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JUN 29 2018

PUBLIC SERVICE
COMMISSION



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ADMITTED IN KY AND WV

June 27, 2018

Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RE: Martin County Water District
PSC Case No. 2018-00017

To Whom It May Concern:

Enclosed please find an original and six (6) copies of Martin County Water District's Response to Commission Staff report dated May 22, 2018 regarding the above matter.

Thank you for your attention to this matter.

Very truly yours,

BRIAN CUMBO

BC/ld
Enclosure

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COMMONWEALTH OF KENTUCKY

JUN 29 2018

PUBLIC SERVICE
COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

**MARTIN COUNTY WATER DISTRICT'S RESPONSE TO
COMMISSION STAFF REPORT DATED MAY 22, 2018**

Martin County Water District (Martin District) accepts the findings of the Kentucky Public Service Commission (PSC) Staff Report dated May 22, 2018 with the exceptions described herein. Martin District respectfully requests the Public Service Commission consider the following in determining the final retail rate schedule it establishes in this case:

Employee Wages (PSC Staff Report Note E):

The Martin District Board approved a General Manager Job Posting on June 12, 2018 and expects to fill the position by August 1. The current annual salary of the Interim General Manager (Greg Scott) of \$9,000, is a temporary reduction in expense while the Board manages expenses. The salary for the new General Manager position is anticipated to be at least equal to the Business Manager position which existed in the test year, but is now vacant. In addition, the other vacant employee position will be filled once the final rate increase is approved and the District is able to stabilize its finances to pay current expense obligations.

The overtime hours and related expenses were required to repair water main and service line breaks and leaks and assure water was restored to customers on a timely basis. It is counterproductive to punish a utility for making needed repairs after hours which reduce water loss and restore service to customers.

For the reasons stated above Martin District requests the full \$63,206 in wages and \$2,898 of payroll taxes that were deducted in the PSC Staff Report be included in the Required Revenue calculations for the approved rate increase.

Retirement Expense Adjustment (PSC Staff Report Note F):

The District accepts the PSC Staff's adjustment pursuant to GASB 68. However as indicated in the attached Exhibit 1, the District's contribution to CERS is increasing from 17.06 percent of wages to 21.48 percent effective July 1, 2018. This will result in an increase in pension expense of \$21,275 per year. The District requests that this "known and measurable" increase be included in the Required Revenue calculations for the approved rate increase.

Expenses Attributable to Water Loss (PSC Staff Report Note H):

The PSC Staff Report makes adjustments to purchased water, purchased power and chemical expenses attributable to excess water loss in strict accordance with 807 KAR 5:066, Section 6(3). In Supplemental Information submitted with its application the Martin District acknowledged a severe unaccounted-for water loss problem and described its strategy and plan to reduce water loss to acceptable levels over time. Martin District has requested that the Commission establish an alternative level of unaccounted-for water loss in this case.

If the approved rates include only the expenses associated with a 15 percent water loss, Martin District would not have adequate revenue to cover operating expenses and would continue to suffer financially (over \$253,000 in annual expense was deducted in the PSC Staff Report). Without sufficient operating funds the Martin District's efforts to reduce water loss will be limited and the goal to achieve a 15 percent water loss will extend well beyond five years. Therefore, Martin District requests that the Commission include purchased water, power and chemical expense for 39 percent water loss. A 39 percent water loss target is approximately half of the way between the test year (2016) loss of 64 percent and the normally allowed 15 percent. The 39 percent water loss target can reasonably be achieved over the next two years with the replacement of 1,000 service lines and meters and continued repair of water main and service line leaks. After two years, the District will continue the capital program to replace failing service lines and defective meters and continue work to achieve the 15 percent water loss target within 5 years (2023).

Because of the District's extraordinary financial situation, Martin District requests the Commission establish an "alternative level of reasonable unaccounted-for water loss". An alternate level of 39 percent as proposed by Martin District is much more reasonable in this case than the 15 percent water loss prescribed in the regulation and will allow a timely transition out of the current financial crisis Martin District is experiencing.

