

VICE CHAIRMAN JIM GARDNER  
KENTUCKY PUBLIC SERVICE COMMISSION  
to the  
KENTUCKY RURAL WATER ASSOCIATION  
AUGUST 25, 2009  
LEXINGTON, KY

Good morning. Thank you for inviting me to speak with you today.

On behalf of Chairman David Armstrong and Commissioner Charlie Borders, I bring you greetings from the Kentucky Public Service Commission. In my year at the Kentucky Public Service Commission, I have come to appreciate the strong partnership that we have with the Kentucky Rural Water Association, particularly in providing training and technical assistance to the smaller water utilities that play such a vital role in communities across our commonwealth.

But my familiarity with rural water systems goes back a lot farther than my tenure on the PSC. My father was the first civil engineer hired in Kentucky by the old Farmers Home Administration, the predecessor to today's USDA Rural Development. His job was to visit water systems to evaluate the need for new facilities, assess systems that had applied for federal funds and inspect the progress of water system construction projects.

If any of you were around in the late 1960s and early 1970s, you may well have met my father. It's also entirely possible you may have met me. (If you don't remember meeting me, I understand. I was MUCH younger.)

When I was a on summer vacation, my father would sometimes bring me along as he traveled from one end of Kentucky to the other in the course of his work. The technical

details of my father's work likely were lost on me, but I clearly remember understanding that what he did – helping to bring clean and reliable drinking water to areas that desperately needed it – was important and valuable work.

My colleagues and I on the PSC recognize that the need to expand water service continues to this day. Our newest member – Charlie Borders – understands this better than most. In his very first meeting with the PSC staff, Commissioner Borders noted that his early life was lived in a house with no indoor plumbing and certainly no water service. In his three terms in the Kentucky Senate, Commissioner Borders was a strong advocate for improving and expanding all types of utility service as a keystone for strengthening our rural economies. I know that he views his membership on the PSC as an opportunity to continue that work.

We – and by “we” I mean utilities and regulators alike – will have to confront some significant new challenges in the coming years, while continuing to address many of the issues that have been with us seemingly since the PSC was established 75 years ago.

In dealing with both the old and the new issues, we also have to clear the hurdle of public complacency. Let's face it – most folks take public utility service for granted. As long as the water, or the lights or the gas come on when you need them and the phone has a dial tone, most of us don't think about what it takes to provide those services. And as long as the monthly bill isn't unexpectedly high, most of us pay and don't think much about it.

But if you interrupt those services for any significant length of time, and they are just about all you can think about, and any bill is much too high. We have seen this all too often in the past year, with Hurricane Ike, which affected mostly electric service, and especially with the ice storm, which knocked out electric, telephone and water service over a good portion of the state.

I should note that the PSC's report on Ike and the ice storm is being drafted and will be released sometime in November. I would like to thank all of you who responded to our requests for information and for your valuable contribution to the PSC's review of how utilities were affected by and responded to these large-scale natural disasters.

We have also seen disasters and service interruptions on a more local scale in recent months, notably with flood damage to water systems in eastern Kentucky. And we've experienced water shortages due to drought in some of those same areas.

The drought-related problems in particular should serve as a wake-up call to all of us. Kentucky is not often thought of as a place that has too little water – it's usually quite the opposite.

But much of our state – particularly the eastern mountains and the central Bluegrass region – is vulnerable to water shortages. We went through a major drought in the late 1980s and we've had less severe droughts several times since then. But the rains always return and there has always been plenty of water to go around, even as our population and economic activity have increased.

We have never had to give much thought to what we would do if our water supplies proved insufficient. We need not look far for a cautionary lesson – it's only about 350 miles down Interstate 75.

There's a water war underway in Atlanta. It pits that Georgia – whose economy rises and falls with Atlanta's – against Alabama and Florida, portions of which share a common water supply with north Georgia. The two downstream states say that Georgia is intercepting and consuming water which by rights belongs to them. Before it is over, this war could also draw in South Carolina and Tennessee, the latter because of a proposal to tap into the Tennessee River which, of course, ends in Kentucky.

It's all a bit reminiscent of the century-old battles over the Colorado River, which pit California, Arizona and Nevada against the upstream states. Yet here we are – in the soggy Southeast – having arguments over water much in the same way as places that are lucky to get 15 inches of rain a year.

That is not to suggest that Kentucky is going to be embroiled in interstate water wars in the near future. But certainly the emergence of acute, large-scale water shortages in our region ought to give us pause.

Our concern should be heightened, in no small measure, by the ever-growing body of evidence that our climate is changing, and that one result of that change may be shifting precipitation patterns. Those shifts may increase the risk of more frequent, prolonged and severe droughts in areas which, until now, have rarely experienced such events.

To complicate matters even more, we also face the prospect of legislation that will impose some type of limits on carbon emissions. That will have two immediate effects on water suppliers. First, it will drive up the cost of electricity that powers treatment plants and delivery systems. In fact, when I met recently with your executive director, Gary Larrimore, he said that the potential for significant increases in the cost of electricity is THE major concern for your industry when it comes to carbon-control measures.

The second effect of such measures is to increase demand for hydroelectric power, which will – and here again, the West provides good examples – create more tension between power suppliers and other water users.

Since we have relatively little hydropower generation here in Kentucky, those tensions should be manageable. That's the good news. The bad news is this: since we have relatively little hydropower generation here in Kentucky, we have relatively little cushion against the impacts of carbon-limiting legislation that is likely to be aimed squarely at coal-fired electric generation, upon which we rely for nearly all our power.

Neither much more expensive electricity nor widespread water shortages may appear imminent at this moment. But neither are they threats for which we can afford to be unprepared.

