

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MARTIN)	CASE NO.
COUNTY WATER DISTRICT FOR AN)	2018-00017
ALTERNATIVE RATE ADJUSTMENT)	

ORDER

On November 5, 2018, the Commission entered a final Order that: (1) approved a rate increase for Martin County Water District (Martin District); (2) revised a \$4.19 per customer per month debt service surcharge (Debt Service Surcharge) that was approved in a March 16, 2018 Order to continue the surcharge in the same amount, but conditioned it upon Martin District contracting with a management company to manage and operate the utility (Management Contract); and (3) created an additional \$3.16 monthly surcharge to be utilized exclusively for retaining a management company and for infrastructure repair, replacement, and maintenance to address Martin County's excessive water loss (Management/Infrastructure Surcharge).¹ The Commission kept this matter open to implement, supplement, and enforce the terms of the Order regarding Martin District's requirement to contract with a management company and implementation of the Management/Infrastructure Surcharge. By this Order, the Commission addresses the outstanding issues regarding the Management Contract and Management/Infrastructure Surcharge.

¹ Martin District was not authorized to begin collecting the \$3.16 monthly surcharge until the Commission approved an infrastructure improvement plan, and a reasonable contract with a management company was executed.

PROCEDURAL HISTORY

On January 22, 2018, Martin District requested a 49.46 percent rate adjustment, which would have raised the minimum bill from \$26.50 to \$39.62 per month and the average residential bill from \$39.90 to \$59.66 per month. Martin District requested that the matter be expedited, asserting that it was in dire financial condition. As evidence of its dire financial condition, Martin District explained that it used its depreciation reserve to pay operating expenses, that its aged accounts payable totaled \$816,877.00, and that the current accounts payable exceeded Martin District's operating cash balance.²

On February 28, 2018, a joint public hearing was held in this proceeding and Case No. 2016-00142, an investigation into the operation of Martin District.³ Martin District testified that the aged accounts payable had increased by approximately \$30,000, to \$877,640.34.

On March 16, 2018, the Commission granted Martin District an interim 17.50 percent base rate increase, subject to refund, and a Debt Service Surcharge of \$4.19 per customer per month to pay down the aged accounts payable.⁴ Martin District was prohibited from disbursing funds from the surcharge account until it developed a payment plan approved by Commission Order.⁵ The Commission also required Martin District to file monthly revenue and expense reports that tracked, among other things, the aged

² Case No. 2018-00017, Jan. 26, 2018 Hearing Video Transcript (HVT) at 9:52.47, and Martin District Hearing Exhibit 1.

³ Case No. 2016-00142, *Investigation of the Operating Capacity of Martin County Water District Pursuant to KRS 278.280* (KY PSC. Sept. 19, 2018).

⁴ Case No. 2018-00017, Interim Order (Ky. PSC Mar. 16, 2018).

⁵ *Id.* at 14.

accounts payable and the debt service surcharge collection and disbursement.⁶ Additionally, Martin District's commissioners were required to attend the next scheduled Commission water training seminar in April 2018.⁷

On May 22, 2018, Commission Staff issued a report (Staff Report) that found that an annual revenue increase in the amount of \$468,392, or 23.70 percent, was necessary to generate the Overall Revenue Requirement. The average residential customer bill would increase from \$39.90 to \$49.37 under the rates proposed in the Staff Report. The Staff Report also included the additional \$4.19 per customer, per month, Debt Service Surcharge previously ordered by the Commission in the interim Order.⁸

Another hearing was held on August 7, 2018, to take additional evidence on Martin District's operations and business practices. Despite being granted an interim rate increase, Martin District's accounts payable balance rose to over \$1 million, an increase of approximately \$123,000 since February 2018.⁹ Martin District also testified that the master meter at the water treatment plant had to be replaced because it was not accurately registering water passing through the meter, which likely resulted in the actual amount of water loss being less than the reported water loss amount.¹⁰ Martin District said that the master meter would be replaced once it had \$16,000 to pay for a new master meter.¹¹

⁶ *Id.* at 13.

⁷ *Id.* at 12.

⁸ Case No. 2018-00017, Staff Report (Ky. PSC May 22, 2018).

⁹ Case No. 2018-00017, Aug. 7, 2018 HVT at 10:13:13, 11:26:00.

¹⁰ *Id.* at 3:19:07.

¹¹ *Id.* at 3:20:07.

The Commission has expressed to Martin County's Commissioners an increasing and ongoing concern regarding the lack of capable management, particularly the inability of Martin District's interim general manager to address both operational and administrative problems, and instructed them to hire a new, permanent, general manager. At an August 29, 2018 hearing in Case No. 2016-00142, Martin District commissioners testified about their search for a general manager. Martin District's then-Board Chairman, John Horn, testified that they received 23 applications and identified three well-qualified candidates.¹² Both Mr. Horn and then-Treasurer, Jimmy Don Kerr, testified that they scheduled candidate interviews on September 1, 2018, but that Martin District's ability to hire a general manager was compromised by its negative cash flow and overall poor financial position.¹³ Mr. Kerr testified that Martin District would interview candidates and try to have someone in place, and then come to the Commission to request a rate increase to cover the general manager's salary.¹⁴ Mr. Kerr further testified that Martin District could not afford to pay what he believed the two most qualified candidates would be worth, but that Martin District would be honest with the applicants and would bring the salary amount to the Commission to get a rate increase sufficient to pay the salary.¹⁵ Martin District never discussed a specific candidate's salary with the Commission, never

¹² *Id.* at 1:41:38.

¹³ *Id.* at 1:42:33, 1:47:58.

¹⁴ *Id.* at 2:24:: 51.

¹⁵ *Id.* at 2:25:14.

hired a general manager, and instead continues to operate with a part-time interim general manager who spends the majority of the time in the field and not in the office.¹⁶

On October 10, 2018, Martin District filed a motion in Case No. 2016-00142 proposing three different plans to pay vendors from the Debt Service Surcharge. On October 16, 2018, the Commission approved a payment schedule from the Debt Service Surcharge to retire the past-due debt, with payments on all but four of the largest past-due accounts, which would retire those debts within nine months, and then apply payments towards the remaining four outstanding balances. Despite the interim rate increase and the Debt Service Surcharge, the aged accounts payable amount increased to \$1,119,672.24, an increase of \$119,000 since August 2018 and \$300,000 since the application was filed in January 2018.

In addition to the rate increase and Management/Infrastructure Surcharge approved in the November 5, 2018 Order, the Commission discussed the ongoing pattern of poor management at Martin District and proposed a “structured path” with Martin District contracting with a third party to manage and operate the utility in order to prevent Martin District’s collapse and return Martin District to solid financial and managerial footing.¹⁷ Martin District was cautioned to comply with the requirements in the Order, including contracting with a management company, or “face receivership or forced merger.”¹⁸

¹⁶ Case No. 2018-00117, Oct. 22, 2019 HVT at 2:55:42.

¹⁷ Case No. 2018-00017, Final Order (Ky. PSC Nov. 5, 2018) at 6.

¹⁸ *Id.* at 6.

