

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SOUTH)	
EASTERN WATER ASSOCIATION, INC. FOR)	
COMMISSION APPROVAL PURSUANT TO 807)	CASE NO.
KAR 5:001 AND KRS 278.020 FOR A)	2021-00222
CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY TO DEPLOY AN ADVANCED)	
METERING INFRASTRUCTURE (AMI) SYSTEM)	

ORDER

On June 9, 2021, South Eastern Water Association, Inc. (South Eastern Water) filed an electronic application, pursuant to 807 KAR 5:001, Section 15, and KRS 278.020, for a Certificate of Public Convenience and Necessity (CPCN) granting South Eastern Water authority to install an advanced metering infrastructure (AMI) system. South Eastern Water requests an expedited decision in this matter by August 16, 2021, because project bids have a hold period expiring on August 17, 2021. There are no intervenors in this matter. South Eastern Water responded to two rounds of discovery. This matter now stands ready for a decision based on the written record.

PROPOSED PROJECT

South Eastern Water, a water association organized under KRS Chapter 273 serves 7,794 customers within Pulaski County, Kentucky.¹

¹ *Annual Water Report of South Eastern Water Association, Inc. to the Public Service Commission for the Year Ended December 31, 2020* (South Eastern Water's 2020 Annual Report) at 49.

The proposed AMI System Project includes the replacement of approximately 8,000 water meters within South Eastern Water's service area with AMI meters produced by Kamstrup.² South Eastern Water asserts their current metering infrastructure is aging with many meters over 30 years old and a majority of meters greater than ten years old.³ South Eastern Water will utilize a third party, Allied Utility Solutions, LLC (Allied Solutions), who will furnish and install the AMI system.⁴ South Eastern Water also intends to declare its old meters as surplus and advertise them for sale upon completion of the AMI System Project.⁵

South Eastern Water proposes to fund the \$2,436,461 project by utilizing its own unrestricted cash reserves and does not intend to incur any debt to finance the AMI System Project.⁶ South Eastern Water does not propose to adjust its water service rates to its customers as a result of the proposed project.⁷

Allied Solutions prepared the plans and specifications for the AMI System Project.⁸ No Kentucky Division of Water approval was required nor does the project require the acquisition of any parcels of land or easements.⁹

² Application at 4, paragraph 8.

³ *Id.*

⁴ *Id.* at 7, paragraph 11.

⁵ *Id.* at 7, paragraph 12.

⁶ *Id.* at 11, paragraph 23.

⁷ *Id.* at 13, paragraph 29.

⁸ *Id.* at Exhibit 9.

⁹ *Id.* at 1, paragraph 20–21.

South Eastern Water states the AMI System Project will allow the utility to save approximately \$100,800 of costs associated with meter reading.¹⁰ South Eastern Water also asserts the AMI System Project will provide improved water usage data which will improve customer service, eliminate the need for estimated bills, eliminate human error associated with current meter reading, enhance water loss audits and reduce meter reading lag, and reduce non-revenue water by allowing the prompt identification of water leaks, meter tampering, and theft of service.¹¹

LEGAL STANDARD

The Commission's standard of review of a CPCN request is well settled. No utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission except as provided in KRS 278.020(1). To obtain a CPCN a utility must demonstrate a need for such facilities and an absence of wasteful duplication.¹²

"Need" requires"

[A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.

[T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to establish an inability or unwillingness to render adequate service.¹³

¹⁰ *Id.* at 8, paragraph 15.

¹¹ *Id.* at 8–9, paragraph 15(A)–(E).

¹² *Kentucky Utilities Co. v. Public Service Comm'n*, 252 S.W.2d 885 (Ky. 1952).

¹³ *Id.* at 890.

“Wasteful duplication” is defined as “an excess of capacity over need” and “an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties.”¹⁴ To demonstrate that a proposed facility does not result in wasteful duplication, we have held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.¹⁵ Selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.¹⁶ All relevant factors must be balanced.¹⁷

FINDINGS

As an initial matter, South Eastern Water proposes to fund the \$2,436,461 project using unrestricted cash reserves. South Eastern Water’s 2020 Annual Report shows “Total and Current Accrued Assets” in the amount of \$6,185,050 and “Cash” assets in the amount of \$2,761,939.¹⁸ Based upon a review of the financial information provided in this proceeding and in the 2020 Annual Report, the Commission finds South Eastern Water has adequate resources to fund the project without creating financial hardship that would impact the utility’s ability to provide adequate service of pay its debts.

¹⁴ *Id.*

¹⁵ Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

¹⁶ See *Kentucky Utilities Co. v. Public Service Comm’n*, 390 S.W.2d 168, 175 (Ky. 1965). See also Case No. 2005-00089, *Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity for the Construction of a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005), final Order.

¹⁷ Case No. 2005-00089, *East Kentucky Power Cooperative, Inc.* (Ky. PSC Aug. 19, 2005), final Order at 6.

¹⁸ South Eastern Water’s 2020 Annual Report at 16–17.

South Eastern Water notes a number of system issues the AMI System Project will remedy and improve. First, South Eastern Water currently utilizes a third-party meter reading service that South Eastern Water alleges has not satisfactorily conducted meter readings with delays, incorrect readings, and meter re-reads that must be conducted by South Eastern Water staff, which increases costs and inefficiencies to South Eastern Water.¹⁹ South Eastern Water avers the AMI System Project would remove the need for a third-party meter reading service, saving the utility approximately \$100,800 per year in costs.²⁰

Next, South Eastern Water asserts the AMI System Project would improve customer service by allowing the utility to observe real-time water usage data.²¹ The utility argues this improved data would eliminate the need to issue estimate bills to customers and eliminate human error associated with meter reading.²² South Eastern Water states the AMI System Project will also allow the utility to more quickly and accurately identify water leaks, meter tampering, and theft of service.²³

Third, South Eastern Water notes the AMI System Project will allow for more prompt and timely reading of the utility's 31 meter routes.²⁴ South Eastern Water asserts the AMI System Project will reduce the time used to read meters from the 15 to 20 days

¹⁹ Application at 7–8, paragraph 14.

