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April 2, 2008

CERTIFICATE OF SERVICE

RE: Case No. 2006-00303
Martin County Water District

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on April 2, 2008.

Executive Director

SS/rs
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE MANAGEMENT)
AND OPERATION OF MARTIN COUNTY) CASE NO. 2006-00303
WATER DISTRICT)

ORDER

On June 27, 2006, the Commission initiated this investigation into the condition of Martin County Water District ("Martin District"). The purpose of this investigation was to not only identify the existing deficiencies in Martin District's management and operation but to identify possible solutions to those deficiencies and possible courses of action to improve the quality of service. To this end, we directed, pursuant to KRS 278.255, that a management and operations audit be conducted to investigate Martin District's management, engineering and technical operations and that a competent, qualified and independent firm be retained to perform this audit.

We subsequently retained Barrington-Wellesley Group, Inc. ("Barrington-Wellesley"), a management consultant firm, to perform a management audit of Martin District.¹ On April 18, 2007, Barrington-Wellesley submitted a final report of its findings

¹ Pursuant to KRS 278.255(3), the Commission required Martin District to bear the cost of the management audit. Recognizing Martin District's limited financial resources and the potential cost of a management audit, the Commission sought and obtained financial assistance from the Kentucky Division of Water. See Letter from David W. Morgan, Director, Division of Water, Kentucky Environmental and Public Protection Cabinet, to Robert A. Amato, Deputy Executive Director, Kentucky Public Service Commission (June 23, 2006). The Division of Water agreed to allocate an amount not to exceed \$95,000 from the Drinking Water State Revolving Fund Set-Aside Program toward the cost of the audit on the condition that Martin District provide 5 percent of the total cost of the audit not to exceed \$5,000 and that Martin District agree to implement any audit recommendations that the Commission deems necessary. The final cost of the management audit was \$91,389.48, of which Martin District paid \$5,000.

and recommendations regarding Martin District's operations and finances and its action plan for implementing these recommendations. On June 20, 2007, it submitted Management Audit Action Plans for Martin District. These plans provide a cost-benefit analysis of each recommendation, Martin District's response to the recommendation, and the auditing firm's review of the utility's response.

On July 26, 2007, the Commission found that the auditing firm's recommendations may serve as the basis for a determination of the practices and methods that Martin District should employ to furnish water service. We directed Martin District to show cause as to why we should not rely upon the auditor's findings and recommendations to determine the practices and methods that Martin District should employ to furnish water service. We further provided Martin District the opportunity to request a hearing on this issue or to otherwise offer evidence and argument on this proposed course of action. Martin District did not submit any response to our Order or otherwise offer any objection.

Having considered all of the evidence of record, including Barrington-Wellesley's final report of its findings and recommendations regarding Martin District's operations and finances and its Management Audit Action Plans for Martin District, and being otherwise sufficiently advised, the Commission finds that:

1. Some of Martin District's current practices prevent the provision of adequate and reasonable water service.
2. The recommended actions set forth in the Management Audit Action Plans will permit the elimination of those practices that prevent Martin District's provision of reasonable, adequate and sufficient water service. These recommended actions are also set forth in Appendix A to this Order.

3. Martin District should take the actions set forth in Appendix A to this Order within the prescribed time periods.²

4. The members of Martin District's Board of Commissioners, individually and collectively, are responsible for ensuring that Martin District undertakes the actions set forth in Appendix A in a timely manner.

IT IS THEREFORE ORDERED that:

1. Martin District shall take the actions set forth in Appendix A to this Order within the prescribed time period.

2. Beginning July 1, 2008, and every 180 days thereafter until January 1, 2011, and then annually thereafter until all actions are completed, Martin District shall submit to the Commission a written report on the status of each action set forth in Appendix A. This report shall, among other things, identify each action that Martin District failed to perform in a timely manner, the reason(s) for this failure, and Martin District's plan for resolving this failure. Each member of Martin District's Board of Commissioners shall sign and verify the accuracy of the report.

3. If, at any time prior to completion of the actions set forth in Appendix A, Martin District experiences a significant change in circumstances that renders any of those actions unfeasible, impractical, or unnecessary, it may apply to the Commission in writing to be relieved of its obligation to perform that action.

4. The Executive Director shall cause a copy of this Order to be served upon the Martin County Judge/Executive, each member of Martin County Fiscal Court, and each member of Martin District's Board of Commissioners.

² Failure to take the required actions within the prescribed time period may subject Martin District and its officers and employees to possible administrative sanction. See KRS 278.990(1); KRS 74.455.

5. Subject to the filing of timely petition for rehearing pursuant to KRS 278.400, these proceedings are closed. The Executive Director shall place any future filings in the appropriate utility's general correspondence file or shall docket the filing as a new proceeding.

Done at Frankfort, Kentucky, this 2nd day of April, 2008.