Subsequent to the November 5, 2018 Order, Martin District solicited bids from management companies as directed by the Order and submitted monthly financial filings that included the aged accounts payable. Alliance Water Resources, Inc. (Alliance), a national provider of water and wastewater contract operations services, was the only company that bid on Martin District's request for proposals. On June 3, 2019, Martin District filed its detailed evaluation of the bid, which included references by other utilities that contract with Alliance for management and operation services. Confidential Formal Conferences regarding negotiations between Martin District and Alliance were held on June 18, 2019, and July 29, 2019.

On October 22, 2019, another hearing was held to take evidence regarding the adequacy of rates, water loss, and the number of unmetered customers. In an earlier telephone conversation with Commission Staff, Martin District's Board Chairman had stated that there were between 1,000 and 2,000 unmetered customers receiving service from Martin District. Martin District's Board Chair subsequently recanted this statement.¹⁹ The hearing also addressed Martin District's continuing failure to complete 2016, 2017, and 2018 financial audits and the negative impact those failed filings have had on Martin District's ability to obtain grant or loan funding; the accuracy, or lack thereof, of financial filings by Martin District; Martin District's impaired financial condition and continued reliance on depreciation reserves to pay operating expenses; and the proposed Management Contract between Martin District and Alliance, which had not been executed.

¹⁹ Case No. 2018-00017, Oct. 22, 2019 HVT at 7:47:40.

Three motions are pending. On October 16, 2019, Martin District requested to amend two previous Orders to permit it to pay accounts payable incurred between April 1, 2018, and December 31, 2018, from the Debt Service Surcharge. On October 28, 2019, Martin County Concerned Citizens (MCCC) requested that the Commission require Martin District to hire a general manager and use the \$3.16 monthly surcharge to fund the position. On October 31, 2019, Martin District also requested to hire a general manager instead of contracting with Alliance.

BACKGROUND

A review of Martin District's past management and operation issues, and the Commission's longstanding concerns regarding Martin District's ongoing failure to resolve them, is necessary for understanding the decision we reach in this proceeding.

Due to decades of mismanagement, Martin District made little to no effort to repair and replace aging infrastructure in order to maintain an adequate level of service to its ratepayers. Much of the current system has either totally collapsed or is on the verge of collapse. Customers complain that the water, when it is available, smells and is sometimes dirty. Customers rely on bottled water for drinking, washing dishes, and bathing. Martin District managers and commissioners historically refused to seek sources of revenue, including reasonable rate increases, to fund the periodic replacement of aged infrastructure.

After Martin District reported high water loss amounts in its 1997 Annual Report filed with the Commission, the Commission authorized its financial audit team to review records and make recommendations. In response to Commission Staff's recommendations, Martin District officials pledged to initiate systematic repair and

replacement of lines to remedy the water loss. As evidenced in this proceeding, infrastructure repairs did not take place.

Five years later, in 2002, the Commission opened an investigation into the condition of Martin District's facilities, operations, and management, and the long-term actions that would be necessary to ensure the continuation of service to Martin District customers.²⁰ The investigation was prompted by an inspection conducted by Commission Staff that described Martin District's facilities as being in a general state of disrepair, with significant operating deficiencies that could render Martin District incapable of providing water to its customers. At the conclusion of the investigation, the Commission approved a settlement agreement that addressed operational issues, and "prescribe[d] a manner in which Martin District may ensure the long-term health and viability of the system."²¹ The settlement agreement was signed by Martin District's Chair at the time, Greg Scott, who is currently Martin District's interim general manager. The settlement agreement consisted of the 43 action items Martin District agreed to undertake, including developing and implementing internal controls for accounting and work orders, discontinuing service to customers who failed to pay their bills, attending mandatory water district commissioner training, adopting the Model Procurement Code,²² and developing

²⁰ Case No. 2002-00116, *Investigation of the Operating Capacity of Martin County Water District Pursuant to KRS 278.280*, Final Order (Ky. PSC Nov. 17, 2003) at 1.

²¹ Case No. 2002-00116, Final Order at 2.

²² See Case No. 2018-00017, *Electronic Application of Martin County Water District for an Alternative Rate Adjustment*, Response to Commission Staff's Second Post-October 22, 2019 Hearing Request for Information (filed Nov. 11, 2019) Exhibit D_2, at 31-34. On April 27, 2009, almost seven years after the settlement agreement, Martin District adopted Model Procurement Policies and Procedures. To this day, Martin District continues to ignore the procedures that were adopted.

written leak detection procedures.²³ The agreed-to action items went largely unimplemented and, as documented in this proceeding, the same inadequate business practices continued unabated.

In 2006, because Martin District had not fully implemented the action items and failed to file required financial and statistical reports, the Commission opened a second investigation into the management and operation of Martin District, retaining a third party to conduct an audit of Martin District's management, engineering, and technical operations.²⁴ The auditing firm found a number of operational deficiencies and recommended 78 changes to remedy the deficiencies, with a cost-benefit analysis for each recommendation. The recommendations included, *inter alia*, requesting a rate increase because revenue was inadequate to support utility operations, developing a comprehensive water loss reduction plan, implementing a leak detection and repair plan, developing a capital improvement plan, improving procedures to identify theft of service, improving collection of past-due accounts, investigating regionalization, and conducting an external audit on an annual basis.²⁵ The Commission charged the utility commissioners with individual and collective responsibility for timely implementing the recommendations.²⁶ Greg Scott, the current interim general manager, was a water district commissioner at the time the order was entered. Mr. Scott and his fellow commissioners did not institute many of the agreed-to recommendations, with the notable exception of

²³ *Id.* at Appendix A.

²⁴ Case No. 2006-00303, *An Investigation into the Management and Operation of Martin County Water District* (Ky PSC June 26, 2006).

²⁵ Case No. 2006-00303, Final Order (Ky. PSC Apr. 2, 2008), Appendix A.

²⁶ Case No. 2006-00303, Final Order at finding paragraph 4.

commissioning an annual audit and filing a written plan to reduce water loss—over three years after it was due. Compounding the issue, Martin District’s water loss reduction plan was to replace leaking infrastructure “as funds become available . . .”, a phrase that was used repeatedly in responses by Martin District when recommendations required any type of funding.

In 2016, the Commission opened a third investigation into Martin District’s managerial and operating deficiencies, including its failure to fully comply with the recommendations in the management audit, excessive water loss, and quality of service.²⁷ Finding that issues in that case overlapped with issues in this proceeding, the record of the 2016 investigation, Case No. 2016-00142, which is still pending, was incorporated by reference into this proceeding.

On three occasions, Martin District made commitments to the Commission that it would implement necessary changes to improve the operation and management of the utility. All three times, Martin District failed to carry out those commitments. Martin District’s board of commissioners and managers made no significant effort to increase revenue or obtain funds to replace crumbling infrastructure until it filed this rate adjustment case in January 2018. Martin District failed to seek timely rate increases, failed to use its income-for-capital improvement projects required to maintain operational integrity, did nothing to reduce water loss, and did little to collect from customers who refused to pay their bills or to discontinue their service for persistent non-payment. Theft of water was a known problem, but prosecution for such thefts was not pursued. Adequate operating inventory was not maintained, and while external audits were

²⁷ Case No. 2016-00142, Order Initiating Investigation (KY PSC. Sept. 19, 2018).

commissioned, the past three years' audit reports have not been received due to Martin District's unwillingness or inability to pay for professional outside accounting services and provide the records necessary to complete the audit.

