

CHAIRMAN DAVID ARMSTRONG
KENTUCKY PUBLIC SERVICE COMMISSION
to the
KENTUCKY RURAL WATER ASSOCIATION
AUGUST 26, 2008
LEXINGTON, KY

Good afternoon. I appreciate this opportunity to introduce myself to you and to share with you some thoughts on water issues in Kentucky.

I bring you greetings from Vice Chairman Jim Gardner and Commissioner John Clay. On their behalf, allow me to congratulate you on the important work that the Kentucky Rural Water Association does on behalf of its members in the cause of expanding and improving water and wastewater services throughout Kentucky.

The Kentucky Public Service Commission has long been a partner with the KRWA in that cause. I can assure you that my goal is to strengthen our partnership while I am chairman.

As you know, I have been at the Kentucky Public Service Commission for just a few months. As you also may know, most of my experience with water and wastewater service is more urban than rural in nature. As judge-executive in Jefferson County and later as

mayor of Louisville, I oversaw the operations of the largest water and wastewater systems in Kentucky – the Louisville Water Company and the Metropolitan Sewer District.

Until I came to the PSC, my exposure to issues involving rural water and wastewater service came during my service as Kentucky's Attorney General some 20-odd years ago. However, that experience – as well as my time thus far at the PSC – demonstrated to me that, large or small, water and wastewater utilities are fundamentally alike. They – you – are all in the business of delivering a vital service to people in your community safely and reliably and at a fair price.

When you put it in those terms, it seems like such a straightforward undertaking. You take water from a river or lake, or perhaps a well, filter it and disinfect it and pump it to your customers. Then the sewer system reverses the process. If only it were that easy.

Every one of you is only too aware of the challenges posed by those seemingly simple tasks. There is much that can, and sometimes does, go wrong. Naturally, that is when you hear from your customers. The vast majority of the time most of your customers take you for granted.

And that is not a bad thing. A vital service that people can take for granted is one that works the way it is supposed to almost all of the time.

But, as we all know, there are still many Kentuckians – the majority of them in the most rural areas of the Commonwealth - who cannot take water or wastewater service for granted. They may be depending on wells that are not reliable sources of safe drinking water. Some have to haul water. Far too many have inadequate on-site wastewater treatment systems, or may not treat their wastewater at all.

Bringing water and wastewater service to those far-flung residents has always posed engineering and financial challenges. Kentucky has worked hard to surmount those challenges in recent years, and we have made great progress. In Eastern Kentucky alone, funding from the PRIDE initiative and other sources has helped bring water and wastewater to thousands of homes in just this decade.

Looking at the statewide picture, in 2002 about 3.6 million Kentuckians were served by public water systems. The number this year stands at about 3.9 million – or about 90 percent of our state's population. The percentage served by public wastewater treatment systems is lower – something less than two-thirds.

While we have done much, we still have a great deal of work to do. The task would be daunting in the best of times. Accomplishing it now, at a time when budgets are under tremendous strain at all levels of government, is doubly difficult.

Maintaining the momentum of the last six years will require extra effort on the part of everyone involved in water and wastewater

service. It will require working together to identify and obtain funding. What limited funds are available will have to be put to work as effectively and efficiently as possible. In short, we will need unprecedented degrees of cooperation and communication.

I am pleased to say that the Beshear administration is committed to making that happen. And I am gratified that the PSC is playing a major role in seeing that it does.

The PSC has taken on the task of convening and facilitating monthly meetings of entities engaged involved in the planning, funding and operation of water and wastewater systems in Kentucky. This group, called the Kentucky Sewer and Water Infrastructure Group, or K-SWIG, has been meeting on a monthly basis since May.

In addition to the PSC and the Division of Water, other state entities involved include the Department of Local Government and the Cabinet for Economic Development. Also taking part are the Kentucky Infrastructure Authority, the Appalachian Regional Commission and Kentucky Pride. From the federal side we have the U.S. Department of Agriculture Rural Development and the Army Corps of Engineers. From the local government side we have the Kentucky Association of Counties, the Kentucky Municipal Utility Association and, of course, KRWA.

Each of the participating entities has a unique role and mission. Some have found themselves at odds with others at times. But all share the larger goal adopted as the group's mission statement:

“To improve and extend wastewater and water services for the citizens of the Commonwealth by promoting communication and collaboration among involved utility and governmental entities, thus fostering partnerships, protecting the environment and promoting economic development.”

In its initial meetings, the group's major focus has been on renewing momentum toward completion of a streamlined and thus more efficient process for the planning, funding and implementing of water and wastewater projects in Kentucky. The underpinnings of the process will be a comprehensive project database and a universal application that would be accepted by all funding entities.

The construction of this one-stop shop began a number of years ago. The database was built - and now only needs to be brought up to date – but the other pieces were never put into place. I can tell you that this time around, we're determined to get there.