By the Commission

ATTEST.


Executive Director

Case No. 2006-00303

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00303 DATED APRIL 2, 2008

REQUIRED ACTION	COMPLETION DATE
Submit an application for rate adjustment to Public Service Commission in addition to the adjustment for which Martin District applied in Case No. 2007-00245.	10/31/2008
Eliminate the backlog of connection requests to permit connection within 3 days of receipt of tap or connection fees.	06/30/2009
Develop a comprehensive water loss reduction program.	12/31/2008
Implement a preventive maintenance program that includes upgrading the existing leak detection and repair program.	06/30/2009
Implement a damage prevention program.	06/30/2009
Establish a watershed pollution control program.	06/30/2009
Develop and implement a long-term plan to reduce Martin District's vulnerability to supply disruptions.	12/31/2008
Establish an in-house capital program planning and management function staffed by one engineer or provided through a regional source.(1)	12/31/2008
Prioritize water loss reduction programs over system expansion programs until water losses are reduced to 15 percent or less.(2)	12/31/2008
Improve procedures to identify theft of service.	12/31/2008
Establish procedures and take action necessary to assure compliance with Martin District Tariff Sheet No. 19.	12/31/2008
Improve collections of past due accounts.	06/30/2008
Improve meter reading controls.	06/30/2009
Provide meter readers additional tools to complete their routes timely and safely.	06/30/2009
Study cycle billing to shorten meter reading-to-billing cycle and improve cash flow.(3)	06/30/2009
Study bi-monthly meter reading for residential customers while continuing to bill customers monthly.(4)	06/30/2009
As meter services are replaced, those meters that are located in difficult to read locations should be moved to locations that are less difficult to reach and placed in a consistent manner relative to the main and customer's premises.	06/30/2009
Conduct a cost-benefit study of automated meter reading before making further investments in AMR technology.(5)	06/30/2009
Process customer payments on the day received so the payments are posted to Martin District's account on the day received.	12/31/2008
Clearly define the roles of Martin District's Commissioners and General Manager. The definitions should be explicit as to the scope and limits of authority, the types of decisions that can be made, and areas of responsibility.(6)	12/31/2008
Apply to County Judge/Executive and Fiscal Court for salaries for the members of Martin District Board of Commissioners.(7)	06/30/2009
Arrange for an external audit of Martin District's financial statements and continue such audits on a timely basis.(8)	06/30/2008
Establish a position of bookkeeper/accountant with responsibility for accounting and other transactional accounting processes.	06/30/2009
Water District Commissioners attend state sponsored training opportunities.(9)	12/31/2008
Study increased regionalization to achieve economies of scale and reduce vulnerabilities to supply and personnel interruptions.(10)	06/30/2009

Notes

- (1) The water district is not required to retain or employ an in-house engineer to perform capital planning or supervised the implementation of capital plans. It should, however, demonstrate that it has consulted with or obtained advice from an independent, professional source that lacks any direct or indirect interest in the outcome of capital planning decisions. A regional planning agency may serve this purpose.
- (2) The Commission does not require the water district to reduce water line loss to 15 percent of water production by the required date, but requires that the water district implement and emphasize line loss reduction programs. We further expect the water district to achieve a 15 percent or less line loss and to maintain such level no later than December 31, 2015.
- (3) Performance of the required action requires the production of a written report that the water district should submit to the Commission.
- (4) Performance of the required action requires the production of a written report that the water district should submit to the Commission.
- (5) Performance of the required action requires the production of a written report that the water district should submit to the Commission.
- (6) In developing these roles and responsibilities, the water district should closely review House Bill 83, which the Kentucky General Assembly recently enacted.
- (7) In its report, Barrington-Wellesley recommends that the water district pay "members of the Board of Commissioners salaries based on guidelines provided by Kentucky Administrative Regulations." We note that the Kentucky Administrative Regulations do not contain any salary guidelines for water district commissioners. KRS 74.020 provides a maximum level of salary compensation. The Commission agrees with the finding that ratepayers should not expect a water district commission to serve on a volunteer basis and that a reasonable level of compensation should be provided. As a county judge/executive with the approval of fiscal court fixes the salary of water district commissioners, we find that Martin District should apply to Martin County Fiscal Court to establish such salary level.
- (8) This action requires completion of an external audit no later than June 30, 2008 and the performance of annual audits thereafter.
- (9) Martin District's commissioners may attend any recognized training to satisfy this required action. Recognized training includes training that the Commission, American Water Works Association, Kentucky Rural Water Association, Department of Environmental Protection's Division of Water, Kentucky League of Cities, and Kentucky Association of Counties provide. Martin District should note that KRS 74.020(7) requires a water district to reimburse its commissioners for the cost of such training.

(10) Performance of the required action requires the production of a written report that the water district should submit to the Commission.