DISCUSSION AND FINDINGS

In the November 5, 2018 Order, the Commission determined that Martin District needed a new manager to avoid a repetition of prior bad management that created a crisis state that impairs Martin District's ability to render safe, adequate, and reliable water to its customers. Because Martin District failed to hire a new general manager during the processing of this case, the Commission found that Martin District should contract with a third-party management company that could provide strong leadership and institute proper business practices.

Management Deficiencies

In the November 5, 2018 Order, the Commission stated that Martin District operates in a constant state of emergency and its ratepayers suffer the dire consequences of decades of poor choices made by its management and commissioners. Despite receiving rate increases and the Debt Service Surcharge, Martin District continues to operate in a state of financial and operational emergency, with little to no change in the conditions that prompted Martin District to file for a rate increase in January 2018. Whether they are due to inexperience, communication breakdown, inadvertent mistakes, or intentional misconduct, the evidence of record is replete with examples of an ongoing inability to manage and operate Martin District in an effective and organized business-like manner. Below are examples of continued shortcomings that are indications that Martin District is not operated on a sound business basis.

1. Audits

Financial audits indicate how well water district commissioners and managers are carrying out their fiduciary and legal responsibilities. Martin District is required by law to conduct annual financial audits that, pursuant to 807 KAR 5:006, Section 4(3), are filed with the Commission no later than September 30 of the year following the audit year, and, pursuant to KRS 65A.030(1)(c), are filed with the Kentucky Department of Local Government. Additionally, a financial audit is one of the required documents necessary to receive government funds from federal and state agencies to replace aging infrastructure.

As of the date of this Order, Martin District's audit for 2016 is incomplete, and the audits for 2017 and 2018 have not even been started. Although all three audits are past due, Martin District knew that its failure to have these audits timely conducted and filed, was impairing its ability to obtain both grant and loan funding and highlights the managerial shortcomings, lack of follow through, and poor business practices that adversely impact Martin District's ability to provide safe, reliable, and adequate water service to its ratepayers.

It was also discovered that Martin District's financial records were kept offsite at the office of Linda Sumpter, a CPA that contracted with Martin District to provide accounting services.²⁸ According to 807 KAR 5:006, Section 24, utility records, such as financial records, must be kept in the utility's office. By allowing the records to be stored offsite, Martin District violated Commission regulations.

²⁸ Ms. Sumpter ceased providing accounting services to Martin District in January 2019.

Another concern is that, although it was required to provide necessary information to the auditors, Martin District failed to follow through or take appropriate action to ensure the auditors had the information needed to complete the 2016 audit.²⁹ The auditors reported that as early as March 2018, Ms. Sumpter was not forthcoming with necessary records.³⁰ According to the auditors, it typically takes less than one month to complete an audit; however, the audit began in January 2018 and has not yet been completed after almost two years because necessary records, such as invoices and bank statements, have not been provided.³¹ As a result, the auditors stated they will have to issue a qualified opinion for the 2016 audit.³²

Martin District did not treat the lack of an audit or missing records with sufficient importance. Martin District commissioners and the interim general manager failed to take actions that could have been taken to reacquire the missing records, such as obtaining a subpoena or withholding recently re-implemented payment of past-due amounts. In July 2019, the Martin County Chair, Jimmy Don Kerr, informed the Commission that Ms. Sumpter still had the records and that the utility planned to obtain a subpoena to regain custody of the records, but no subpoena was ever issued.³³ During the October 22, 2019 hearing, the former Treasurer, Earnest Hale,³⁴ testified that he understood Ms. Sumpter

²⁹ Case No. 2018-00017, Oct. 22, 2019 HVT at 9:49:37; White & Associates, PSC Response to Commission Staff's First Post-October 22, 2019 Hearing Request for Information (filed Oct. 25, 2019), Items 1-3, Attachments 1-3.

³⁰ Case No. 2018-00017, Oct. 22, 2019 HVT at 9:39:29.

³¹ *Id.* at 9:39:39, 9:47:38, 9:50:39, 10:15:56, 10:18:34, 10:19:35.

³² *Id.* at 9:59:44.

³³ Case No. 2018-00017, Order (Ky. PSC Sept. 12, 2019) at 2.

³⁴ Notice of Filing Resignation Letter from Earnest Hale (filed Oct. 21, 2019). Mr. Hale submitted his resignation to the Martin District Board on October 21, 2019.

still has possession of Martin District's records, that he had not acted to obtain the records, and that he could not recall any discussion by commissioners at monthly meetings regarding obtaining records from Ms. Sumpter.³⁵ Interim Manager Greg Scott had not spoken with Ms. Sumpter regarding the records, but testified that he planned to do so.³⁶ Commissioner Jaryd Crum agreed that the utility could have taken steps to resolve the issue, such as issuing a subpoena for the records, but stated he does not know why Martin District does not possess the necessary records to complete the 2016 audit.³⁷ At the same hearing at which other commissioners testified that they understood that Ms. Sumpter still had custody of Martin District records, Mr. Kerr testified that Ms. Sumpter informed him that she had returned all records to the utility; Mr. Kerr concluded that documents were either missing or could not be found.³⁸

Martin District's failure to act with a degree of urgency that was required to resolve the missing records issue or complete the 2016 audit jeopardizes Martin District's ability to provide safe, adequate, and reliable water service to its customers. Without a current audit, Martin District is unable to draw upon potential available resources, such as government loans, to make necessary infrastructure investments to replace aging pipes, mains, pumps, and equipment.

³⁵ Case No. 2018-00017, Oct. 22, 2019 HVT at 12:56:06, 12:57:40, 1:00:27, and 1:41:05.

³⁶ *Id.* at 2:58:37.

³⁷ *Id.* at 6:59:01.

³⁸ *Id.* at 7:14:50.

2. Filing annual reports

Similar to financial audits, financial reports provide essential information regarding the operation and management of a utility. For this reason, under 807 KAR 5:006, Section 4(2), utilities are required to file annual financial and statistical reports no later than March 31 of each year that include in-depth financial information. Martin District's 2017 Annual Report contained significant errors that require it to file an amended report, which has not been filed as of the date of this Order. Martin District has not filed an Annual Report for 2018, which was due March 31, 2019. Similar to the financial audits, there does not appear to be a sense of urgency from Martin District management to resolve these deficiencies, and no one seems to want to take responsibility for following through to see the issues are successfully resolved.

3. Training

KRS 74.020(8)(b) requires water district commissioners to complete water training within 12 months of their initial appointment or forfeit their right to office. In the Commission's March 16, 2018 Order, Martin District's commissioners were required to attend the next scheduled water training seminar in April 2018. At least one of Martin District commissioners, Mr. Crum, has served for two years without attending the required training.³⁹ Although this issue will be addressed in a separate proceeding, it, again, highlights the failure of Martin District Board members to comply with statutory and regulatory laws regarding utility management and operation.

³⁹ *Id.* at 6:50:00.

