

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO THE	)	CASE NO.
FINANCIAL AND OPERATING CAPACITY OF	)	2024-00325
MORGAN COUNTY WATER DISTRICT	)	

ORDER

On December 20, 2024, the Commission opened an investigation to examine Morgan County Water District (Morgan District); its Board of Commissioners (Board), Chris Adams, Ellen Motley, Patty Cordeiro; and its Manager, John Coffey, in light of the financial and operational condition of Morgan District. The willful failure to comply with applicable statute, regulation, or Commission Order may present *prima facie* evidence of incompetency; neglect of duty; gross immorality; or nonfeasance, misfeasance, or malfeasance in office sufficient to make Morgan District's Board and Manager subject to the penalties set forth in KRS 278.990. Morgan District, Chris Adams, Ellen Motley, Patty Cordeiro, and John Coffey, individually, filed responses to the Commission's Order on January 13, 2025.<sup>1</sup> Morgan District responded to three requests for information.<sup>2</sup>

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<sup>1</sup> Morgan District and John Coffey's Response (Joint Response) (filed Jan. 13, 2025) Morgan District and John Coffey filed their responses together, but John Coffey was acting in his individual and professional capacity; Ellen Motley Response (Motley Response) (filed Jan. 13, 2025); Chris Adams Response (Adams Response) (filed Jan. 13, 2025); Patty Cordeiro Response (Cordeiro Response) (filed Jan. 13, 2025)

<sup>2</sup> Morgan District's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 21, 2025); Updated and Redacted Responses to Staff's First Request (filed Mar. 10, 2025); Morgan District's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Apr. 4, 2025); Morgan District's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Apr. 23, 2025).

### LEGAL STANDARD

Under KRS 278.250 and KRS 278.260, the Commission is authorized to investigate and examine the condition of any utility subject to its jurisdiction, including any practice or act relating to the utility service. Under KRS 278.280, if the Commission finds that any practice or act is unjust, unreasonable, unsafe, improper, inadequate, or insufficient, then the Commission has the authority to determine the just, reasonable, safe, proper, adequate, or sufficient practice or method to be observed. Upon a finding that Morgan District, its Board, or Manager violated any provision of KRS Chapter 278, Chapter 74, Commission regulations, or a Commission Order, KRS 278.990 authorizes the Commission to assess civil penalties not to exceed \$2,500 for each offense against a utility and against any officer, agent, or employee of a utility who willfully violates any provisions of KRS Chapter 278, Commission regulations, or Orders.

### BACKGROUND

Morgan District is a water utility organized pursuant to KRS Chapter 74 that owns and operates a distribution system through which it provides retail water service to approximately 2,887 residential customers and 124 commercial that reside in Morgan County, Kentucky.<sup>3</sup> At the time of the alleged violation, Shannon Elam was the general manager, and the Board of Commissioners consisted of Chris Adams, Ellen Motley, and

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<sup>3</sup> *Annual Report of Morgan County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2023* (2023 Annual Report) Service Territory at 12, Number of Customers served at 49.

Patty Cordeiro.<sup>4</sup> When the opening Order in this matter was issued, John Coffey was serving as the acting manager. Currently, Andy Legg holds the position.<sup>5</sup>

Morgan District filed an application for an alternative rate adjustment pursuant to 807 KAR 5:076 on March 22, 2024.<sup>6</sup> In its application, Morgan District requested rates that would increase its annual water sales revenues by \$767,513 or 40.8 percent.<sup>7</sup> In addition, Morgan District filed a motion requesting an emergency hearing to present evidence supporting the need for an emergency interim rate increase.<sup>8</sup> The Commission granted the motion on April 8, 2024, and held a hearing on May 2, 2024.

During the May 2, 2024 hearing, testimony addressed the misuse of funds, numerous accounting issues, and Morgan District's inability to pay some of its bills.<sup>9</sup> A detailed examination conducted by Commission Staff identified several concerns with Morgan District's financial and accounting practices.<sup>10</sup> These included possible personal use of district funds without proper reimbursement and the creation of staff positions without sufficient funding.<sup>11</sup> Additionally, Commission Staff noted Morgan District's reported water loss of 32.4487 percent, as stated in its 2022 Annual Report.<sup>12</sup>

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<sup>4</sup> Morgan District's Response to Staff's First Request, Item 2.

<sup>5</sup> Morgan District's Response to Staff's First Request, Item 1.