Computation of Percent Increase (PSC Staff Report page 14):

On Page 14 of the PSC Staff Report a figure of \$1,976,037 is given for Pro Forma Present Rate Service Revenues. This figure includes \$62,792 in wholesale sales revenue. Since the current case involves only retail rates, only retail sales should be included in the calculations. Likewise, an adjustment is required for expenses related to water produced and transported for wholesale customers. This expense amount can be assumed to be equal to the revenue derived from

wholesale customers. Adjustments for revenue and expense related to wholesale sales are included in Exhibit 2.

Revised Pro Forma and Rate Schedule:

Exhibit 2 provides a revision of the PSC Staff Report pro forma operating statement and revenue requirement calculations. Exhibit 3 shows the revised proposed rate schedule based on the responses by Martin District. As a result of this analysis, Martin District requests a rate adjustment of 35.48 percent and affirmation of the \$4.19 per customer Debt Service Surcharge. Martin District's request of a 35.48 percent rate increase is significantly less than the original request of approximately 49.5 percent.

CERTIFICATE OF SERVICE

This will certify that a true and correct copy of the foregoing was mailed, postage pre-paid, on this the 26 day of June, 2018, to the following:

Public Service Commission
ATTN: Brittany Koenig
P.O. Box 615
Frankfort, KY 40602

Hon. Mary Varson Cromer
Appalachian Citizens' Law Center, Inc.
317 Main Street
Whitesburg, KY 41858

Hon. James Wilson Gardner
Hon. M. Todd Osterioh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street, Ste. 1400
Lexington, KY 40507


BRIAN CUMBO

EXHIBIT 1

When mandatory employee contributions are deducted from an employee's check, the contributions are exempt from Federal and State Income Tax withholding. Mandatory employee contributions have been exempt from Federal and State Income Tax withholdings since August 1, 1982. These contributions are tax deferred, which means the contributions are withheld from employees' gross pay before Federal and State Income Tax.

From January 1, 1987 through December 31, 2016, Federal Social Security withholdings were also exempt. This changed January 1, 2017 under a Memorandum of Agreement between the Commonwealth of Kentucky and the Internal Revenue Service (</Employers/Contribution%20Rate%20Memos/2017WithholdingChanges%20with%20Memorandum.pdf>). As of January 1, 2017, employee contributions are deducted after Federal Social Security is withheld.

Employer Contributions

KERS & SPRS Employer Contribution Rates

System	Fiscal Year 2017-2018	Fiscal Year 2018-2019
	Effective July 1, 2017	Effective July 1, 2018
KERS Nonhazardous <i>*Reduced Rate</i>	49.47%	49.47%
KERS Nonhazardous <i>Budgeted Rate</i>	49.47%	83.43%
KERS Hazardous	23.70%	36.85%
SPRS	91.24%	146.28%

*House Bill 265 (<http://www.lrc.ky.gov/record/18RS/HB265.htm>) passed during the 2018 legislative session reduced the employer contribution rate for Regional Mental Health/Mental Retardation Boards, Local and District Health Departments, State Universities, Community Colleges and any other agency eligible to voluntarily cease participating in the KERS. Click here (/Employers/Linked%20Documents/KERS%20NH%20Agencies_Reduced%20Employer%20Rate.pdf) to view a list of agencies authorized to pay the reduced KERS Nonhazardous employer contribution rate for fiscal year 2019 (same as fiscal year 2018). Agencies not listed will pay the KERS Nonhazardous budgeted employer contribution rate.

