

# Regulation of water service in Kentucky/ Case 2016-00142 Martin County Water District

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# WATER SERVICE PROVIDERS IN KENTUCKY

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- **Investor-owned – 8 companies**
  - size range from 55 to 122,000 customers
- **Water districts – 117**
  - size range from 142 to 80,500
- **Water Associations – 22**
  - size range from 500 to 7,500
- **Municipal water systems – 255**
  - from fewer than 100 to 246,000 customers
  - serve majority of Kentucky population
- **Other systems - 65**

# **Water service regulation in Kentucky is divided:**

Kentucky Public Service  
Commission regulates rates  
and service only of some  
water utilities

# Water utilities under Kentucky PSC regulation:

- Investor-owned utilities
- Water districts
- Water associations

## **Also:**

- Wholesale rates of municipal utilities only when they sell water to a utility under full PSC jurisdiction – 93 municipal utilities

**Municipal utilities removed from  
PSC jurisdiction in 1936 by the  
Kentucky General Assembly –**

Municipal rates and service are under  
jurisdiction of local utility boards and,  
ultimately, local elected officials

# **Water service regulation in Kentucky is divided:**

Federal water quality  
standards for all service  
providers are enforced by the  
Kentucky Division of Water

**Primary authority for  
enforcement of federal water  
quality standards under the Safe  
Drinking Water Act rests with the  
Kentucky Division of Water**

# **PSC authority**

**KRS 74 – Water Districts**

**KRS 278 – General statute**

**KAR 807 – Regulations**

**Court decisions**

**PSC orders**



# Ratemaking

- General rate cases – larger utilities
- Alternative rate filing – small utilities

## Streamlined process

PSC staff report: findings and recommendations

- Construction/finance “.023” cases

Rate changes arising from federal loan  
assistance to rural utilities

- Wholesale rates/purchased water adjustments

# Rate-making – general rate cases

- Cost-based rates
- Revenue requirement
- Rate design
- Test year – historic or forecasted
- Initial suspension period
- 10-month total time for PSC decision
- Investor-owned utilities receive ROE
- Volumetric and fixed charges

# Ratemaking – alternative rate filing procedure

- Utilities with less than \$5 M annual revenue
  - All but 6 largest qualify
- Same ratemaking basis as larger utilities
- Less documentation required
- Expedited process
- PSC staff report
- Reduced rate case expense
- Encourages more frequent filings – less rate shock

## **Ratemaking – “.023” cases**

- Statutory process
- Used by smaller, rural utilities
- Water service extension/expansion
  - loans from USDA Rural Development
- RD conducts rate analysis, sets rates
- PSC has no review authority
- “Rubber stamp” only
- PSC concerns with process

# Ratemaking – wholesale rates

- PSC has authority to set wholesale rate for non-jurisdictional (municipal) utilities that supply jurisdictional utilities
- Wholesale rates are cost-based
  - 93 municipal utilities affected**
- Wholesale rate changes for purchasing utilities are treated as pass-through adjustments

# Service regulation

## Broadly defined

- Water supply (pressure, etc)
- Reliability of supply
- Utility policies/procedures
- Customer service
  - Meter & billing accuracy
  - Provision of service
  - Responsiveness to complaints

# Other regulatory areas

- Adequacy of water supply
- Construction projects
- Removal/appointment of water district commissioners
- Training for water district personnel
- Testing/licensing of meter personnel
- Meter testing

**Case No. 2016-00142:**

INVESTIGATION OF THE  
OPERATING CAPACITY OF  
MARTIN COUNTY WATER  
DISTRICT PURSUANT TO KRS  
278.280 (PSC authority to  
investigate adequacy of service)



# Case 2016-00142 – opened April 11, 2016

## PSC cited following issues:

- Excessive water loss – in excess of 60 percent
- Failure to implement corrective measures following 2007 management audit –
  - Water loss reduction plan
  - Preventative maintenance program
  - Improving financial management
- Customer complaints regarding service quality

# Case 2016-00142

Initial hearing held February 22, 2017

Second hearing conducted June 1, 2017

Next hearing – October 17, 2017

PSC has continued to obtain additional information

Martin County Water District has retained a consultant to evaluate the system

PSC will continue to hold regular hearings until problems are resolved

# Previous PSC actions

## 2002 investigation

- Prompted by condition of water plant
- 2003 settlement – 43 action items
- Led to some improvements (remote tank monitoring, plant repairs)

## 2006 investigation

- Management audit in 2007
- Audit completed in 2008 – listed numerous remedial actions

# Previous PSC actions

## 2014 review

- Found 37 uncompleted action items from management audit
- Martin County WD directed to address backlog – several items addressed

## Late 2014 inspection

- Further deficiencies noted
- Corrective actions ordered

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**Thank you**