4. Water Loss

Water loss above the 15 percent threshold established by Commission regulation is an indicator that a water utility is unable to render safe, adequate, and reliable service; one of the primary causes of water loss is aging infrastructure that has not been properly maintained. In addition to the service concern, high water loss has a financial impact on ratepayers because a utility purchases chemicals to treat the water it produces, purchases electricity to pump water, or purchases water for which the utility never receives revenue to offset the expenses.

Due to its failing aging infrastructure, Martin District's water loss rate is significantly over the 15 percent threshold established by Commission regulation. Between 2012 and 2019, Martin District averaged 60 percent water loss, with a high of 71.1 percent in March 2019. Martin District reported 0.3 percent water loss in June 2019, 0.7 percent water loss in July 2019, 0.4 percent water loss in August 2019, and 9.1 percent water loss in September 2019. Although the reported water loss percentages were clearly wrong, the interim general manager, Mr. Scott, submitted the reports being fully aware they were wrong, but provided no explanation. At the October 22, 2019 hearing, he attributed the discrepancy to a software issue that he asserted is waiting to be resolved, but did not provide a timeline for such resolution.⁴⁰

Additionally, Martin District has known since at least May 2018 that the master meter at the water treatment plant was not reading accurately and needed to be replaced at the cost of \$16,000.⁴¹ The interim general manager testified that the meter would be

⁴⁰ *Id.* at 2:33:45.

⁴¹ Case No. 2018-00017, Martin District Response to Post-Oct. 22 Hearing Request for Information (filed Nov. 11, 2019, at 83 or 104; Aug. 7, 2018 HVT at 3:19:45.

replaced once Martin District found money to do so.⁴² As of October 22, 2019, the meter had not been replaced, and, again, the interim general manager testified that he planned to replace the meter once Martin District had money to do so.⁴³ Given the financial and service impact of failing to replace the meter versus the cost of replacing the meter, Martin District's failure to timely act to address and resolve the issue highlights the lack of business acumen necessary to manage a utility.

5. Water Theft

According to the interim general manager, Mr. Scott, one Martin District employee spends 80 percent of his time investigating water theft.⁴⁴ Once water theft is detected, the employee gathers evidence and turns it over to the Martin County Attorney for prosecution.⁴⁵ Mr. Scott testified that Martin District finds an average of ten cheater bars (a device used to bypass the meter) per month.⁴⁶ Mr. Scott further testified that Martin District does not notify the sheriff of the water theft because the sheriff arrests the alleged water thief on the spot, which Mr. Scott thought was excessive and unnecessary.⁴⁷ Mr. Scott also testified that he does not follow up on customers turned over to the Martin County Attorney for prosecution for water theft because he is not worried about that.⁴⁸

⁴² *Id.* at 3:19:56.

⁴³ Case No. 2018-00017, Oct. 22, 2019 HVT at 3:34:30.

⁴⁴ *Id.* at 3:10:27.

⁴⁵ *Id.*

⁴⁶ *Id.* at 3:11:39.

⁴⁷ *Id.* at 3:12:31.

⁴⁸ *Id.* at 3:10:44.

Martin District provided evidence that, between January 1, 2019, and October 29, 2019, it referred only six customers to the Martin County Attorney for prosecution for water theft.⁴⁹ The evidence of record appears to refute Mr. Scotts' testimony that Martin District finds an average of ten cheater bars per month, and with so few instances of cheater bars detected, it raises the question why one employee spends 80 percent of his work time investigating water theft with so little result. Alternatively, if Mr. Scott's testimony is accurate, and ten cheater bars are actually identified per month, then the question remains, when theft has been discovered, why the culprits are not being prosecuted. It is another indication of Martin District's mismanagement of resources that impacts Martin District's ability to provide safe, adequate, and reliable water service.

6. Financial

Despite receiving rate increases in both March 2018 and November 2018, Martin District has been unable to meet its financial obligations to its vendors and continues to operate at a deficit. Through the first seven months of 2019, Martin District operated at a loss of \$292,813.79.⁵⁰ Mr. Hale, the former treasurer, admitted that the only reason Martin District operates with positive cash flow is because Martin District uses its depreciation reserves to pay its operating expenses.⁵¹ Martin District's Chairman, Mr. Kerr, estimated that the utility required another \$8 to \$10 per customer monthly rate

⁴⁹ Case No. 2018-00017, Martin District Response to Staff's First Post October 22, 2019 Hearing Request for Information (Post Oct. 22, 2019 Hearing Request), Item 1, Exhibit 1.

⁵⁰ Case No. 2018-00017, Oct. 22, 2019 HVT at 2:06:24.

⁵¹ *Id.* at 2:07:18.

increase just to break even before Martin District could pay the costs for necessary new management.⁵²

In the March 16, 2018 Order, the Commission directed Martin District to file monthly financial information accounting for every dollar collected and expended. Evaluating Martin District's financial position is difficult because of the inaccuracies, and dearth of explanation and justification for significant changes between successive monthly financial filings. For example, the amount of past-due debt owed to Zip Zone, Inc. increased significantly – by \$20,000 – between April 30, 2019, and May 31, 2019, without any explanation or purchases that could explain the increase.⁵³ Martin District subsequently stated that the increase in accounts payable was due to invoices that had not previously been entered into the system. In the August 15, 2019 financial filing, Martin District stated that it was in the process of verifying and correcting actual past-due accounts payable amounts. Additionally, Martin District had to refile a corrected income statement and balance sheet because the initial filings had multiple errors. However, the corrected income statement also contained mathematical errors, including a net income negative balance reported to be (\$188,355.77), but the actual sum of the numbers is (\$292,813.79).⁵⁴

⁵² Case No. 2018-00017, July 29, 2019 HVT at 11:57:21.

⁵³ Case No. 2018-00017, Martin District Monthly Financial Filing (filed May 14, 2019), Exhibit 2; Martin District Monthly Financial Filing (filed June 14, 2019), Exhibit 2.

⁵⁴ The incorrect balance was not due to a formula error as the (\$188,355.77) amount was not derived by Excel formula but was entered manually.

In a similar vein, Martin District reported that it had been able to pay current accounts payable due to the November 2018 rate increase.⁵⁵ However, the evidence of record refutes that assertion. For example, Martin District claimed that it owed its consultant, BlueWater Kentucky, LLC (BlueWater), \$16,186.15 as of December 31, 2018.⁵⁶ The Aged Accounts Payable reports reflect that Martin District owed BlueWater \$1,300.00 as of December 31, 2018.⁵⁷ As of March 31, 2019, Martin District owed BlueWater \$6,904.64, with \$3,554.64 past due for 0-30 days and \$3,350.00 past due for 31-60 days, and \$0 past due for 61-90 days, and \$0 over 90 days.⁵⁸ As of September 30, 2019, Martin District reported that it owed BlueWater \$14,811.15, with \$1,125.00 past due for 0-30 days, \$3,641.00 past due for 31-60 days, \$2,351.30 past due for 61-90 days, and \$7,693.85 past due for over 90 days. When asked to explain the difference between the amount due on the December 31, 2018 report and later assertions, Martin District provided non-responsive, vague answers that utterly failed to address the discrepancy.⁵⁹ This is just one vendor, but the financial filings reflect similar past-due accounts payable accrued after January 1, 2019 that demonstrate that Martin District has not remained current on accounts payable or has not accurately recorded amounts due and amounts paid. Martin District has yet to provide specific justification for the inconsistent amounts,

⁵⁵ Motion to Amend March 16, 2018 and October 10, 2018 Orders Relative to the Debt Service Surcharge (filed Oct. 16, 2019).

