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August 28, 2007

PARTIES OF RECORD:

Case No. 2007-00246

Hardin County Water District No. 1

Attached is a copy of the informal conference memorandum which is being filed in the record of the above-referenced case. If you wish to make any comments regarding the contents of the memorandum, please do so within five days of receipt of this letter. Should you have any questions regarding the memorandum, please contact Todd Osterloh at 502/564-3940, Extension 439.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over the word "Sincerely,".

Beth O'Donnell
Executive Director

MTO:v

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2007-00246
FROM: Todd Osterloh, Staff Attorney ^{TO}
DATE: August 24, 2007
RE: Conference of August 22, 2007

On August 22, 2007, the Commission held a conference in this case in the Commission's offices in Frankfort, Kentucky. Present were:

David T. Wilson	-	Hardin County Water District No. 1
Jim Bruce	-	Hardin County Water District No. 1
Brett Pyles	-	Hardin County Water District No. 1
Charlene Easter	-	Hardin County Water District No. 1
Mark Frost	-	Commission Staff
Jason Green	-	Commission Staff
Sam Reid	-	Commission Staff
Todd Osterloh	-	Commission Staff

Hardin County Water District No. 1 ("District") requested this meeting to discuss a draft of a proposed tariff modification regarding manufactured housing communities ("MHCs").

Beginning the conference, Mr. Osterloh stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of these minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

Mr. Bruce provided a background for the District's possible tariff modification. He stated that in the late 1980s, the MHCs served by the district were billed based on a master meter. The District revised its billing practices to begin billing based on individual meters at each manufactured home location. As a result, each manufactured home has its own water meter, and the District bills each residential unit individually.

Over the course of several years, the District began experiencing significant water loss within some of the MHCs. The District Board requested District Staff's advice as to possible solutions. The District Staff recommended a master meter billing system for the MHCs. In order to gather public input, the District held public meetings on June 19, 2006 and August 1, 2006. Some, but not all, MHCs were represented and made comments at these meetings. Mr. Bruce also presented the results of a District

survey relating to these issues. During the past few months, the District has sent out two letters to the four MHCs experiencing the most line loss, encouraging the property owners to repair leaks in their lines.

After this background information was presented, Mr. Osterloh offered some advice on what information the Commission may consider, if the District were to file a tariff modification related to master metering for Commission approval. It was first noted that KRS 74.080 and 278.030 call for the Commission to determine whether the tariff is "reasonable." Mr. Osterloh informed that master metering is generally discouraged for a variety of reasons. First, it prevents price signals to customers, which in turn reduces conservation of resources. Second, it raises the possibility of shutting off water service to innocent residents. Nevertheless, master metering is not *per se* unreasonable, and has been approved for use by water districts in the past.

Commission Staff believes that the determination of reasonableness will be based on balancing the reality of inefficient and ineffective water service to the MHCs as it presently exists against the treatment of the present customers in the MHCs. In terms of water service, Commission Staff recognizes that substandard lines can create health concerns for both the customers and District employees who work on the line. In addition, the substandard lines can also generate significant water loss that must be subsidized by all District customers.

On the other side, there are outstanding questions raised by the District's course of dealing with the MHC residents. Because the District currently bills residents of MHCs based on a meter adjacent to each manufactured home, a question arises as to who is responsible for maintaining and servicing the lines within each MHC. According to 807 KAR 5:066, Section 12, a customer is responsible for keeping the service line—the water line from the outlet of the water meter to the place of consumption—in good repair. The utility is responsible for the line from the main to the outlet of the meter. The regulation also states that "the customer's point of service [outlet of the water meter] shall be located at that point on or near the street right of way or property line most accessible to the utility from its distribution system." Commission Staff is not confident that the Commission would approve of a tariff change, if the change effectively switched the responsibility of servicing a substandard line from the utility to the property owner without improvements to the line.

The Commission issued a decision on an issue related to line responsibility in light of 807 KAR 5:066, Section 12 (Northern Kentucky Water District, Case No. 2005-00148), in which it found that lines running from the distribution main to a meter located inside a building should be serviced and maintained by the utility even though the line is on private property. Northern Kentucky Water District was granted a rehearing, which was held on August 8, 2007. The Commission has yet to issue its decision on the

rehearing. Commission Staff recommended that the District review the pertinent case filings¹ and video of the rehearing² of the Northern Kentucky Water District case because its outcome may be indicative of the Commission's treatment of the District's tariff modification case.