Among the other topics the group is tackling is how to deal with water or sewer systems that are in financial or operational distress, or have been abandoned. It also is discussing the relationship between traditional planning approaches for water and wastewater, which

have been based on local government boundaries, and an approach that instead is based on watersheds.

I cannot tell you whether the interagency group will find consensus on these issues. But even if it does not, I believe that the effort will have great value in the long term by opening new lines of communication and cooperation among its participants.

There are several other topics I'd like to mention that are both important to the Commission and of interest to you.

As you may know, the PSC is reviewing a number of its regulations governing water utilities. Specifically, we are considering possible changes to the regulations on water service, purchased water adjustments, alternative rate filings and system development charges.

The KRWA has been an active participant in this process and I thank you for your interest and input. At this point, we anticipate accepting a round of comments prior to the beginning of the formal regulatory review process. In any case, we expect to have a final draft ready later this year.

Also coming this fall are our annual training seminars for water utility commissioners and personnel. This has been an ongoing and highly successful partnership between the PSC and the KRWA and an

excellent example of cooperation between regulators and the regulated community.

I strongly encourage any water utility commissioners or personnel who have not been to a seminar, or who have not been to one for some time, to attend as soon as possible. It is important that you stay current with the latest developments and technology.

One point of emphasis in the seminars this year will be the ethics requirements for water district commissioners. I understand from the PSC staff that this issue has come up a number of times in recent years, not because of willful violations of ethics rules, but because of unfamiliarity with the requirements. If you are unsure of what those requirements are, I would encourage you to attend one of the training seminars.

Another area in which we have had some issues recently is with adjustments of wholesale rates by municipalities that provide water to jurisdictional utilities. Although those wholesale rates are subject to PSC review and approval, there seems to be some confusion about the filing requirements and the process. Therefore, the PSC staff is working to develop a toolbox or kit for those municipal utilities that will help them remain in compliance. This toolbox will include an explanation of the process, all of the necessary forms and instructions for filing. I should note that this initiative is in some measure the result of a discussion at a recent meeting of the

interagency group I spoke of earlier. So you could say that it already is producing results.

Finally, I'd like to turn to an issue that I know has been brought up by every Commissioner who has spoken to this group in recent years. It is one to which I can testify personally.

As you know, it is the long-standing policy of the state to encourage and promote regionalization of water and wastewater services. The PSC has embraced that policy whenever possible. Most recently, in May, the Commission approved the consolidation of four water districts in Graves County, noting the benefits that should result from the economies of scale.

In the abstract, regionalization is an easy concept to grasp and endorse. It's one of those notions that just makes intuitive good sense.

In the actual implementation, however, regionalization can be a difficult and contentious process. The PSC has found that out first-hand on more than one occasion.

We should not let the challenges dissuade us. Particularly in these times of limited resources, we should all be open to finding ways to deliver services more efficiently and effectively, whether through consolidation or cooperation, or something in-between.

My experience has convinced me of the benefits. When I was serving as judge-executive in Jefferson County, the Metropolitan Sewer District – with my wholehearted support – was engaged in an aggressive program to acquire and decommission scores of small wastewater package treatment plants throughout the county. Many of these plants were operating quite well; a handful were engaged in criminal violations of the Clean Water Act.

But, almost without exception, these small plants were unable to provide a level of wastewater service and treatment comparable to a large public sewer system. Taking them out of service accomplished three important things:

- It improved the environment by reducing pollution in Jefferson County streams, some of which had dry weather flows that were largely package plant effluent.
- It reduced public health threats by shutting down systems prone to chronic backups or overflows.
- It created opportunities for economic development by removing constraints created by inadequate wastewater treatment capacity.

This is not to say that consolidation or regionalization can solve every problem. Like many other utilities, the Metropolitan Sewer District continues to face substantial challenges, most of which stem from old, outmoded or inadequate facilities that must be replaced or upgraded in the next decade or two.

Many water and wastewater utilities across Kentucky – both large and small – also are dealing with situations that will require significant infusions of capital. Many need to replace aging infrastructure; others need to increase water supplies to provide reliable service to growing numbers of customers.

Whatever the issues, addressing them on a regional, rather than local, basis may offer opportunities to stretch limited resources, to avoid needless duplication – in short, to do more with less. Even if we do not wish to move in that direction, I suspect that circumstances will leave us with little choice.

That is why initiatives such as the interagency group are so important and have such potential. Every Kentucky citizen is entitled to a reliable supply of clean and safe drinking water. Every community in this state needs effective wastewater treatment that protects its streams and groundwater. Both are essential to the public, environmental and economic health of this Commonwealth.

We must work together as we have in the past to provide these vital services. And we must forge new avenues for cooperation, develop new partnerships and relationships to more effectively meet our future challenges.

I look forward to hearing your views on these issues and to working with all of you in the coming years. Thank you very much.