<sup>6</sup> Case No. 2024-00010, *Electronic Application of Morgan County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (filed Mar. 22, 2024), Application.

<sup>7</sup> Case No. 2024-00010, Application.

<sup>8</sup> Case No. 2024-00010, (filed Mar. 24, 2024), Motion for Emergency Interim Rates.

<sup>9</sup> Case No. 2024-00010, (Ky. PSC July 26, 2024), Order.

<sup>10</sup> Case No. 2024-00010, (Ky. PSC Oct. 25, 2024), final Order at 38.

<sup>11</sup> Case No. 2024-00010, (Ky. PSC Oct. 25, 2024), final Order at 38.

<sup>12</sup> *Annual Report of Morgan District to the Public Service Commission for the Calendar Year Ended 2022* at 57, Item 31; Case No. 2024-00010, (Ky. PSC Oct. 25, 2024), final Order at 38.

On July 26, 2024, the Commission issued an Order that authorized Morgan District to implement an emergency interim base rate increase of 25.3 percent, subject to refund.<sup>13</sup> The emergency rates increased the typical residential customer's monthly bill with average usage of 3,020 gallons per month from \$43.99 to \$55.08, an increase of \$11.09. Morgan District was required to maintain its records in a manner that would allow the Commission or any customer to determine any refund amounts and recipients, should a refund be ordered.<sup>14</sup> Additionally, the Order stated that failure to comply with the terms of the Order could subject both Morgan District and its Board to penalties under KRS 278.990.<sup>15</sup>

Following an examination of Morgan District's financial condition by Commission Staff,<sup>16</sup> the final Order in Case No. 2024-00010 authorized a total revenue rate increase of 40.93 percent.<sup>17</sup> This resulted in a typical residential customer's monthly water bill rising from \$55.08, authorized under the emergency interim rate increase described above, by an additional increase of \$6.92, to \$62.00, or approximately 12.56 percent.<sup>18</sup> Overall, the approved increase raised a typical customer's bill with average usage of 3,020 gallons per month from \$43.99 to \$62.00, a total increase of \$18.01, or approximately 40.93 percent.<sup>19</sup>

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<sup>13</sup> Case No. 2024-00010, (Ky. PSC July 26, 2025), Order at 9.

<sup>14</sup> Case No. 2024-00010, (Ky. PSC July 26, 2025), Order at 9-10.

<sup>15</sup> Case No. 2024-00010, (Ky. PSC July 26, 2025), Order at 10.

<sup>16</sup> Case No. 2024-00010, (Ky. PSC Oct. 25, 2024), final Order at 38.

<sup>17</sup> Case No. 2024-00010, (Ky. PSC Oct. 25, 2024), final Order at 36.

<sup>18</sup> Case No. 2024-00010, (Ky. PSC Oct. 25, 2024), final Order at 36.

<sup>19</sup> Case No. 2024-00010, (Ky. PSC Oct. 25, 2024), final Order at 36.

The Commission concluded that the rate increase was necessary for Morgan District to meet its debt obligations.<sup>20</sup> This decision was based on a review of updated financial records and testimony on the district's operational challenges.

As a result of the issues identified during the rate adjustment proceeding, the Commission determined that a separate, formal investigation should be initiated. This current proceeding is focused on Morgan District's financial and operational capacity, accounting practices, water loss, and its overall ability to provide safe and adequate service to its customers.

### DISCUSSION AND FINDINGS

#### Water Loss

Morgan District stated that it has been working on its water loss percentage.<sup>21</sup> According to its most recent Annual Report, calendar year 2023, the District recorded a total water loss of 34.1 percent.<sup>22</sup> Morgan District explained that December 2024's water loss percentage was higher than recent months due to "leaky meter bottoms", which have since been replaced.<sup>23</sup> Morgan District also provided evidence it has one waterline extension project, that includes multiple line extensions in different parts of Morgan District's service territory.<sup>24</sup> Morgan District explained that, while the line extension project is being completed, the service crew will replace any damaged lines they

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<sup>20</sup> Case No. 2024-00010, (Ky. PSC Oct. 25, 2024), final Order at 36.

<sup>21</sup> Morgan District's Response to Staff's First Request, Item 2.

<sup>22</sup> 2023 Annual Report at 57, Item 31.

<sup>23</sup> Morgan District's Response to Staff's First Request, Item 2.