Commission Staff stated that the Commission would likely want evidence to make a factual determination as to ownership of the various parts of the distribution system. Several questions were suggested, including who initially installed the lines on the MHC property, who installed the meters, when was the last installation, who has serviced the lines and meters since their installation, and does the District have an easement over the MHC property to conduct line repairs. Commission Staff also offered a couple of legal questions that may be addressed, including whether an easement can be implied under these circumstances and whether the installation complied with the regulations as they existed at the time of the installation.

Commission Staff also stated that the Commission may inquire into the distribution system of the various MHCs. They informed the District that questions may be raised as to whether the system meets the minimum requirements of 807 KAR 5:066 and whether the District complied with the inspection requirements of 807 KAR 5:066, Section 9(3).

Throughout the course of the conference, the District informed Commission Staff as to the prevalence of the water loss problem affiliated with MHCs in their district. The District has approximately 26 MHCs, which serve nearly 900 manufactured homes, and the four MHCs with the most water loss on their lines account for 3 million gallons per month loss. The District is billing roughly 3 million gallons per month, which represents a 100% water loss for these four MHCs. The entire district system averages approximately 7% water loss.

Mr. Osterloh distributed sections of various other water district's tariffs related to mobile home parks. These tariff sections were from U.S. 60 Water District, Muhlenberg County Water District, Boone County Water District, McCreary County Water District, and Bullock Pen Water District. These sections were distributed in order to provide examples of tariff provisions that were previously found to be reasonable.

¹ Most, if not all, of this case's filings can be found at <http://psc.ky.gov/pscscf/2005%20cases/2005-00148/>.

² The video can be accessed on the web at http://psc.ky.gov/av_broadcast/2005-00148/2005-00148_08Aug07_inter.asx.

Mr. Osterloh also offered some suggestions on the wording of the proposed tariff modification. He stated that the second sentence of paragraph 1, which mentions that the classification applicability is "primarily" MHCs, could create ambiguity in application. He recommended changing the word "section" in paragraph 3 to "classification" for clarity. He related concerns of enumerating items in paragraph 3(b), because it could create ambiguity when something that the District intends to fall under that paragraph does not fit snugly into one of those enumerated items. Instead of deleting the list, another option would be to include a phrase such as "including, but not limited to." Mr. Osterloh suggested deleting any inference that the tariff would trump Commission regulations, such as language found in paragraph 4 of the tariff modification or paragraph 6 of the private property metering agreement. It was also suggested that the Commission may find the tariff modification more reasonable if the District were required to provide notice of disconnection to the MHC residents. Mr. Bruce mentioned that the District has hung notices on doors in the past, when the utility has had to turn off a master meter.

In addition to the proposed tariff modification, Mr. Osterloh also identified a few provisions in the District's tariff that may conflict with the tariff modification and may need to be changed, if the modification is approved. On sheet 7 of the tariff, paragraph A.3. states that the location of the meter shall be near the street right-of-way. This may conflict with the submeters located at the individual manufactured homes. In addition, paragraph A.9 states that there should be a meter installed for each dwelling unit, and this provision may conflict with the master meter billing system. On sheet 8 of the tariff, it was suggested that the tariff modification would create a new customer classification that would need to be added to the list in paragraph 1.

After these discussions took place, the District stated that they planned to file the tariff modification with the Commission, pursuant to 807 KAR 5:011. Commission Staff noted that the District's request for an informal conference on the draft of the tariff modification initiated a formal case on the Commission's docket. Staff suggested that the future filing of a tariff modification before the Commission, which would trigger the statutory deadlines of KRS 278.190, would be better submitted as a new filing with a new case number. Accordingly, Staff recommended—and the District agreed—for the District to file a request to close the present case (2007-00246), either in the form of a letter or motion. Commission Staff also stated that when the District files its proposed tariff modification before the Commission, the District may want to address the reasons for the proposed modification in a cover letter. Commission Staff also suggested that the District could compile and attach to their filing any evidentiary support and/or testimony regarding the issues discussed in the conference, in order to aid in the processing of their case.

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One final point of clarification was made as to the District's treatment of the billing of the MHCs prior to a Commission ruling on this issue. As the District indicated in their most recent letter to the MHCs, the District has no intention of billing the MHCs based on the master meter readings until it obtains Commission approval to do so.

The conference then adjourned.

cc: Parties of Record