

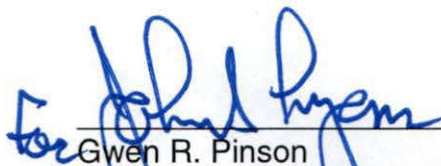
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

NOTICE OF FILING

Notice is given to all parties that the transcript of the November 15, 2019 informal conference has been filed into the record of this proceeding.



Gwen R. Pinson
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED NOV 20 2019

cc: Parties of Record

**MINUTES OF THE
MARTIN COUNTY WATER DISTRICT (MARTIN DISTRICT)
INFORMAL TELEPHONIC CONFERENCE
NOVEMBER 15, 2019
1 p.m. (EST)
KENTUCKY PUBLIC SERVICE COMMISSION**

Present at the Offices of the Public Service Commission:

Chairman Michael Schmitt
Vice Chairman Robert Cicero
Commissioner Talina Mathews
JEB Pinney
Richard Raff
Ariel Miller
Jim Rhodes
Candace Sacre

Present by Conferencing Video:

Gwen Pinson
Jimmy Don Kerr
Brian Cumbo
John Hensley
Mary Cromer
Nina McCoy
Jim Gardner

Chairman Schmitt

Let me tell you what we intend to do or why we wanted to have this. We have completed an Order basically finishing or completing the case of 2018-00017, the Application of Martin County Water District for an Alternative Rate Adjustment. The Order will go out electronically to each of the parties this afternoon. We wanted to talk to you about it first so you would know what was coming and what we have done.

The confidentiality agreement was entered into by the parties, Alliance and Martin County Water District, and, insofar as negotiations and the financial terms are concerned, Martin County Concerned Citizens are not parties to that. What we have is that a contract in final form has been sent by FedEx today to Mr. Cumbo's office, as attorney for the Water District, and the reason for that is that we have had difficulty in the past getting the people in the Water District office to pick up things or to transmit them on. The proposed contract that was sent between Martin County Water District and Alliance Water Resources, Inc., was sent out this afternoon to be delivered Monday.

I think that a few days ago, correct me if I'm wrong, Mr. Kerr, Mr. Cumbo, or Mr. Hensley, the redraft of that contract was sent to you, is that correct?

Can you hear me? Brian, did you see the redraft?

Mr. Cumbo

No, I haven't seen it either.

Mr. Hensley

I haven't seen it either.

Chairman Schmitt

Mr. Kerr, have you seen the contract?

Mr. Kerr

I have not.

Chairman Schmitt

I am looking, here. Apparently, Nancy Vinsel, one of our attorneys, said she sent it by email several days ago, so I don't know. Alliance sent it several days ago. It says, here, Nancy Vinsel, who isn't here today, "Alliance sent it, and I was copied. I talked to Tim," I guess that is Mr. Geraghty, "on Monday, and he still had not heard from Martin County Water District."

Mr. Cumbo

We haven't seen it.

Chairman Schmitt

Well, let me tell you, briefly, because we are not going to discuss the details of the finances, the proposed contract, which we have approved, was modified at our specific request, on your behalf, and the modifications included doing away completely with any type of special rate rider or add-on which would have been used to secure them financially in the event they were not paid. They have agreed to do away with those provisions. Also, instead of the District trying to buy a surety bond or payment bond or holding money in escrow in the event of nonpayment, Alliance would be the first-priority creditor under the terms of the debt surcharge.

Also, in terms of the contract, our Financial Analysis Division, Ms. Ariel Miller, and Vice Chairman Cicero have gone to great lengths in going through the finances, and Commissioner Cicero will explain in a few minutes how that was done.

The bottom line is that both parties, Ms. Cromer and Martin County Water District, expressed that the main concern was a rate increase above the \$3.16 management infrastructure surcharge. Thus, we have restructured the surcharges so that the management company can be employed at no rate increase above what the parties have said they could accept, and that is the \$3.16 management infrastructure surcharge.

All of the information that was gathered by Mr. Kerr and others for the Water District basically turned out to show that Alliance was held in high regard by all of the public entities which were using it to manage their water facilities.