⁵⁶ *Id.* at 2.

⁵⁷ Case No. 2018-00017, Martin District Monthly Financial Filing (filed Jan. 15, 2019), Exhibit 3.

⁵⁸ Case No. 2018-00017, Martin District Monthly Financial Filing (filed Apr. 11, 2019), Exhibit 2.

⁵⁹ Case No. 2018-00017, Martin District Response to the Post Oct. 22, 2019 Hearing Request, Item 7.

making only the generalized statement that there were invoices not entered into the system.

Finally, the aged accounts payable amounts increased from \$816,877.00, when Martin District filed this rate case, increased to a high of \$1,149,674.26 as of October 31, 2018, then gradually declined to \$799,391.50 as of October 31, 2019. Again, Martin District attributed the increase to invoices not previously entered into the system. Given that the Aged Accounts Payable reports should reflect debt incurred prior to April 1, 2018, the explanation that Martin District continued to find invoices not in the system is not credible.

The record demonstrates that even after two rate increases and a Debt Service Surcharge, Martin District is in the same financial position as it was when the proceeding began almost two years ago. Martin District has repeatedly demonstrated that it does not have the capability to analyze its financials, much less how, why, or where it spends money, who ultimately decides to spend it, and what the decision process was to approve purchases. The lack of business acumen negatively impacts Martin District's ability to render safe, adequate, and reliable water service to its customers. Martin District has failed to meet its financial obligations to its suppliers and is either unable or unwilling to take necessary action to correct the failure. Martin District is faced with the same options as presented in the November 5, 2018 Order: either contract with a qualified, experienced management company or face receivership or forced merger.

Contracting with Alliance

Almost two years after this proceeding was initiated, Martin District still does not have a full-time general manager responsible for overseeing, organizing, planning,

controlling, and directing Martin District's resources to achieve the objective of rendering safe, adequate, and reliable water service. Martin District operates with a part-time interim general manager who is better described as a field service supervisor because the vast majority of his time is spent in the field; he goes into the office only when the office staff has a problem.⁶⁰ He repeatedly displayed ignorance of basic financial knowledge during questioning in the various Martin County hearings. This management gap means that many management activities fall on Martin District's commissioners, who have other employment in addition to serving as water district commissioners, resulting in an adverse impact on the utility.⁶¹ As an example, Mr. Hale testified that he did not review a cost and rate analysis for the proposed management company because he did not have time to devote to reviewing the financial information between when the information was filed on May 31, 2019, and his resignation on October 21, 2019.⁶² Given that a water district treasurer is responsible for general financial oversight, and financial planning and budgeting, the failure to review key financial information for a major contract is evidence of a board member failing to carry out the basic duties of his position.

After committing to hire a general manager, and despite a six-month job search process, Martin District never hired a general manager. The job description was developed in March 2018 and advertised in April 2018.⁶³ The general manager candidate

⁶⁰ Case No. 2018-00017, Oct. 22, 2019 HVT at 2:56:01. According to Mr. Scott, 80 percent of his time is spent in the field.

⁶¹ *Id.* at 2:56:01, 4:44:53.

⁶² *Id.* at 1:48:03.

⁶³ Case No. 2016-00142, Martin District Response to Post-Hearing Request for Information (filed Oct. 19, 2018) at Exhibit 16.

interviews were scheduled for September 1, 2018; Martin District commissioners testified that they would come to the Commission to ask for sufficient rates to cover the general manager's salary once they selected a candidate.⁶⁴ According to the September 15, 2018 Martin District Board meeting minutes, Martin District interviewed two candidates, one of whom was no longer interested in the position.⁶⁵ Thus, contrary to its testimony just a few weeks earlier, Martin District's commissioners determined that, instead of selecting a general manager and requesting the Commission to approve an appropriate salary, they would not hire a general manager until a rate increase is approved.⁶⁶ Despite receiving a rate increase on November 5, 2018, Martin District never discussed a specific candidate's salary with the Commission.

As a representative from the Kentucky Rural Water Association asserted,⁶⁷ and as the evidence of record clearly demonstrates, Martin District is in desperate need of the strong leadership and expertise that a management company would bring. Martin District's managerial and operational needs are so great that they cannot be fixed by one person. Southern Water and Sewer District (Southern District) recently was in a similar position. After Southern District hired a management company to operate and manage the utility, the management company brought in multiple staff with managerial oversight

⁶⁴ Case No. 2016-00142, Aug. 29, 2018 HVT at 1:42:33, 1:47:58.

⁶⁵ Case No. 2016-00142, Martin District Response to Post-Hearing Request for Information (filed Oct. 19, 2018) at Exhibit 13.

⁶⁶ *Id.*

⁶⁷ Case No. 2018-00017, Aug. 7, 2018 HVT at 10:02:27.

and differing areas of expertise, with a resulting improvement in financial reporting, financial condition, water loss, and general service.⁶⁸

In the November 5, 2018 Order, we stated:

Martin District's hiring of a competent, qualified, and skilled management company will be a crucial step in the process of restoring trust with the public by demonstrating that Martin District has the wherewithal to make the necessary decisions that ensure safe, reliable drinking water for the ratepayers of Martin County.⁶⁹

Also in the November 5, 2018 Order, we stated that Martin District needed to contract with a utility management company that is qualified to assemble and execute a plan for Martin District. Alliance, the management company currently in negotiations with Martin District, brings a level of sophistication and expertise necessary to turn around Martin District as a business and to ensure that Martin District carries out its mandate to provide safe, adequate, and reliable water to its customers. After a review of the proposal filed pursuant to a RFP, qualifications, references, and responses to questions, the Martin District panel evaluating Alliance's bid found that Alliance had the experience and qualifications to effectively manage, operate, and maintain Martin District's water system. Other utilities that contract with Alliance for management and operation services provided very positive references, noting, among other things, that the utilities did not experience unanticipated expenses that were not included in the annual contract fee.⁷⁰ One utility

⁶⁸ Case No. 2019-00131, *Application of Southern Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Nov. 7, 2019).

⁶⁹ Case No. 2018-00017, Nov. 5, 2018 Order at 9.

⁷⁰ Case No. 2018-00017, Martin District Notice of Filing Detailed Evaluation (filed June 3, 2019) at Exhibits 2-4.

stated that its system could not have been turned around without Alliance.⁷¹ Martin District's Chair contacted other utilities and reported receiving similar positive references.⁷²

1. Terms of the Management Contract

The proposed contract is attached as an appendix to this Order. According to the terms of the contract, Alliance will perform management, operation, and maintenance services for Martin District, including all customer meter reading, billing, bookkeeping, and collecting services. Alliance will hire a general manager and an operations manager for day-to-day oversight, and, at Martin District's request, Alliance will offer employment to Martin District's other employees, despite the fact that this may increase labor costs. Alliance will prepare monthly and annual management, operations and management, financial and record-keeping reports as required by Martin District's board, auditors, and regulatory agencies, including the Commission. Alliance will develop a management and infrastructure plan to address Martin District's aging infrastructure.