<sup>24</sup> Morgan District's Response to Staff's First Request, Item 5, Exhibit A.

discover.<sup>25</sup> Morgan District also stated that this project gives Morgan District another opportunity to locate leaks.<sup>26</sup> In addition, Morgan District has hired someone to do leak detection work.<sup>27</sup> Morgan District contacted with Kentucky Rural Water Association to see if they may be able to send personnel and equipment to assist Morgan District in training on leak detection and assist Morgan District in finding leaks.<sup>28</sup> Morgan District stated that it was not financially able to do any additional water loss reduction efforts in 2024, except leak detection.<sup>29</sup>

Having considered the record and being otherwise sufficiently advised, the Commission finds that Morgan District should create a comprehensive water loss reduction plan within six months of service of this Order and file it into this case record. This plan should establish priorities and a time schedule for eliminating each source of unaccounted-for water loss. The plan should identify each area contributing to Morgan District's water loss and provide a comprehensive analysis of how Morgan District will improve water loss in those areas. The plan should include efforts Morgan District plans to take to fund future water loss reduction projects and leak detection efforts. While the Commission acknowledges Morgan District's financial position, reducing water loss should be a priority. This Commission expects Morgan District to prioritize its water loss, and work on reducing its water loss percentage.

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<sup>25</sup> Morgan District's Response to Staff's First Request, Item 4.

<sup>26</sup> Morgan District's Response to Staff's First Request, Item 4.

<sup>27</sup> Morgan District's Response to Staff's First Request, Item 4.

<sup>28</sup> Morgan District's Response to Staff's First Request, Item 4.

<sup>29</sup> Morgan District's Response to Staff's First Request, Item 4.

## Payment Plan

Morgan District stated it has been able to reduce the amount of past due bills since the May 2, 2024 hearing and has continued to pay down those bills, and satisfy current bills as they come due.<sup>30</sup> Morgan District provided evidence of hiring an outside accounting firm for its bookkeeping activities and limiting its purchasing to only the materials needed in the immediate future.<sup>31</sup> In addition, Morgan District stated it is taking steps to reduce expenses such as reducing its work force.<sup>32</sup> Morgan District currently owes approximately \$354,475.13 in past due bills.<sup>33</sup> Morgan District stated that it is in contact with all unpaid vendors and is currently making payments.<sup>34</sup>

The Commission finds that Morgan District should create a plan explaining how Morgan District expects to pay off the past due bills, including a timeline for when Morgan District expects to pay off each amount, and file it into the record within 60 days of service of this Order. This plan should include the following: a list of each unpaid vendor and the plan that Morgan District has made with them to pay off past due bills; a timeline for pay off each outstanding bill; and an explanation of how Morgan District decided which past due bills take priority. Morgan District provided evidence that demonstrates that Morgan District appears to be moving in the right direction in overdue bills. The Commission acknowledges the efforts thus far by Morgan District to pay suppliers, including keeping

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<sup>30</sup> Joint Response at 3.

<sup>31</sup> Joint Response at 3.

<sup>32</sup> Joint Response at 3.

<sup>33</sup> Morgan District's Response to Staff's First Request, Item 7.

<sup>34</sup> Morgan District's Response to Staff's Second Request, Item 1.

in contact with vendors, but believes having a plan in place will ensure Morgan District continues meeting its payment obligations while working to pay off its debts.

Policies, Procedure, and Employee Handbook.

Morgan District stated that it has not implemented any new policies since May 2, 2024.<sup>35</sup> However, the Morgan District Board is currently working on reviewing and drafting all policies and procedures as well as an employee handbook.<sup>36</sup> The process remains incomplete at this time, and according to Morgan District, the review would likely be completed by the end of May or early June 2025.<sup>37</sup>

The Commission finds that Morgan District should finish this process and provide the policies and employee handbook to the Commission no later than 30 days of service of this Order and file it into the record of this case.

Required Documentation on Construction.

In this case, Morgan District provided an update on the construction project in Case No. 2022-00245, stating that the project is now complete, and Morgan District would file the required information in Case No. 2022-00245.<sup>38</sup> However, while Morgan District informed the Commission that the project is complete, Morgan District has not updated this information as required by Order in Case No. 2022-00245.<sup>39</sup> Specifically, Morgan

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<sup>35</sup> Morgan District's Response to Staff's First Request, Item 9.

<sup>36</sup> Morgan District's Response to Staff's First Request, Item 9.

