

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO THE)	
OPERATION AND MANAGEMENT OF WESTERN)	CASE NO.
LEWIS-RECTORVILLE WATER AND GAS)	2019-00028
DISTRICT PURSUANT TO KRS 74 AND KRS 278)	

ORDER

The Commission, on its own motion, establishes this proceeding to conduct a formal investigation into the operation and management of Western Lewis-Rectorville Water and Gas District (Western Lewis-Rectorville District).

Western Lewis-Rectorville District is a combined water and gas district organized pursuant to KRS Chapter 74. Western Lewis-Rectorville District provides water service to approximately 2,505 customers, and gas service to approximately 554 customers in Lewis and Mason counties, Kentucky.¹ It is a utility subject to the Commission's jurisdiction under KRS 278.010(3)(b) and (d), KRS 278.015, and KRS 278.040.

On September 24, 2018, Western Lewis-Rectorville District filed an application for a rate adjustment for its water service pursuant to 807 KAR 5:076, the alternative rate filing for small utilities.² In the course of conducting a review of the application, Commission Staff (Staff) identified certain operational and managerial irregularities. In

¹ *Annual Report of Western Lewis-Rectorville District to the Public Service Commission for Water Service for the Calendar Year Ended December 31, 2017*, (2017 Annual Water Report) at pp. 12 and 48 of 66; *Annual Report of Western Lewis-Rectorville District to the Public Service Commission for Gas Service for the Calendar Year Ended December 31, 2017*, (2017 Annual Gas Report) at p. 31 of 42.

² Case No. 2018-00321, *Application of Western-Lewis-Rectorville Water and Gas District for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (filed Sept. 24, 2018).

the Staff Report issued on January 7, 2019,³ the following operational and managerial issues were identified:

- Allocation and Assignment of Costs Between Divisions. Western Lewis-Rectorville District appropriately allocated shared costs, such as general liability insurance, between the water and gas divisions based upon a customer allocation factor. However, Western Lewis-Rectorville District also used the customer allocation factor, rather than actual amounts, to allocate operating revenues and purchased power and chemicals costs attributed to the water division between the water and gas divisions.⁴ According to informal statements made by Western Lewis-Rectorville District employees to Staff during the review, Western Lewis-Rectorville District allegedly records on its books the actual amounts of operating revenues and purchased power and chemicals costs attributed to the water division. Subsequently, Western Lewis-Rectorville District's independent auditor allegedly revises and assigns the actual amounts attributed to the water division between the water and gas divisions using the customer allocation factor.

- Accuracy of AMR Reporting and Billing. There was a significant discrepancy between the amount of annual revenue from water sales calculated by Staff and the amount calculated by Western Lewis-Rectorville District.⁵ An explanation offered by Western Lewis-Rectorville District is that its Automated Meter Reading (AMR) system truncates the monthly gallons purchased by each ratepayer. As a result, a

³ Case No. 2018-00321, Staff Report (Ky. PSC Jan. 7, 2019).

⁴ *Id.* at 5.

⁵ *Id.* at 5–6.

ratepayer who used 2,600 gallons in a month would be billed for only 2,000 gallons.⁶ Western Lewis-Rectorville District did not substantiate its contention that the unbilled gallons would ever be billed and collected.⁷ Staff recommended that the Commission initiate an investigation to review Western Lewis-Rectorville District's AMR system regarding the accuracy of the usage reports and amounts billed to ratepayers.

- Billing Analysis. The billing analysis for the gallons of water billed to customers in the test year that used a computer-generated usage report produced revenue in excess of the amount actually collected and recorded in Western Lewis-Rectorville District's test-year general ledger.⁸ Western Lewis-Rectorville District was unable to explain or account for the discrepancy.