Alliance will be paid an annual base fee that covers the total cost of service, which includes certain direct costs, administrative overhead, and profit. The total cost of service for the first year is \$ [REDACTED],⁷³ which consists of \$ [REDACTED] in direct costs, including labor, materials, supplies, equipment, subcontractor expense or operating expense; \$ [REDACTED] in administrative overhead expense, including accounting, information

⁷¹ *Id.* at Exhibit 4.

⁷² Case No. 2018-00017, Oct. 22, 2019 HVT at 7:53:20.

⁷³ The costs of the Management Contract remain confidential until the contract is executed. The Commission will reissue this Order with unredacted information once the information is no longer confidential.

technology, human resources, insurance, and corporate regulatory and safety programs; and \$ [REDACTED] in profit. In the second year, the total cost of service is \$ [REDACTED], which consists of \$ [REDACTED] in direct costs; [REDACTED] in administrative overhead; and profit remains the same as the first year, \$ [REDACTED].

The base fee is subject to renegotiation if the direct costs decrease or increase by [REDACTED] percent from the cost proposal in the contract. The contract also provides for a limit on chemical expenses of \$ [REDACTED] and a maintenance and repair limit of \$ [REDACTED] for routine maintenance activities in each of the first and second contract years. If chemical and repair expenses are less than the annual limit, Alliance will refund the difference to Martin District. If the chemical and repair expenses are higher than the annual limit, Martin District will pay the difference. The contract terms are subject to renegotiation at the end of the second year. Martin District remains responsible for certain capital expenditures, changes in the scope of work, flood and fire damage, property damage, liability and directors' liability insurance, utility expenses, legal and design engineering services, extraordinary maintenance and repair services, personal property and other taxes, and compensation for board commissioners.

Given that Martin District cannot obtain a surety bond due to its poor financial condition, Alliance initially proposed an additional surcharge to establish a reserve account to mitigate the risk of nonpayment. After the Commission indicated that such a surcharge would increase rates to an unacceptable level that was not fair, just, and reasonable, the contract was revised so that, in the event of nonpayment, Alliance has first priority on the Debt Service Surcharge balance until the amounts due Alliance are paid in full.

Based upon the Management Contract and the evidence of record, the Commission finds that the Management Contract is fair, just, and reasonable, and should be approved. Proper management is the first requirement for Martin District to put formal policies in place to render safe, adequate, and reliable drinking water for its ratepayers. Alliance has the skills and expertise to manage and operate Martin District so that it fulfills its fundamental duty of rendering safe and reliable service at a reasonable price, and providing for the financial stability of the utility. Because we expect Martin District's financial position to improve significantly due to Alliance's professional expertise and economies of scale, the Commission further finds that, one year after Alliance starts to manage and operate Alliance, Martin District, under Alliance's guidance, should evaluate whether a rate decrease or increase is necessary and that Martin District, with the assistance of Alliance, should file a report with the Commission that provides specific information regarding the evaluation and determination.

2. Martin District's Cost and Rate Impact Analysis

Martin District's consultant, BlueWater, prepared a cost and rate impact analysis of the Management Contract. According to Martin District, there would be a cost premium of \$██████████⁷⁴ above current revenues, which necessitates a rate increase or a surcharge higher than the \$3.16 per month per customer Management/Infrastructure Surcharge established by the Commission in the November 5, 2018 Order.⁷⁵ However, the cost and rate impact analysis includes numerous items that Martin District has not substantiated it

⁷⁴ Martin District's cost proposal was developed during the negotiations of the contract and will remain confidential until the contract is executed. The Commission will reissue this Order with information unredacted once the information is no longer confidential.

⁷⁵ Case No. 2018-00017, Nov. 5, 2018 Order at 22.

will be required to incur beyond the base contract cost and does not provide a like for like comparison of the actual costs. The analysis also included purchased water and purchased power expenses that were based on the amounts deemed recoverable in the November 5, 2018 Order, which incorporated the Staff Report filed in this case.⁷⁶ While this was allowable through rates, this does not accurately represent the actual cost to produce water, and greatly differs from information filed into the record. In the response to Commission Staff's Post-Formal Confidential Conference Request for Information (Staff's Post Formal Confidential Conference Request), Exhibit 2, Martin District provided a corrected income statement in Excel spreadsheet format that included the totals for the calendar year ended December 31, 2018, and January 2019 to July 2019.⁷⁷ The information contained in the spreadsheet indicates that Martin District in 2019 is selling water rather than purchasing it. Additionally, the actuals for the purchased power costs were \$333,251 for 2018, and for the six months ended 2019, were \$164,462. If the costs for 2019 were extrapolated out to a full year, the purchased power cost would be \$328,824, which is consistent with the expenses from the prior year.

Included in the corrected income statement referenced above, it has also come to the Commission's attention that Martin District has made no adjustment to its depreciable lives as recommended by Commission Staff in its Report⁷⁸ which was adopted, with modifications, by the Commission in its November 5, 2018 Order.⁷⁹ Because it lacks

⁷⁶ *Id.* at 21.

⁷⁷ Case No. 2018-00017, Response to Commission Staff's July 30, 2019 Post Formal Confidential Conference Request for Information (filed Aug. 9, 2019), Exhibit 2.

⁷⁸ Case No. 2018-00017, Notice of Filing of Commission Staff Report (filed on May 22, 2018) at 4.

⁷⁹ Case No. 2018-00017, Nov. 5, 2018 Order at 21.

capable financial and analytical resources, Martin District is incapable of complying with a Commission directive and is unable to provide its actual costs of operation and an accurate income statement.

The Commission finds that it cannot rely upon the assumptions made in Martin District's cost and rate impact analysis in the final determination of rates, or in the determination of the reasonableness of the pending contract in this case.

Rate Increase and Surcharges

In its March 16, 2018 Order, the Commission approved a debt service surcharge in the amount of \$4.19 per customer, per month, for the specific purpose of allowing Martin District to pay down its past-due accounts payable. In the November 5, 2019 Order, the Commission approved continuing the Debt Service Surcharge and approved the \$3.16 Management/Infrastructure Surcharge.

For the reasons stated above, the Commission finds that the Management/Infrastructure Replacement Surcharge should be increased from \$3.16 to \$4.72 per customer, per month, to give Martin District the funds it needs in order to pay for the Management Contract with Alliance. To minimize the rate impact this would have on Martin District's customers, the Commission finds that the debt service surcharge that was approved on March 16, 2018, should be reduced by the same amount, from \$4.19 to \$2.63 per customer per month. The analysis and calculation of the increase to the Management/Infrastructure Surcharge and decrease to the Debt Service Surcharge can be found at Appendix B. The debt service surcharge will continue until Martin District has paid the remaining aged accounts payable approved in its October 16, 2018 Order, and Martin District will then apply those funds to its depreciation reserve account until further

Order of the Commission. At that time, the debt service surcharge will be terminated, and Martin District would continue to build its depreciation reserve account based on collections from its base rates. For ratemaking purposes, current expenses related to depreciation are suspended and the revenue utilized for payment of Alliance Contract services until further Order from the Commission.

