

Madison County Utilities District

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July 20, 2011

Commonwealth of Kentucky
Public Service Commission
Linda Faulkner, Director of Filings
211 Sower Blvd
Frankfort, KY 40602

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PUBLIC SERVICE
COMMISSION

RE: Response to your letter dated June 1, 2011 to Madison County Utility District concerning PSC Case No. 2009-00272 ordering paragraphs

Dear Ms. Faulkner:

The following are our responses to the items referenced in your letter:

- Paragraph 7 (related to total costs of project)- We have not substantially completed the project of replacing 2,940 meters as of the date of this letter. Our estimate of the "substantial completion" date is December 31, 2011. Of course, this date is subject to change due to weather conditions, personnel availability, etc.
- Paragraph 9 (related to the status and cost-effectiveness of project for calendar year 2010)- As of December 31, 2010, 800 automated "radio-read" meters had been installed and were operating; of the old 800 that were replaced by the new AMR meters, our records indicate approximately 160 meters had been in service longer than the time period identified in 807 KAR 5:066, Section 16; as for old meters still in service that have yet to be replaced by the new AMR meters, our records indicate that approximately 400 have been in service longer than the time period identified in 807 KAR 5:066, Section 16. The following narrative provides an overview of the cost-effectiveness of the AMR system to date:

Since the first AMR meters were not installed until October 2010, we have only 3 months of data to determine the cost-effectiveness of the 800 new meters. The cost-effectiveness we expected consisted of both expense reductions and revenue increases. There was an immediate cost savings due to not having to pay meter readers and the associated costs such as workers comp and liability insurance and any small tools they used. There was also a small savings due to less "re-reads" being needed because of the accuracy of the AMR meters as opposed to "human error" when manual readings are made. The total direct cost savings were less than \$10,000 for the three months ended December 31, 2010. Finally, we anticipated an increase in revenue due to more accurate readings. However, this will be much more difficult to quantify on a dollar basis for a variety of reasons, most notably the following:

Difference in actual water usage by customers when comparing periods before and after the AMR change. We submit the following as an example: Consider customer "A". Before their water meter was changed to the AMR, let's say their previous month's water usage was 900 cubic feet with the old meter. When we reference the last test on that meter for the different flow rates, it shows 97.5 percent. If the first full month's water usage with the new AMR meter shows 920 cubic feet, we can't assume that the 20 cubic foot increase is entirely due to the increased accuracy of the new system. It could be that the customer simply used MORE water than the previous month. Or, it also could be that the customer used LESS water than the previous month but the accuracy was indeed better. Therefore, we believe the most cost-effective way to determine if an increase in revenue is in fact occurring, is to use a broad-based overview once the entire project is complete. For example, the service area where the AMR meters are being installed has a separate billing cycle. So once all of the meters are installed, we can compare one month's usage with the same month in the prior year(s) to get an estimate of how much revenue has increased. Again, this will be an inexact number because of any number of factors, such as new customers being added to the service area in question, changes in the demographics of the customers, etc. But overall we believe there should be an increase in revenue due to the increased accuracy of the AMR meters compared with old meters which more than likely were "running slow" on the usage readings.

Please let us know if more detailed information is needed. Obviously, for 2011, we should have more detailed financial cost savings information.

Sincerely,

A handwritten signature in black ink that reads "John C. Clark". The signature is written in a cursive style with a large initial "J" and "C".

John C. Clark, Manager
Madison County Utilities District