Now, of course, the contract is for a certain time period. After which, I think you are going to find out they are going to save you a lot of money. Nothing is guaranteed, but, if you talk to the county judge in Floyd County or the new chairman of the Southern Water District, you would find that Utility Management Group has saved them a lot of money in the six or seven months they have been there and is in the process of turning that business around. I think you will be very well satisfied, and, if after the three-year term, you're not obligated to keep them on. If want to run your district after that, that ought to be fine. They will have internal accounting and recordkeeping and business practices run not only in Inez, but you will have the use of the professional people in Columbia, Missouri, at a cost that is not excessive based on market.

We have sent you the contract. I believe we have met all of the concerns you had with respect to what the cost would be. The contract is still subject to confidentiality until you look at it and execute it, at which time, obviously all the figures will be public. Three bound copies of the contract have been sent by FedEx today, and what we would ask is, when you meet and if you approve it, which we have made that in the order, that you send the three copies, signed, to Alliance. They will then sign and send one back to you and one back to us, which we will file, and then, of course, it will be public. If Martin County Concerned Citizens wants a copy, as far as I'm concerned, that is fine after the document has been executed.

Now, the Order which will go out provides how all of this works. It goes through a history of the District and present efforts to keep everything afloat. The bottom line is that we need to get something done, we need to get it done now, and we need to get it done fairly soon. The District will have until the close of business on Wednesday, November 20th, to either execute the contract or not execute the contract. If the contract is executed and sent on to Alliance, the management surcharge will kick in, and the debt surcharge will continue as modified. If the District does not sign the contract, then the management surcharge has never been effect and, therefore, will be ineffective, and the debt surcharge will cease to exist. You then will be able to do whatever you want to do with the rates that you have, but there will be no surcharge.

At this time, I'd ask Vice Chairman Cicero to explain how we got to the point where this could be done without any rate increase above what Ms. Cromer, Ms. McCoy, and Mr. Kerr have said, and that is can you do it for the \$3.16.

Go ahead, Commissioner Cicero.

Vice Chairman Cicero

What we did was take the Heitzman configuration for looking at the numbers and used your 2018 numbers and pro forma'd them to look at the differences that could be excluded or included. For example, we know that you are not purchasing water anymore, you are selling it, so we pro forma'd that out. For the most part, all of the costs that are allowed and even those that are not, we even included the amounts for the excessive 15 percent on the purchase power and the purchase chemicals, included them in this whole comparison, and looked at the total deficit that would be incurred by Martin County if they include the contract in there, and where

they are going to take the depreciation from the base rate and allow it to be used exclusively for servicing the Alliance contract, the net change would be \$1.56. The \$3.16 infrastructure surcharge would now become \$4.72, and the \$4.19 debt surcharge will be reduced by the same amount of money to make it \$2.63. The \$2.63 will be applied to the debt as previously was done. The only exception is that it will be done in a manner that will take longer to do. Once that debt is finally paid off, that amount will then be put into the depreciation reserve that will not be funded during the period that you are going through the Alliance contract.

The infrastructure surcharge instead of being \$3.16 will now be \$4.72. The debt surcharge instead of \$4.19 will be \$2.63. The net change is \$3.16 which is the amount that was discussed prior to this that I believe that Martin County advised, if we did not go above that amount, the Alliance contract would be acceptable for Martin County to review and accept.

So that is our \$3.16 increase. Once the contract is reviewed, I can go through the numbers with the Martin County District officials who are privy to the numbers. I cannot do it here because there is confidentiality to the numbers, and, obviously, Martin County Concerned Citizens is not a party that is privy to the confidentiality.

There is a worksheet that has been developed and can be provided to the District commissioners, and the increase is \$3.16, as the District previously indicated was an acceptable increase for, at least, a general manager, and, now, instead of a general manager, it is a situation where you have a management company. I think the Martin County Concerned Citizens even promoted the idea that, if the depreciation was set aside, they would be able to do this with a general manager, and now you have a management company. I think that is how we get there.

Chairman Schmitt

As soon as we are finished, we can send Mr. Cumbo, Mr. Kerr, and Mr. Crum copies of the contract as revised in Martin County's favor. Somebody here needs to take responsibility, when we are through here, to email the contract now, a copy of the contract, to Martin County Water District's people so that they can look at it today, Saturday, Sunday, whatever.