Pending Motions

1. Motion to Amend Debt Service Surcharge

On October 16, 2019, Martin District filed a motion to amend the March 16, 2018 and October 10, 2018 Orders to permit Martin District to use the Debt Service Surcharge to pay accounts payable incurred between April 1, 2018 and December 31, 2018 (Stub Period). Pursuant to both Orders, the Debt Service Surcharge was to be used solely to pay past-due accounts payable incurred prior to April 1, 2018. In its motion, Martin District explained that the interim rate increase approved in the March 16, 2018 Order prevented insolvency but was not sufficient to pay ongoing accounts payable. Martin District maintained that since the rate increase approved in the November 5, 2018 Order, its finances have stabilized and it is able to pay its current accounts payable.

Based upon the motion, evidence in the record, and being otherwise sufficiently advised, the Commission finds that Martin District failed to provide support for the amounts it claims were accrued during the Stub Period, and therefore the motion should be denied. At the October 22, 2019 hearing, Commission Staff questioned Martin District about the discrepancies in amounts allegedly accrued during the Stub Period and the aged accounts payable amounts that conflict with Martin District's own financial reporting. Martin District was asked to explain the discrepancies and to provide a schedule in Excel

format that documented the amounts listed in the motion in a response to Commission Staff's discovery request. Martin District's response was woefully inadequate and failed to provide evidentiary support for the claimed amounts due. Martin District provided a brief, vague narrative that included no specifics, excusing the discrepancies on invoices or payments that were not timely entered, without any details or pointing to evidence in the case record that would provide the details.⁸⁰ Instead of an Excel schedule with supporting calculations for the alleged amounts accrued, Martin District filed a purchase list report in date order between April 1, 2018, and December 31, 2018, that included invoice numbers, paid in full or past-due status, and amounts.⁸¹ Martin District was asked to file a schedule that, at its most basic level, showed the math that supported the alleged amounts due to the vendors. Due to Martin District's failure to provide the requested information and the dearth of information in the motion itself, there is no evidence to support Martin District's motion. Without supporting evidence, the motion must be denied.

2. Motions to Require Martin District to Hire a General Manager

On October 28, 2019, MCCC filed a motion requesting that the Commission require Martin District to hire a general manager by the end of the year and allow Martin District to use the \$3.16 monthly surcharge to fund the position. As a basis for the motion, MCCC states that, at the October 22, 2019 hearing, the Commission indicated that it would have ensured funding for the position had Martin District found a qualified applicant for the general manager position. MCCC pointed to testimony from a Martin District Board member that Martin District's board did not hire a general manager because they did not

⁸⁰ Case No. 2018-00117, Martin District Response to Staff's Oct. 22, 2019 Post Hearing Request, Item 6.

⁸¹ *Id.* at Item 7, Exhibit 4.

feel they had funding for the position. MCCC asserted that Martin District ratepayers cannot afford another rate increase and references MCCC's own study to demonstrate a lack of affordability. MCCC argued that a general manager would be able to correct financial and water usage reporting issues. MCCC requested that the general manager position be advertised in specified job boards and that the requirements be those set forth by MCCC in one of its filings. MCCC also requested that Nina McCoy be a voting member of the hiring committee as MCCC's representative.

On October 31, 2019, Martin District also filed a motion to amend the November 5, 2018 Order to use the \$3.16 Management/Infrastructure Surcharge to hire a general manager instead of contracting with a third-party management company. Martin District stated that, at the October 22, 2019 hearing, it learned for the first time that the Commission would have provided the necessary rate adjustment or surcharge to fund the position of general manager had one been hired. Martin District argued that ratepayers would be best served by hiring an experienced and qualified general manager because it would be less than the estimated \$ [REDACTED] cost premium required to retain a contract management company, based upon Martin District's calculations. Martin District set a deadline of 90 days to advertise, interview, and hire a general manager. If that deadline is not met, then Martin District would enter into the contract with Alliance. Martin District requested to immediately implement the \$3.16 surcharge, which would be deposited into a separate interest-bearing account, to fund the general manager position or, if it does not meet the deadline, to use as a security deposit for the contract with Alliance.

For the reasons set forth throughout this Order, the Commission finds that Martin District and MCCC have failed to establish good cause to grant their motions, and

therefore the motions to require Martin District to hire a general manager are denied. As discussed above, Martin District testified that it would select a candidate and bring the salary amount to the Commission for approval of a rate increase sufficient to pay the salary.⁸² Counsel for MCCC questioned Martin District's then-treasurer, Mr. Kerr, about the timeframe for hiring a general manager and requesting the Commission approve a rate increase request once salary was determined.⁸³ Thus, all parties understood that Martin District planned to select a general manager and then request a rate increase to cover the salary. Martin District never took an affirmative action to discuss a specific candidate's salary with the Commission. Martin District's failure to carry out those actions resulted in the Commission ordering Martin District to take concrete steps to contract with a management company. The Commission finds no basis in the record to now allow Martin District to hire a general manager instead of contracting with Alliance.

Further, neither Martin District nor MCCC provided evidence for their argument that a general manager alone will improve Martin District's financial and operational position. Throughout this proceeding, MCCC has opposed contracting with an outside management company, asserting that rates would increase by as much as \$25 per month to pay for the Management Contract.⁸⁴ Martin District never provided analytically determined documentary support that substantiated such a rate increase or its claim that

⁸² Case No. 2016-00142, Aug. 28, 2018 HVT at 2:24:32.

⁸³ *Id.* at 2:25:02.

⁸⁴ See Case No. 2018-00017, MCCC letter (filed June 4, 2019); MCCC Drinking Water Affordability Crisis (filed Oct. 4, 2019) at 9. Over the course of the negotiations, MCCC has made various unofficial claims about the actual increase in rates required to execute a Management Contract, but in official documentation filed into the record stated that nobody knows what level of rate increase will be needed if the district follows the PSC's order and signs a contract for outside management.

“any contract with an outside for-profit management company would leave the district further in debt and result in another rate increase that Martin County’s citizens simply can’t afford.”⁸⁵ Similarly, Martin District’s motion contains mere assertions without evidentiary support to undergird them.

Finally, as discussed above, Martin District’s cost and rate analysis is not reliable, and therefore does not establish the actual cost to contract with Alliance as opposed to hiring a general manager. Even if Martin District’s numerous financial and operational problems could be resolved by hiring only a general manager, and we dispute that, Martin District failed to establish a financial benefit in hiring a general manager as opposed to contracting with Alliance.

SUMMARY OF FINDINGS

1. The Management Contract with Alliance is fair, just, and reasonable, will enable Martin District to render safe, adequate, and reliable water service, and will restore financial stability for Martin District, and therefore should be approved.

2. Martin District should execute the Management Contract with Alliance in triplicate no later than November 20, 2019, with the term to begin as of January 1, 2020.