Nor are these the only challenges we face as we work together to expand and improve water services in the Commonwealth. Without getting into too much detail, let me list a few of the issues that have come to the fore in my brief time at the Commission:

**Territorial issues** – As water districts expand to meet the needs in outlying areas, we have seen questions arise as to which utility should be providing service in a given area. Water district boundaries drawn years ago today may be uncertain, impractical or outdated in light of growth and development patterns. Boundary disputes can be complex, contentious and difficult to resolve.

**Distressed utilities** – We continue to see small water utilities struggle for operational and financial viability, particularly in today's tough economic times. These struggles affect both investor-owned and non-profit utilities. There is often no clear solution, because obvious steps, such as dramatic revenue increases, are simply unrealistic.

**Inter-utility water sales** – The Commission is increasingly being called upon to attempt to resolve disputes between utilities regarding wholesale water transactions, both those that are ongoing and those that occur on an infrequent or contingency basis. Because we have several such cases before us, I can't get into detail. Suffice it to say that, especially in times of water shortages for whatever reason, the Commission feels that it is vital that utilities work together to do everything possible to insure that service to customers is not interrupted.

Which brings me to the message I want to leave with you today. It can be summed up in one word: Cooperation.

Cooperation between the PSC and utilities. Cooperation between the PSC and the Kentucky Rural Water Association. Most importantly, cooperation among utilities.

Let me tell you what the PSC is doing to foster cooperation.

We continue to serve as the organizer and facilitator of the Kentucky Sewer and Water Infrastructure Group, or K-SWIG. Its members include other state and federal entities, among them, of course, KRWA.

Since its formation in May 2008, K-SWIG has served primarily as a forum for exchanging information and discussing ongoing or emerging issues. But it also has yielded tangible results.

For example, earlier this year the PSC issued a toolkit for municipal water systems that are water wholesalers to water districts or other PSC-regulated utilities. This digital toolkit includes a presentation on PSC regulations and processes, all of the necessary forms and guidance on how to file the forms and meet PSC requirements. It is a direct outgrowth of discussions that were initiated in K-SWIG meetings.

K-SWIG also has formed several working groups to take a fresh look at issues that seemingly never go away: coordinated planning of new water and wastewater projects; funding for new projects; and how to streamline the permitting of those projects. Because of their complexity, progress in these areas tends to come slowly and incrementally. But, if everyone remains committed to the effort, it will bear results.

Let me mention briefly a couple of other issues that Gary Larrimore and others have mentioned to me. First, you'll be pleased to know that the PSC's water meter laboratory is back up and running. All the PSC meter labs were eliminated a few years ago as a cost-cutting measure. We've worked hard in the last 18 months to get them back, with the water lab our top priority.

Second, we recognize that the pace at which cases are processed at the PSC can be frustrating at times. We do our best to move cases through as quickly as possible, but sometimes they take longer than we would like. As you know, the PSC staff has shrunk in recent years due to reductions in our authorized expenditures as a result of the state's budget problems. We need to add and train staff, and will do so as soon as budgetary circumstances allow. Until then, the PSC's extremely hard-working and diligent staff will continue to do all they can to get your cases handled as quickly as possible.

We also will continue our commitment to provide education and training for those who work for or oversee rural water utilities. As you well know, we continue to offer – in partnership with the KRWA – our water training seminars. This year, we are offering them as follows:

- ❖ Cumberland Falls State Park on September 29<sup>th</sup> and 30<sup>th</sup>
- ❖ Carter Caves State Park on October 20<sup>th</sup> and 21<sup>st</sup>
- ❖ Kentucky Dam Village State Park on November 4<sup>th</sup> and 5<sup>th</sup>
- ❖ And in Frankfort on a still-to-be-determined date in December

Although these training sessions have always been open to local officials other than those directly involved with water utilities, we have never achieved the level of participation we would like from county judges-executive and county commissioners or magistrates. The PSC believes that attendance by elected county leaders would at these seminars would help them better understand the challenges of operating a rural water utility and would help guide county policies in ways that would benefit both water districts and the customers they serve.

This year, for the first time, we have an incentive for county elected officials to attend. Working with the state Department for Local Government, we have been able to add the water training seminars to the list of sessions accredited for the continuing education

credits that county officials complete in order to earn incentive pay. We hope to see many more of them in attendance this fall.

We also are looking at ways to make training more accessible, particularly to elected officials. To that end, the PSC is considering whether to hold additional training sessions around the state. These would be shorter – no more than a day – and deal more with issues of local or regional interest or importance rather than overall utility operations. We anticipate that local officials would find the briefer and more narrowly focused sessions more interesting and less demanding of their time and travel budgets.

The PSC believes that these meetings would be a useful forum in which to address issues such as service territories, utility financial status and interconnections and sales between utilities. We hope that they would lead to better understanding and greater cooperation among utilities and local governments.

What I have provided this morning is, of necessity, a brief review of my perspective on some of the challenges facing your industry. All of them – from the global issue of climate change to the most localized dispute over a territorial boundary – can best be solved through collaboration and cooperation.

That may require us to adopt new perspectives and set aside entrenched ways of doing things. We all recognize that the world in which we operate has changed tremendously since the days when my father was traveling across Kentucky visiting some of your communities.

But we also recognize that this central fact remains unaltered: Everyone - the people you serve today and those who want service tomorrow - requires and deserves a reliable supply of safe water at a price they can afford.

I am sure that we all see the fulfillment of that requirement as our common duty and goal. I also know that we will not always agree on how best to achieve it.



I can tell you that the PSC, with three relatively new commissioners, is coming to this task with few preconceived notions, a determination to take a fresh look at the issues and a willingness to test innovative approaches in addressing our common challenges.

We invite your thoughts and your ideas, both today and in the future.

Thank you very much for your time and attention.