Mr. Pinney

I can email that to Mr. Cumbo.

Vice Chairman Cicero

I also would like to add what the Chairman previously said about modifications to the contract, a position negotiated for the benefit of Martin County, and Alliance agreed to hold the profitability factor of the contract consistent with the first year and not increase it for the second year. That is a stated amount. There is no increase from year to year.

Chairman Schmitt

Does anybody have any questions? Mr. Kerr, any questions?

Mr. Kerr

No, I don't have any questions. I look forward to reading the contract.

Ms. McCoy

This is Nina McCoy. I could not understand that last bit about no increase for one year, but after that?

Vice Chairman Cicero

So what we have done is indicated that the profitability portion of the contract is held steady for two years. After that, there is going to be a renegotiated amount. It would be up to the parties to determine what that amount is, and, of course, that would be Martin County Water District and Alliance in terms of what that will be. At least, for the initial two years, which were the two years that were identified as being the two primary years, that amount stays steady.

Ms. McCoy

Thank you.

Chairman Schmitt

If this works out as others have in terms of management, you ought to see some significant savings in terms of operations. That's been the case already with Southern. I would invite you to talk to their people, if you would like. Not only purchase in scale but finding ways to manage to save money, they have turned around to where, at this point, after ten months, they are actually operating at a profit now.

The onus now is on Martin County to make the decision. I think, Mr. Kerr, I know you have been high on the expertise that Alliance could bring to the table, and I think they can. If we did not think they would, we would not be in support of it. I know of the actual reluctance to change horses, but I think this is a change you will ultimately find very satisfactory from both an operational standpoint and from a savings standpoint.

Mr. Kerr

I understand. We will get it looked at and then get it back to you guys.

Mr. Gardner

Mr. Chairman, this is Jim Gardner. At what point would the Concerned Citizens be allowed to see the contract?

Chairman Schmitt

When the contract is executed, you will be able to get a copy.

Mr. Gardner

Okay.

Chairman Schmitt

I promise you what we will do. When the contract is executed and it comes back here and we get a hard copy from Alliance, I will personally send you a copy and send Ms. Cromer and Ms. McCoy a copy.

Mr. Gardner

Thank you.

Chairman Schmitt

Also, if anyone wants a copy of the transcript or log that we will have here today, it will be maybe a week or so, but you certainly can ask for it. We will furnish it, right?

Mr. Pinney

We will place it into the record.

Chairman Schmitt

Mr. Pinney is going to place it into the record, so it will be in the record for you to see.

Mr. Kerr

You say we have until Wednesday of next week?

Chairman Schmitt

Yes.

Mr. Kerr

Okay. Thank you.

Chairman Schmitt

The contract would become effective or operations would become effective January 1st, so they would not be in there until January. That would give everybody enough time to basically make the change, okay?

Mr. Cumbo, Mr. Pinney just sent you a copy of the contract by email. I don't know if you can see it or get it now. We need to send one to Mr. Kerr and Mr. Crum, and, that way, Mr. Hensley can get his copy at Mr. Cumbo's office.

If there's nothing further, we will adjourn the informal conference. Thank you.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF MARTIN)
COUNTY WATER DISTRICT FOR AN)
ALTERNATIVE RATE ADJUSTMENT)

CASE NO.
2018-00017

SIGN IN SHEET FOR NOVEMBER 15, 2019 VIDEO CONFERENCE

<u>NAME</u>	<u>PARTY</u>
Jimmy Don Kerr	MCWD
Jim Gardner	MCCC
Mary Cromer	MCCC
Gwen Pearson	KY PSC
Brian Cumbo	MCWD
John Heasley	MCWD
J.E.B. Pinney	KY PSC
Talina Mathews	KY PSC
Mark Mathews	KY PSC
Robert Cicero	KY PSC
RICHARD RAFF	KY PSC
Nina McCoy	MCCC - by video
Ariel Miller	KY PSC
Candace Sacre	KY PSC

} By video

Jim Rhodes

KYPSC

*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