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## **NEWS RELEASE**

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# **PSC Grants Emergency Rate Increase to Martin County Water District**

## ***Added revenue comes with stricter financial controls***

**FRANKFORT, Ky. (Mar. 16, 2018)** – The Kentucky Public Service Commission (PSC) has granted Martin County Water District an emergency rate increase in order to stave off the utility's financial collapse.

In an order issued today, the PSC granted Martin County Water an annual revenue increase of about 26.5 percent, consisting of an increase in base rates and a separate surcharge that will be used by the utility to pay its creditors. The average monthly residential bill will rise by \$11.17, or about 28 percent, going from \$39.90 to \$51.07.

The PSC expressed sympathy for the plight of Martin County Water's customers and the widespread opposition to raising rates for water service that has often been inadequate or, at times, non-existent. However, the district faces a dire situation, the PSC said.

"The reality of the situation is that, absent some amount of the emergency relief requested, Martin District will be unable to continue operating within 60 to 90 days, leaving every customer with no water service, forcing residential customers to abandon their homes and commercial customers, including schools, to close," the PSC said in the order. "While raising water rates clearly places an increased burden upon Martin District's customers, the alternative of not raising rates would create an even greater burden."

Solving Martin County Water's problems will require "both time and a massive infusion of capital," the PSC said, adding that Martin County Water, like all utilities, will have to rely on rates paid by customers to fund operations and pay for system improvements that are not covered by any grants the utility may receive.

The PSC also noted that placing the utility into receivership, as advocated by some customers, will not avoid a rate increase. Martin County Water will need additional revenue regardless of who may be operating the system.

The additional revenue comes with strict reporting requirements. Martin County Water must submit monthly updates to the PSC on its revenue and detailed accounting of its spending. Those reports will be available to the public.

Furthermore, the increased base rates are approved on an interim basis and only until the PSC has conducted a more detailed analysis of Martin County Water's finances and operations. If the PSC ultimately sets final base rates lower than the interim rates, Martin County Water will be required to refund any excess base rate collections to its customers as a credit on future bills.

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Martin County Water has 3,243 customers.

The total annual revenue increase of \$482,071 is allocated in the following manner:

- \$318,884 to a 17.5 percent increase in the utility's base rates, which fund general operations and maintenance.
- \$163,187 to a Debt Service Surcharge to be placed in a separate account and used to pay off existing unpaid bills over time or as collateral to obtain a loan to pay off Martin County Water's unpaid bills, which exceed \$800,000. Martin County Water cannot expend and funds from the account without prior PSC approval.

Martin County filed an application seeking the increase on January 16, 2018. The PSC conducted an initial formal evidentiary hearing on January 26.

At that hearing, the PSC granted a request by Martin County Concerned Citizens to become an intervenor – or full participant – in the process. Additionally, Prestonsburg City Utility Commission requested to intervene, was allowed to participate in a second evidentiary hearing conducted on February 28, but has been denied intervention by today's order.

Testimony at the hearings focused on Martin County Water's financial condition. District officials stated that the utility could become insolvent within two or three months, and that \$616,882 of its unpaid debts were more than 90 days past due.

Martin County Water officials also testified that the district has considerable amounts of unpaid bills owed to it by customers.

In today's order, the PSC directed the district to file monthly reports on efforts to identify those debts, write off uncollectible amounts and sell older debts to a third-party collection agency. The PSC also directed Martin County Water to begin enforcing immediately its existing rules for disconnecting customers who do not pay their bills.

Finally, the PSC directed Martin County Water's board of commissioners and its managers to attend a PSC training seminar that will be held in April.

The PSC order cited Martin County Water's lengthy record of difficulties in providing adequate service to its customers. The utility's current condition is the result of "bad business practices, and ineffective management and leadership" that allowed facilities to deteriorate and left Martin County Water in such dire financial straits that it is "unable to address even immediate repairs," the PSC said.

Martin County Water's new board members have recognized the need for a change of direction and have begun implementing better business practices, the PSC said.

"To resolve the financial and operational problems facing Martin District, the commissioners will need to put forth an effort equal in commitment to that of the Martin County citizens who have worked to call attention to their need for better water service," the PSC said in today's order. "All citizens of Martin County are affected, and all citizens deserve adequate and reasonable water service around the clock."

The PSC also warned Martin County Water that failure to comply with the order could lead to measures such as ordering the refund to customers of all money generated by the interim base rate increase, removal of the board members, placing the utility into receivership, or opening an investigation into merging with another water system.

Today's order, a video of both hearings and other records in the case are available on the PSC website, [psc.ky.gov](http://psc.ky.gov). The case number is 2018-00017.

The PSC is separately conducting an investigation into the operating capability of Martin County Water. A hearing in that case also was held on February 28. That case number is 2016-00142.

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

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