<sup>37</sup> Morgan District's Response to Staff's Second Request, Item 3. The response has not been supplemented at this time.

<sup>38</sup> Case No. 2022-00245, *Electronic Application of Morgan County Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to the Provisions of KRS 278.020, KRS 278.300, and 807 KAR 5:001*.

<sup>39</sup> Case No. 2022-00245, (Ky. PSC Dec. 20, 2022), Order at 7-11.



District must make the following filings consistent with the findings in Case No. 2022-00245:<sup>40</sup>

- Morgan District 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 the construction 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.
- Morgan District shall file a copy of the “as-built” drawings and a certified statement from the engineer that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of substantial completion of the construction certified herein.<sup>41</sup>

Therefore, the Commission finds that Morgan District should provide all required documentation in the post-case filings in Case No. 2022-00245 within 30 days of service of this Order.

#### New Auditor or Bookkeeper

Morgan District is currently utilizing Morgan and Associates to provide bookkeeping services to Morgan District.<sup>42</sup> Morgan District stated that it does plan on contracting for audit services but has had a difficult time finding a new auditing firm.<sup>43</sup> Previously, Morgan and Associates provided auditor services to Morgan District.<sup>44</sup> Morgan District stated that it does plan on hiring an in-house bookkeeper. However, Morgan District believes this will be sometime in the future after Morgan and Associates

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<sup>40</sup> Case No. 2022-00245, (Ky. PSC Dec. 20, 2022), Order at 7-11.

<sup>41</sup> Case No. 2022-00245, (Ky. PSC Dec. 20, 2022), Order at 7-11.

<sup>42</sup> Morgan District’s Response to Staff’s First Request, Item 6.

<sup>43</sup> Morgan District’s Response to Staff’s First Request, Item 6.

<sup>44</sup> Morgan District’s Response to Staff’s First Request, Item 6.

are able to get Morgan District's books in a condition where they can be easily kept in-house.<sup>45</sup>

The Commission finds that Morgan District should find a new auditor, a new bookkeeper, or both, within six months of service of this Order and provide proof to the Commission. In the alternative, Morgan District may provide an update as to the progress of its accounts and reconciliation of the books as well as information about the search for an auditor, including a list of the accounting firms Morgan District has contacted. The Commission encourages Morgan District to look outside of the county and seek regional assistance when searching for a new auditor or bookkeeper.

IT IS THEREFORE ORDERED that:

1. Morgan District shall file a water loss reduction plan in this case, consistent with the directives of this Order, within six months of service of this Order.
2. Morgan District shall create a plan regarding how Morgan District expects to pay off each past due amount to vendors consistent with the directives of this Order and file it into the case record with 60 days of service of this Order.
3. Morgan District shall finish the process of creating policies and an employee handbook and submit it in this case record no later than 30 days from service of this Order.
4. Morgan District shall file all required documentation in Case No. 2022-00245 within 30 days of service of this Order.
5. Morgan District shall find either a new auditor or bookkeeper within six months of the Order and provide proof to the Commission or in the alternative Morgan

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<sup>45</sup> Morgan District's Response to Staff's First Request, Item 6.


District may provide an update as to the progress of its accounts and reconciliation of the books as well as information about the search for an auditor, including a list of the accounting firms Morgan District has contacted.

6. This Order shall not be construed to limit further Commission review or Orders, including the assessment of fines related to any alleged violations.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Commissioner

  
Commissioner

ATTEST:

  
Executive Director



Case No. 2024-00325

Chris Adams  
1009 Hwy 172  
West Liberty, KY 41472

\*John Coffey  
General Manager  
Morgan County Water District  
1009 Hwy 172  
West Liberty, KY 41472

Patty Cordeiro  
1009 Hwy 172  
West Liberty, KY 41472

Ellen Motley  
1009 Hwy 172  
West Liberty, KY 41472

\*Morgan County Water District  
1009 Hwy 172  
West Liberty, KY 41472

\*L. Allyson Honaker  
Honaker Law Office, PLLC  
1795 Alysheba Way  
Suite 1203  
Lexington, KY 40509

\*Heather Temple  
Honaker Law Office, PLLC  
1795 Alysheba Way  
Suite 1203  
Lexington, KY 40509

\*Jim Gazay  
Morgan County Judge Executive  
450 Prestonsburg Street  
West Liberty, KY 41472