- System Flushing. Western Lewis-Rectorville District could not explain the methodology it used to estimate the amount of water claimed for system flushing. As noted in the Staff Report, using an estimate without a basis is arbitrary and does not meet the ratemaking criteria of known and measurable.⁹

Although not addressed in the Staff Report, the Commission has concerns regarding the amount of the general manager's salary, which appears to be overly generous in light of the number of part-time hours reportedly worked and the positions he holds at other utilities. The Commission has further concerns regarding the alleged failure to track and document the general manager's work hours.

⁶ *Id.* at 6.

⁷ *Id.*

⁸ *Id.* at 8.

⁹ *Id.* at 13.

For the above reasons, the Commission finds that a proceeding should be initiated to investigate the deficiencies identified in the Staff Report in Case No. 2018-00321 and in the process of reviewing Western Lewis-Rectorville District's application. The Commission further finds that the record from Case No. 2018-00321 should be incorporated into the record of the instant case.

IT IS THEREFORE ORDERED that:

1. This proceeding is initiated to investigate the operation and management of Western Lewis-Rectorville District, as set forth in this Order.

2. Chairman John Thomas, Secretary Terry Thomas, Treasurer Robert Applegate, Commissioner Robbie Joe Gantley, Commissioner Gerald Johnson, General Manager Chad Clark, Senior Office Clerk Pauline R. Bickley, Certified Public Accountant Lyn Rhonemus, and Certified Public Accountant Gregory Caudill shall appear on Tuesday, March 12, 2019, at 9 a.m. Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of investigating issues related to the operation and management of Western Lewis-Rectorville District.

3. The March 12, 2019 hearing shall be recorded by digital video recording only.

4. Western Lewis-Rectorville District is to file with the Commission the original in paper medium and an electronic version of the information requested in the Appendix to this Order. The information requested is due within 20 days of the date of the entry of this Order.

a. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable and shall be appropriately bookmarked.

b. Each response shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and the original in paper medium and an electronic version filed with the Commission.

c. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

d. Western Lewis-Rectorville District shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

e. For any request to which Western Lewis-Rectorville District fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

f. Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this

proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

g. When filing a paper containing personal information, Western Lewis-Rectorville shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

5. Any party filing a paper with the Commission shall file an electronic copy in accordance with the electronic filing procedures set forth in 807 KAR 5:001, Section 8, and shall also file the original in paper medium with the Commission.

6. The record in Case No. 2018-00321 is incorporated by reference into this proceeding.

7. Pursuant to 807 KAR 5:001, Section 8(9), within seven days of entry of this Order, Western Lewis-Rectorville District and its counsel shall file a written statement with the Commission that:

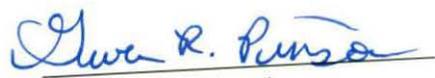
a. Certifies that they possess the facilities to receive electronic transmissions; and

b. Sets forth the electronic mail address to which all electronic notices and messages related to this proceeding should be served.

By the Commission

ENTERED
JAN 23 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2019-00028

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2019-00028 DATED **JAN 23 2019**

1. Identify the software used for reporting and billing water usage in the AMR system, and explain whether the software is off-the-shelf or custom.
2. Explain in specific detail the methodology used by Western Lewis-Rectorville District to estimate the amount of water usage for system flushing.
3. Provide a list of all Western Lewis-Rectorville District's employees and, for each employee, indicate whether that employee's work hours are tracked and recorded.
4. Confirm that Chad Clark's work hours are not tracked and recorded, and explain in specific detail why his work hours are not tracked and recorded.
5. Provide the names and addresses of Chad Clark's employers, other than Western Lewis-Rectorville District, and documentation of hours worked for those employers in the past six months.
6. Confirm whether Western Lewis-Rectorville District records in its books the actual amounts of operating revenue and purchased power and chemicals costs attributed to the water division.
7. Confirm whether the actual amounts of operating revenue and purchased power and chemicals costs attributed to the water division are subsequently allocated between the water and gas division, and if so, explain in specific detail the reason the actual amounts are not used.

*Western Lewis-Rectorville Water and Gas District
8044 KY 3161
Maysville, KY 41056-9344

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