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## NEWS RELEASE

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### **PSC Reduces Mountain Water District Rate Requests** *District ordered to review benefits of management outsourcing contract*

**FRANKFORT, Ky. (Oct. 9, 2015)** – The Kentucky Public Service Commission (PSC) today allowed Mountain Water District to increase rates for both water and sewer service, but by less than the amount sought by the district.

Mountain Water had sought to increase annual revenue by a total of \$4.23 million, or nearly 50 percent more than existing annual revenue. The district proposed to increase revenue from water sales by \$2.55 million (33.5 percent) and revenue from sewer operations by \$1.67 million (188 percent).

In today's order, the PSC granted the district an overall revenue increase of \$2.77 million (32.6 percent). The increase in water revenue was set at \$1.27 million, about half the amount sought by Mountain Water. Sewer revenue will increase by \$1.51 million, slightly below the requested amount.

The rates will be implemented in three phases over a two-year period, and are designed to gradually eliminate the long-standing subsidization of sewer service through water rates.

Water rates initially will increase by \$12.23 – to \$53.28 -- per month for the average residential customer using about 5,000 gallons per month. In two years, they will decline to the final rate, with the average residential customer paying \$47.89, or about 16.6 percent more than the current \$41.05. Sewer rates will increase over the same two-year period, rising from the current \$32 per month to \$86.24, an increase of about 170 percent.

Because of the size of the sewer rate increase, the PSC decided to implement it gradually, in three phases. The initial phase takes effect today, with the further increases coming one year from today and then two years from today.

In order to provide Mountain Water with consistent annual revenue, water rates are being set at a higher number than the final increase, and will decline as sewer rates rise.

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At the end of the two-year period, both water and sewer rates will more closely reflect the cost of providing those services, the PSC said.

Mountain Water District serves about 17,145 water customers in Pike County and about 2,370 sewer customers in Pike and Floyd counties. It is also a wholesale water provider to the cities of Jenkins and Elkhorn and the Martin County Water District in Kentucky and to Mingo County, West Virginia.

The allowed rate increase is smaller because the PSC set the rates to reflect what it would cost the district to operate its facilities on a stand-alone basis.

For the last 10 years, Mountain Water has contracted out its management to Utility Management Group (UMG). In today's order, the PSC noted that during this 10-year period, Mountain District has amended the contract seven times and renewed it for three years in March 2014.

But Mountain Water has not put the contract out for bids "nor has it attempted to conduct a benefit analysis to show that the outsourcing of its operations to UMG is beneficial to its ratepayers," the PSC said.

"Based on the significant difference between Mountain (Water's) cost under the UMG contract and the stand-alone basis," the PSC found that the district should retain the services of an outside independent consultant that has no past history with the district to assist it in a conducting a new bidding process.

Today's order says the consultant should:

- Work with Mountain Water to develop a request for proposals (RFP) that would be sent to potential bidders that might be interested in providing managerial and operational services to Mountain Water.
- Assist in the analysis of the RFP responses, including preparation of a written report that documents the review process.

The PSC directed Mountain Water to complete the RFP process and submit the results, including a detailed analysis supporting any decision made by the district, within eight months.

The PSC noted that UMG in 2009 made a five-year \$500,000 loan to Mountain Water, with a provision that forgave the loan if UMG remained as the utility's manager over that time. Mountain Water never sought PSC approval of the loan, although such approval is required by law, the PSC said. The PSC said it will open an investigation of the matter in the near future.

The PSC also noted that Mountain Water has a persistent problem with leaky lines, with nearly 30 percent of the water it produces going unaccounted for. The PSC ordered Mountain Water to identify the causes of excessive water loss and develop a schedule, estimated cost and possible funding sources for correcting the problems.

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A meeting to take public comments in the case was held in Pikeville on April 16. The formal evidentiary hearing in the case was held in Frankfort on May 20.

The Kentucky Office of Attorney General intervened in the case as the representative of the district's ratepayers.

Today's order, other records in the case and videos of the public meeting and formal hearing are available on the PSC website, [psc.ky.gov](http://psc.ky.gov). The case number is 2014-00342.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 85 employees.

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RATE CHART FOLLOWS

# MOUNTAIN WATER DISTRICT RATES

## WATER – RESIDENTIAL SERVICE

	Current	Phase 1 10/9/15	Phase 2 10/9/16	Phase 3 10/9/17
Monthly Minimum (2,000 Gal)	\$20.02	\$25.98	\$24.66	\$23.85
Next 8,000 Gal (per 1,000 Gal)	\$7.01	\$9.10	\$8.64	\$8.18
Total (5,000 Gals used/month)	\$41.05	\$53.28	\$50.58	\$47.89

## SEWER – RESIDENTIAL SERVICE

	Current	Phase 1 10/9/15	Phase 2 10/9/16	Phase 3 10/9/17
Monthly Minimum (2,000 Gal)	\$14	\$21.91	\$29.82	\$37.73
Over 2,000 Gal (per 1,000 Gal)	\$6	\$9.39	\$12.78	\$16.17
Total (5,000 Gals used/month)	\$32	\$50.08	\$68.16	\$86.24
Unmetered sewer-only service	\$32	\$45.39	\$61.77	\$78.15