CERS Employer Contribution Rates

System	Fiscal Year 2017-2018	Fiscal Year 2018-2019
	Effective July 1, 2017	Effective July 1, 2018
CERS Nonhazardous	19.18%	21.48%*
CERS Hazardous	31.55%	35.34%*

EXHIBIT 2

**REVISIONS TO STAFF REPORT PRO FORMA OPERATING STATEMENT AND
REVENUE REQUIREMENT CALCULATIONS TO INCLUDE THE RESPONSE FROM
MARTIN COUNTY WATER DISTRICT**

	----- Staff Report -----				Martin District Exceptions ----- to Staff Report -----	
	<u>Test Year</u>	<u>Adjustment</u>	<u>Ref.</u>	<u>Pro Forma</u>	<u>Adjustment</u>	<u>Pro Forma</u>
<u>Operating Revenues</u>						
Unmetered Water Sales	\$ 304					
Metered Water Sales	1,878,795	34,146	A			
		0	B			
Sales for Resale	62,792	0	C			
Sales of Water				1,976,037		1,976,037
Misc. Service Revenues	28,253					
Other Revenues	77,813		C			
Other Water Revenues:				<u>106,066</u>		<u>106,066</u>
Total Operating Revenues	\$ 2,047,957			\$ 2,082,103		\$ 2,082,103
<u>Operating Expenses</u>						
Operation and Maintenance						
Salaries and Wages - Employees	\$ 555,390	(6,360)	D			
		(63,206)	E	485,824	63,206	549,030
Employee Pensions and Benefits	296,755	(116,935)	F		21,275	
		(17,945)	G	161,875		183,150
Purchased Water	24,603		C			
		(12,147)	H	12,456	5,905	18,361
Purchased Power for Pumping	373,353	0	C			
		(184,324)	H	189,029	89,604	278,633
Chemicals	115,033	(56,792)	H	58,241	27,608	85,849
Materials and Supplies	156,069	(17,640)	D	138,429		138,429
Contractual Services - Acct. & Legal	44,844			44,844		44,844
Contractual Services - Water Testing	14,709			14,709		14,709
Contractual Services - Other	154,668			154,668		154,668
Rental of Bldg./Real Property	7,898			7,898		7,898
Rental of Equipment	51,314			51,314		51,314
Transportation Expenses	75,334			75,334		75,334
Insurance - Vehicle & Liability	33,121			33,121		33,121
Insurance - Worker's Compensation	28,737			28,737		28,737
Insurance - Other	7,257			7,257		7,257
Other	3,000			3,000		3,000
Bad Debt Expense	67,543			67,543		67,543
Miscellaneous Expenses	<u>40,341</u>			<u>40,341</u>		<u>40,341</u>
Total Operation and Mnt. Expenses	2,049,969			1,574,620	207,599	1,782,219
Depreciation Expense	771,703	(87,953)	I	683,750		683,750
Taxes Other Than Income	<u>46,496</u>	(2,898)	E	<u>43,598</u>	2,898	<u>46,496</u>
Total Operating Expenses	\$ 2,868,168			\$ 2,301,968	210,497	\$ 2,512,465
Net Utility Operating Income	\$ (820,211)			\$ (219,865)		\$ (430,362)

REVENUE REQUIREMENTS

Pro Forma Operating Expenses		2,301,968		2,512,465
Less: Expenses Related to Wholesale Sales		-		(62,792)
Plus: Avg. Annual Principal and Interest Payments		209,998		209,998
Additional Working Capital		<u>38,822</u>		<u>38,822</u>
Overall Retail Revenue Requirement		2,550,788		2,698,493
Less: Other Operating Revenue		(106,066)		(106,066)
Nonutility Income	22,789	(22,789)	J	-
Interest Income		<u>(293)</u>		<u>(293)</u>
Revenue Required From Retail Rates		2,444,429		2,592,134
Less: Pro Forma Present Service Rate Revenues		(1,976,037)		
Adjustment to Deduct Revenue from Wholesale Sales				62,792 <u>(1,913,245)</u>
Required Increase in Revenue from Retail Rates		468,392		678,889
Percent Increase		23.70%		35.48%

EXHIBIT 3

