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NEWS RELEASE

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PSC Issues Report Recommending Regulatory Changes for Smaller Water Utilities

Also orders 11 utilities to take steps to stem excessive water loss

FRANKFORT, Ky. (Nov. 22, 2019) – The Kentucky Public Service Commission (PSC) today issued a report that examines the issue of water loss as symptomatic of larger operational, managerial and financial problems at troubled water utilities in Kentucky.

The report recommends legislative changes that would set qualifications for managers, create regional water authorities to help manage water districts, give the PSC greater authority to consolidate troubled water utilities, and give the PSC the ability to initiate rate cases for financially struggling utilities.

The report was issued with a PSC order directing 11 water utilities to take steps to address excessive water loss, including pursuing mergers with neighboring utilities and filing for rate increases to provide adequate funding. The PSC listed steps that all 11 of the utilities must take as well as specific measures for each utility.

Today's report and order are the products of an investigation that began in March, when the PSC opened a proceeding to examine the operations and finances of water utilities that were unable to account for 35 percent or more of the water that they produce or purchase.

The report provides a detailed review of each of the 11 utilities, identifying problems common to troubled water systems. Those include inadequate oversight and management, poor financial and accounting practices that often leave utilities with limited knowledge of their budgetary needs, and a reluctance to raise rates, often due to outside pressure.

Correcting many of the problems will require changes in state law, the PSC said. The report contains a number of recommendations for statutory or regulatory changes, including:

- Requiring water district or water association general managers to have formal education and meet professional requirements to be outlined in statute, and to undergo annual training approved by the PSC.
- Requiring each water district or association, individually or jointly in cooperation with other districts or associations, to employ a degreed engineer.
- Legislation to allow the PSC to involuntarily merge distressed water utilities with other, interconnected distribution systems, including municipal water utilities.

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- Allowing the PSC to initiate a rate case if a financial review of a utility indicates that higher rates are needed to provide operational and financial stability. The review would come in cases filed under provisions of Kentucky law that allow a utility to set rates without PSC approval if the rate adjustment is connected to the utility receiving a federal loan for infrastructure improvements. The PSC has no authority to adjust the rates or question the purpose of the loan; it must approve both within 30 days.
- Creating designated accounts for the purpose of reducing water loss, subject to a utility submitting and receiving PSC approval of its plan to reduce water loss.
- Establishing regional water boards, appointed by the governor, to oversee the management of regional and local water supply, infrastructure and resources. The boards could hire management staff and procure services that could be shared among utilities, creating economies of scale and reducing costs.
- Shifting the appointment of water district commissioners to the regional water boards, thus reducing local political pressure. Qualifications to serve as a member of a water district board should be strengthened and include holding a college degree.

The report notes that the Kentucky General Assembly earlier this year created a Public Water and Wastewater System Infrastructure Task Force. The PSC report is being provided to the task force and to the legislature.

The PSC investigation and resulting order and report were prompted by persistently excessive water loss at a number of utilities.

Water loss is defined as the difference between the quantity of water that a utility produces at its own treatment plants or purchases from another producer and the total amount of water that is sold, used by the utility, or used for fire protection or other authorized uses. Leaks in the system, line breaks, theft, unauthorized usage and metering inaccuracies all contribute to water loss.

A water loss of no more than 15 percent is considered acceptable under PSC regulations. Utilities are allowed to factor only a loss of 15 percent or less into their rates, meaning that water loss above that level represents a financial loss to the utility.

The PSC gathered data from each utility and, over the course of two weeks in June, conducted hearings into the operation, management and finances of each utility. The investigation revealed a broad range of deficiencies.

To address the most prevalent problems, the PSC ordered all of the utilities to, within six months, to submit to the PSC plans to improve their operations and finances, plans to address water loss and improve business practices, and updated leak detection and water loss prevention manuals.

All of the utilities were ordered to begin using the PSC's new water loss reporting form, which was finalized in a separate order also issued today.

The PSC made several recommendations to the utilities, including:

- Installing system meters, valves and other devices that can help detect and isolate leaks in the system.
- Better deploy staff to find and prevent leaks.
- Evaluate schedules for testing and replacing customer meters.
- Evaluate whether to apply to the PSC for more frequent rate increases.
- Better define the roles of water board members and utility manager in responsibility for reducing water loss.

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Directives to the individual utilities contain mostly requirements to submit documents required by statute or regulation that the utilities have failed to submit, including meter testing policies, annual financial reports, financial audit reports, training manuals, written policies, and water usage and loss reports. Others include:

- Big Sandy Water District must submit a plan for hiring a general manager.
- Milburn Water District is to pursue a merger with Graves County Water District.
- Morgan County Water District is to file for a rate adjustment.
- West Carroll Water District is to pursue a merger with Carrollton Utilities.

The PSC gave the utilities six months to either file the required documents or submit status reports on the other directives.

The report, today's order, videos of the hearings in the case and other records are available on the PSC website, psc.ky.gov. The case number is 2019-00041. Today's order and case records in the water loss reporting case also are available. That case is 2018-00394.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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CALL THE PSC CONSUMER HOTLINE: 800-772-4636

A LIST OF UTILITIES COVERED IN THE REPORT FOLLOWS

UTILITIES COVERED BY CASE 2019-00041

Each entry includes utility name, counties served, number of customers, last reported annual water loss - customers and water loss as of 2017 (most recent) annual report filed at the time of initiating order, unless otherwise indicated

Big Sandy Water District – Boyd, Carter, Johnson, Lawrence – 4,794 – 37% (2018)

Cawood Water District – Harlan – 1,627 – 46.44%

Estill County Water District – Estill – 3,763 – 37.65%

Farmdale Water District – Anderson, Franklin, Shelby – 2,650 – 35.93%

Hyden-Leslie Water District – Clay, Leslie, Perry – 3,683 – 35.74%

Milburn Water District – Carlisle – 136 – 37.73%

Morgan County Water District – Morgan – 2,743 – 38.04%

North Manchester Water Association – Clay – 1,953 – 36.27%

Rattlesnake Ridge Water District – Carter, Elliot, Lawrence, Lewis, Morgan – 4,015 – 62.98%

Southern Water & Sewer District – Floyd, Knott – 5,457 – 42.18%

West Carroll Water District – Carroll, Henry, Trimble – 972 – 38.46%