²⁰ *Id.* at 8, paragraph 15.

²¹ *Id.* at 8, paragraph 15(A).

²² *Id.* at 9, paragraph 15(B)–(C).

²³ *Id.* at 9, paragraph 15(E).

²⁴ *Id.* at 9, paragraph 15(D).

required by a third-party servicer to one-day (and perhaps even less).²⁵ South Eastern Water argues this will improve water loss audits and avoid the lag associated with the longer meter reading period.²⁶ South Eastern Water's 2020 unaccounted water loss percentage was 18.7928 percent.²⁷

The Commission has previously noted water utilities with unaccounted-for water loss over 15 percent should take reasonable steps to reduce water loss. The increased data and more accurate reports, along with the ability to control meters remotely, is a cognizable step taken by South Eastern Water to address this needed reduction in unaccounted-for water loss.

South Eastern Water contends that the aging nature of their current metering system justifies its replacement. Of the roughly 8,000 meters in service, South Eastern Water claims that approximately 6,500 to 6,750 have exceeded their useful lives.²⁸ South Eastern Water indicates some of these meters are over 30 years old.²⁹ South Eastern Water asserts they have not undertaken a wholesale replacement of meters since its foundation as an entity in the mid-1990s with the consolidation of the Elihu Tateville Water Association, Nelson Valley Water Association, and Barnesburg Water Association.³⁰

²⁵ *Id.*

²⁶ *Id.*

²⁷ South Eastern Water's 2020 Annual Report at 57.

²⁸ South Eastern Water's Response to Commission Staff's First Request for Information (Staff's First Request for Information) (filed July 16, 2021), Item 4.

²⁹ Application at 4, paragraph 8.

³⁰ South Eastern Water's Response to Staff's First Request for Information (filed July 16, 2021), Item 4.

South Eastern Water indicates they had ongoing conversations regarding the AMI System Project with other utilities and parties, including McCreary County Water District who utilizes Kamstrup AMR meters in their system.³¹ This involved multiple trips to observe the meters in McCreary County, and review with Kamstrup regarding meter usage in other jurisdictions.³²

South Eastern Water explains that three other proposals were considered in lieu of the AMI System Project.³³ These proposals included the “status quo” of making no investment in the metering system; hiring additional employees to conduct meter reading instead of utilizing a third-party service; and deployment of automatic read meters (AMR).³⁴ Exhibit 4 to South Eastern Water’s responses to Staff Second Request for Information, shown below, compares the annual operating costs of each of these three alternatives to the AMI System Project.³⁵

³¹ *Id.*, Item 5.

³² *Id.*, Item 1.

³³ South Eastern Water’s Response to Commission Staff’s Second Request for Information (Staff’s Second Request for Information) (filed Aug. 5, 2021), Item 1.

³⁴ *Id.*

³⁵ South Eastern Water’s Response to Staff’s Second Request for Information (filed Aug. 5, 2021), Exhibit 4.

Exhibit 4					
Annual Operating Costs of Alternative Projects					
	Description of Cost	Alt #1 Status Quo	Alt #2 South Eastern Reads Meters	Alt #3 AMR Meters	Alt #4 AMI Project
1	Contractual Services	\$100,800			
2	Employee Salaries & Benefits		\$157,836	\$21,045	
3	Truck Expense		\$31,080	\$12,880	
4	Annual Software Licensing			\$19,369	\$19,369
5	Annual Meter Exchange Licensing & Support Services			\$1,747	\$1,747
	Totals	\$100,800	\$188,916	\$55,041	\$21,116

South Eastern Water also notes the deployment of AMR meters would have a substantially similar capital cost, as exhibited below:

Staff Table 1	
Comparison of Capital Cost	
Status Quo	\$0.00
Hire Staff & SEWA Check Meters	\$262,836.00
AMR Meters	\$2,074,659.00
AMI System Project	\$2,220,000.00

Based on these comparisons of the alternatives and the AMI System Project, the age of South Eastern Water's existing metering system, the Commission finds that South Eastern Water established a need to replace its current meters and that the AMI System Project is the most reasonable, least cost alternative.

FINDINGS

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

1. The proposed project will not result in wasteful duplication of existing facilities. South Eastern Water conducted a thorough review of reasonable alternatives and does not propose to duplicate existing infrastructure.

2. The proposed project does not conflict with any existing certificates or the service of any other utility operating in the area.

3. Public convenience and necessity require the proposed project, which allows South Eastern Water to continue to provide adequate, reliable, and safe service to its customers.

IT IS THEREFORE ORDERED that:

1. South Eastern Water is granted a CPCN to proceed with the implementation of the AMI System Project as set forth in its application.

2. South Eastern Water shall notify the Commission prior to performing any additional construction not expressly authorized by this Order.

3. Any deviation from the approved project shall be undertaken only with prior approval of the Commission.

4. South Eastern Water 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, and administrative), within 60 days of the date that the project 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.

5. Any documents filed in the future pursuant to ordering paragraphs 2 and 4 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

6. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon South Eastern Water's showing of good cause for such extension.

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

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By the Commission



ATTEST:

A handwritten signature in blue ink that reads "Linda C. Redwell". The signature is written in a cursive style and is positioned above a horizontal line.

Executive Director

Case No. 2021-00222

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