between 700 and 750 of Southern District's approximately 5,000 water meters were registering zero despite water being consumed by those households,<sup>5</sup> and that Southern District was experiencing negative cash flow and had been forced to borrow money from Floyd County government to pay its expenses,<sup>6</sup> the Commission found that an emergency existed for Southern District.

By Order issued June 6, 2019, in Case No. 2019-00131, the Commission provided Southern District with emergency rate relief by ordering a flat rate of \$58.82 per month for all of Southern District's customers. This represented a 42.07 percent increase for a typical residential customer.<sup>7</sup> By Order dated July 17, 2019, the Commission amended its June 6, 2019 Order and approved a volumetric rate for commercial customers. In its final Order in Case No. 2019-00131, the Commission ordered a flat rate of \$49.46 per month for all residential customers until such time as the customer's meter is replaced and the volumetric rate approved by the Commission can be utilized.<sup>8</sup> The Commission

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<sup>3</sup> *Annual Report of Southern Water and Sewer District for the Year Ended December 31, 2018*, at 49. (Southern District has been granted an extension until June 30, 2020, to file its 2019 Annual Report).

<sup>4</sup> *Id.* at 12.

<sup>5</sup> Case No. 2019-00131, *Application of Southern Water and Sewer District for an Alternative Rate Adjustment*, May 9, 2019, Hearing Video Transcript (HVT) at 9:27:09 through 9:28:50.

<sup>6</sup> *Id.* at 9:26:37.

<sup>7</sup> Case No. 2019-00131 (Ky. PSC June 6, 2019), Order at 6.

<sup>8</sup> Case No. 2019-00131 (Ky. PSC Nov. 7, 2019).

also approved a \$5.25 per month Meter Replacement Surcharge for all customers.<sup>9</sup> Additionally, the Commission ordered Southern District to place the surcharge into a separate interest-bearing account and to file monthly activity reports with the Commission.<sup>10</sup> The Commission established Case No. 2020-00121<sup>11</sup> to receive those reports.

Pursuant to 807 KAR 5:066, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. Southern District reported water loss of 62.52 percent in 2018.<sup>12</sup> This makes it even more critical for Southern District to obtain new meters as soon as possible. Once a reliable metering system is in place, Southern District will be able to identify and address other sources of water loss. By reducing losses that cannot be recovered in its rates, Southern District will ultimately improve its financial condition. The Commission notes that pursuant to its November 22, 2019 and April 7, 2020 Orders in Case No. 2019-00041, Southern District is to file with the Commission a report of its remedial actions performed or underway to address the issue of excessive water loss by September 22, 2020.

As discussed in the Commission's final Order in Case No. 2019-00131, it was announced on September 6, 2019, that Southern District would receive \$1.5 million from federal Abandoned Mine Lands (AML) Economic and Community Development Pilot

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<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> Case No. 2020-00121, *Electronic Southern Water & Sewer District Meter Replacement Surcharge Monitoring* (Ky. PSC Apr. 8, 2020).

<sup>12</sup> *Annual Report of Southern Water and Sewer District for the Year Ended December 31, 2018*, at 57.

Program funds to upgrade water meters.<sup>13</sup> As also noted in the Commission's Order, although it has been announced that Southern District will receive the AML Pilot Funds, there are multiple time-consuming levels of approval still needed from federal agencies before funds can be disbursed. For this reason, the Commission found it reasonable to implement the Meter Replacement Surcharge.<sup>14</sup> The Commission has been advised that the AML Pilot Funds will be redirected to Southern District's other infrastructure needs, thus avoiding a subsequent increase in rates to address additional infrastructure replacement.

Southern District is proposing financing in the amount of \$1,400,000 in order to install 5,600 AMR meters and appurtenances<sup>15</sup> for which a certificate of public convenience and necessity (CPCN) was previously granted in Case No. 2019-00328.<sup>16</sup> The total cost of the project as approved in the CPCN and in the RG3 bid is \$1,291,750. Southern District states that the difference of \$108,250 between the RG3 bid and the proposed financing is to provide the District with the funds to retro-fit the new meters to the existing water system and any other issues that may arise during the installation that were not included in the original bid. The proposed loan has a five-year term that will be issued at an approximate market interest rate of 3.15 percent, which will be determined at closing. In addition, there will be closing costs of \$2,500, which will be paid by Southern District.

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<sup>13</sup> Case No. 2019-00131 (Ky. PSC Nov.7, 2019) at 3.

<sup>14</sup> *Id.* at 11.

<sup>15</sup> Application, Exhibit C, RG3 Bid Information.

<sup>16</sup> Case No. 2019-00328, *Electronic Application of Southern Water & Sewer District for a Certificate of Public Convenience and Necessity to Install Automatic Meter Reading Meters* (Ky. PSC Nov. 7, 2019).

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The proposed loan with Co-Bank is necessary, is appropriate for and consistent with the proper performance of Southern District's service to the public and will not impair Southern District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

2. The AMR project will be funded by a \$1,400,000 loan from Co-Bank.

IT IS THEREFORE ORDERED that:

1. Southern District's proposed plan for financing is approved.

2. Southern District is authorized to borrow an amount not to exceed \$1,400,000 for a term not to exceed five years, at an interest rate to be fixed at closing, and having closing costs of \$2,500 from Co-Bank.

3. The proceeds of the promissory note shall be used only for the purpose of installing the AMR project.

4. Within ten days of the execution of the new Co-Bank loan documents, Southern District shall file with the Commission an electronic version of the loan documents.

5. Any documents filed in the future pursuant to ordering paragraph 4 shall reference this case number and shall be retained in the post-case correspondence file.

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

By the Commission

ENTERED  
APR 15 2020 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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Executive Director

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