3. Martin District should then send the three originals to Alliance for signatures, who in turn, should return one executed copy to Martin District, and one executed copy, under seal, to the Commission.

4. If Martin District fails to execute the Management Contract with Alliance by November 20, 2019, the Debt Service Surcharge granted to Martin District in this case

⁸⁵ Case No. 2018-00017, MCCC letter (filed June 4, 2019); MCCC Drinking Water Affordability Crisis (filed Oct. 4, 2019) at 2.

shall automatically terminate, become null, void and of no further effect, and all funds remaining in the surcharge account should be returned to customers pro rata.

5. If Martin District fails to execute the Management Contract with Alliance by November 20, 2019, the Management/Infrastructure Surcharge granted to Martin District in this case should automatically terminate, become null, void and of no further effect.

6. The Management/Infrastructure Surcharge and Debt Service Surcharge set forth in Appendix A to this Order should be approved for service rendered by Martin District on and after the date of this Order.

7. The Management/Infrastructure Surcharge should be separately accounted for on Martin District's books of original entry using account 474, Other Water Revenues of the Uniform System of Accounts for Class A/B Water District and Associations. Martin District should use a subaccount of account 474 so that a reader of Martin District's general ledger can clearly identify the revenue generated from the surcharge.

8. Martin District should continue to collect the Debt Service Surcharge until further Order by this Commission.

9. Martin District should continue to collect the Management/Infrastructure Surcharge until a final order is entered in its next rate case or until the Management Contract with Alliance expires, whichever occurs first, or upon further Order by this Commission.

10. On a quarterly basis, beginning January 15, 2020, Martin District should provide quarterly activity reports with the Commission that include a statement of quarterly Debt Service Surcharge billings and collections, the monthly surcharge bank

statements for that quarter, a list of each payment from the account, its payee, and a description of the purpose.

11. Martin District, with the assistance of Alliance, shall develop and file with the Commission an infrastructure replacement plan by April 15, 2020.

12. The November 5, 2018 Order that approved the Debt Service Surcharge should be amended to:

a. Entitle Alliance to draw upon the Debt Service Surcharge account upon Alliance's written notice to the Commission in the event of any non-payment by Martin District of funds due to Alliance pursuant to the terms of the Management Contract or any payment by Martin District in an amount less than the full amount due to Alliance under the Management Contract, as set forth in Section 7.6 of the Management Contract.

b. Entitle Alliance to first-position priority over any other entities who may be entitled or claim to be entitled to draw upon the Debt Service Surcharge account, which requires payment to Alliance from the Debt Service Surcharge account before any payments are made to any other entities who may be entitled or claim to be entitled to draw upon the Debt Service Surcharge account, as set forth in Section 7.6 of the Management Contract.

13. Martin District's motion to amend the debt service surcharge to pay accounts payable incurred between April 1, 2018 and December 31, 2018 in the amounts set forth in the motion is denied.

14. MCCC's motion to require Martin District to hire a general manager is denied.

15. Martin District's motion to amend the November 5, 2018 Order and permit Martin District to hire a general manager is denied.

16. One year after Alliance commences to manage and operate Alliance, Martin District, under Alliance's guidance, should evaluate whether a rate decrease or increase is necessary. Within ten days of completing the evaluation, Martin District, with the assistance of Alliance, should file a report in the post-case file for this proceeding that provides specific information regarding the evaluation and determination.

IT IS THEREFORE ORDERED that:

1. The Management Contract as contained in Appendix B to this Order is approved.

2. Martin District shall execute the Management Contract with Alliance in triplicate no later than November 20, 2019, with the term to begin as of January 1, 2020.

3. Martin District shall then send the three originals to Alliance for signatures, who in turn, should return one executed copy to Martin District, and one executed copy, under seal, to the Commission.

4. Martin District is authorized to place into effect a Management/Infrastructure Surcharge as set forth in Appendix A to this Order.

5. Martin District is authorized to place into effect a Debt Service Surcharge as set forth in Appendix A to this Order.

6. On a quarterly basis, beginning January 15, 2020, Martin District shall provide quarterly activity reports with the Commission that include a statement of quarterly Debt Service Surcharge billings and collections, the monthly surcharge bank

statements for that quarter, a list of each payment from the account, its payee, and a description of the purpose.

7. The November 5, 2018 Order is be amended as follows:

a. Alliance is entitled to draw upon the Debt Service Surcharge account upon Alliance's written notice to the Commission in the event of any non-payment by Martin District of funds due to Alliance pursuant to the terms of the Management Contract or any payment by Martin District in an amount less than the full amount due to Alliance under the Management Contract, as set forth in Section 7.6 of the Management Contract.

b. Alliance has first-position priority over any other entities who may be entitled or claim to be entitled to draw upon the Debt Service Surcharge account, which requires payment to Alliance from the Debt Service Surcharge account before any payments are made to any other entities who may be entitled or claim to be entitled to draw upon the Debt Service Surcharge account, as set forth in Section 7.6 of the Management Contract.

8. Martin District's motion to amend the debt service surcharge to pay accounts payable incurred between April 1, 2018 and December 31, 2018 in the amounts set forth in the motion is denied.

9. MCCC's motion to require Martin District to hire a general manager is denied.

10. Martin District's motion to amend the November 5, 2018 Order and permit Martin District to hire a general manager is denied.

11. One year after Alliance commences to manage and operate Alliance, Martin District, under Alliance's guidance, shall evaluate whether a rate decrease or increase is

necessary. Within ten days of completing the evaluation, Martin District, with the assistance of Alliance, should file a report in the post-case file for this proceeding that provides specific information regarding the evaluation and determination.

12. If Martin District fails to execute the Management Contract with Alliance by November 20, 2019, the Debt Service Surcharge granted to Martin District in this case shall automatically terminate, become null, void and of no further effect, and all funds remaining in the surcharge account shall be returned to customers pro rata.

13. If Martin District fails to execute the Management Contract with Alliance by November 20, 2019, the Management/Infrastructure Surcharge granted to Martin District in this case shall automatically terminate, become null, void, and of no further effect.

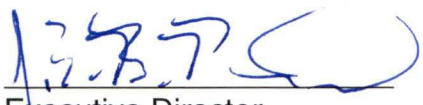
14. This case is closed and removed from the Commission's docket.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

By the Commission

ENTERED
NOV 15 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director
for Glenn R. Timson

Case No. 2018-00017

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00017 DATED **NOV 15 2019**

The following rates and charges are prescribed for the customers in the area served by Martin County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

Management/Infrastructure Surcharge	\$4.72/ Month
Debt Service Surcharge	\$2.63/ Month

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00017 DATED **NOV 15 2019**

MANAGEMENT CONTRACT

CONFIDENTIAL UNTIL CONTRACT EXECUTED

*Brian Cumbo
Attorney at Law
P.O. Box 1844
Inez, KENTUCKY 41224

*Martin County Water District
387 East Main Street, Suite 140
Inez, KY 41224

*Greg Scott
General Manager
Martin County Water District
387 East Main Street, Suite 140
Inez, KY 41224

*Mary Cromer
Appalachian Citizens' Law Center, Inc.
317 Main Street
Whitesburg, KENTUCKY 41858

*M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507